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**Approaches to measuring the scale of the social enterprise sector in the UK**

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# Approaches to measuring the scale of the social enterprise sector in the UK

## Abstract

With growing interest in social enterprise in the UK, evidence on the scale of their activity is required to show their contribution to the economy. The figure of 62,000 social enterprises has been regularly based on a minimum three year rolling average of the Annual Small Business Survey between 2005 and 2007. In this paper we show that different surveys have been based upon samples drawn from widely disparate populations. The Annual Small Business Survey is shown to be dominated by private enterprises (Companies Limited by Share, Partnerships and Sole Proprietors) while other surveys such as the National Survey of Third Sector Organisations, have only looked at particular elements of civil society. By understanding the origins of each source of data, a better evidence base can be developed that draws on the different data sources. While there is still on-going debate about the definitions of social enterprise, careful presentation of data sources can allow those using the data to be clearer about what they are including or excluding. We show how different definitions of social enterprise result in widely differing estimations of the population. Estimations of social enterprise activity may be more reliable as the definitions are more consistently applied. This working paper aims to present data and seeks feedback from the social enterprise community and researchers as part of improving the evidence base.

## Keywords

Social Enterprise, scale; survey, definition, UK

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## Introduction

As the scale of social enterprise activity appears to be increasing (NCVO, 2009), and political attention remains focused upon social enterprises, there is interest in the size of the sector and the proportion of the national economy it may represent. In this paper we explore the range of different approaches that have been used to estimate the social enterprise population in the United Kingdom (UK) in recent years. The UK is relatively unique in terms of the amount of investment by the government in measuring and mapping social enterprise. However, this paper shows that this investment has been in diverse and uncoordinated approaches which have led to an element of confusion rather than clarity. We examine in detail what the main UK-wide surveys have aimed to measure, and identify and explain the key findings. These are then brought together in a final section that attempts to identify how the different surveys and approaches can be combined to provide better approximations of the scale of the sector. Recommendations are also made for future surveys whether they are in the UK or elsewhere.

This paper therefore addresses these issues by examining the following questions:

- What are the different definitions used in measurement?
- What are the different methodologies and data sources drawn on?
- How are the different data sources used to provide different estimations of the size of the sector?

Social enterprise is a nebulous term that has entered into common use in the past 10 years through the efforts of a fraught coalition of very different interests that have emerged from the cooperative movement, some parts of the voluntary sector and more recently, for-profit social businesses with a social purpose (Teasdale, 2010a). In different countries the term has become popular with policy makers and politicians as it combines elements of market, state and civil society (Kerlin, 2010) and appeals to political interests on either side of the political spectrum (Simmons, 2008). In the UK, the ‘New Labour’ Government of 1997–2010 promoted the concept as a means to tackling social problems and delivering public services, through its funding and political influence. Attempts were made to make it a broad and encompassing concept and a definition emerged over several years of iterations that captures most organisational forms associated with the concept.

Although there is now a general consensus around using the government definition of social enterprise, the looseness of this definition has resulted in different studies applying it in different ways. Moreover the different surveys have adopted different indicators, and operationalised them in different ways (Hart and Haughton, 2007). Thus there is no consensus as to how to apply the definition for research purposes. There are benefits to practitioners and policy makers in adopting a loose and flexible definition of social enterprise. However, lack of clarity around what is and is not a social enterprise may have led to exaggerated claims about their positive attributes (Teasdale, 2010b) and policies based on expectation rather than evidence.

This paper examines the main national sources of data on social enterprises in the UK, paying particular attention to how the methodological strategies employed have influenced their findings. Where necessary, further analysis of some data sources has been carried out. It is argued that the different surveys have tended to capture different forms of organisation, either claiming to be social enterprises, or having the label attributed to them. In this paper we have not looked at regional/local studies or the studies of particular subsectors/membership organisations, each of which has developed a different approach.

The role of this paper is not to redefine what is and is not a social enterprise as that is essentially a political exercise (Lyon and Sepulveda, 2009), whether carried out by governments or by practitioners. Rather, in this paper, we present the range of data sources currently being used by researchers and policy makers and review their objectives, data sources, methodologies and reported outputs. Initial estimations are made regarding the number of organisations and their scale depending on what definition and data source is used. This clarity is central to understand how the evidence being used by policy makers has elements of bias. We argue that it is only through examining and being honest about this bias that we can have a better picture of what is happening in the sector and ensure that future attempts to measure the scale and impact of the sector are more accurate.

This paper draws on a critical review of five commonly used sources of data on the national social enterprise sector. It does not include surveys using membership lists or samples, or regional surveys, or surveys of social entrepreneurship in the population (Levy and Hart, 2010). A comparative analysis is developed that draws out the differences between sources and where there is overlap. The next section draws on recent literature and debates to identify the arguments given for the need to measure the number and scale of social enterprises in the UK. We then explore the different data sources in detail. A discussion section draws together the analysis around the key research questions before we draw conclusions.

### **The interest in measuring social enterprise in the UK**

While this paper examines the large investment in research on the size of the social enterprise sector in the UK, the reasons why resources should be put into measuring the scale of social enterprises has been questioned by some. The issue of how many social enterprises there are, how they are defined and where they are located, is said to be of little interest to people setting up and running organisations (Bridge et al., 2009). As the definition has been open to interpretation and manipulation, some commentators have called for attention to be given to social enterprise as a verb or activity, rather than trying to identify an ideal type of social enterprise organisation (NCVO, 2009; Cox, 2007). Despite these criticisms, there is a demand for such information from policy makers, the wider social enterprise support community, umbrella groups and academics examining change over time. Four key reasons for carrying out measurement exercises are presented below.

First, policy makers need to know the scale of social enterprises in order to justify their investment in the support they provide to them. The influence of the public sector on some parts of social enterprise activity is considerable in terms of offering advice and financial support but more importantly in terms of providing contracts to deliver services. The commissioning of research to

measure the scale of social enterprise activity has to be seen in this context. Similarly, social enterprise representative associations such as the Social Enterprise Coalition, Development Trusts Association, Social Firms UK and Coops UK need the information to lobby for resources to be provided to the sector, particularly at a time of public sector cutbacks.

Second, there is a need to assess changes over time. This has not been possible in the past with a lack of a baseline position and inconsistent research approaches. Such longitudinal research can allow insights into those parts that are growing or declining. Such changes may be disaggregated according to industrial sector, type of organisation or geography.

Third, there is interest in having information available to allow both policy makers and those providing services to social enterprises to have a better understanding of how the sector can be segmented, allowing interventions to be targeted. This is not only a policy issue but also an issue for other enterprises who may be looking to assess the scale of the social enterprise market for their services.

Finally, there is a wider benefit of educating and informing students and the general public on these emerging organisational forms. Peattie and Morley (2008) report the lack of robust empirical data on the scale and scope of social enterprise. As is common in an emerging field, early social enterprise and entrepreneurship research has drawn upon case studies (Light, 2008) which are too specific and prevent general conclusions from being drawn (Short et al., 2009). An understanding of the population of social enterprises allows researchers using smaller samples to ensure that they are representative, and to draw wider conclusions.

## Analysis of different data sources

### 2005 IFF Survey of Social enterprises across the UK

This study was undertaken by IFF in 2004 for the Small Business Service (SBS) (IFF, 2005) within the Department of Trade and Industry (DTI) (now the Analytical Unit within the Department of Business, Innovation and Skills), in order to examine the extent and characteristics of social enterprises. Its aim was to provide an evidence base on the size and scope of the sector as well as acting as a baseline for future research. This was an important part of the DTI's policy as stated in *Social Enterprise: A strategy for success* (DTI, 2002).

#### **Definitions**

The survey took the Dept of Trade and Industry's (DTI) definition: 'a business with primarily social/environmental objectives, whose surpluses are principally reinvested for that purpose in the business or community rather than mainly being paid to shareholders and owners' (DTI, 2002).

Their interpretation of 'a business' included all organisations that have more than 25 per cent of their income from trading, ostensibly because this would capture organisations that were moving towards generating half (or more) of their income through trading. However this would also capture organisations whose proportion of revenue derived through trading was never likely to rise beyond 50 per cent, or was even falling. The report found that applying the definition was difficult as 'Some organisations that are social enterprises do not identify themselves as such... Some organisations that

do not fit the government definition describe themselves as a “social enterprise” (IFF, 2005: 6). The following definitional tests were used:

- (i) regular activities involve providing products or services in return for payment – i.e. the enterprise has some form of trading activity
- (ii) at least 25 per cent of funding is generated from trading – i.e. through direct monetary exchange for the provision of goods and services
- (iii) the primary purpose is to provide social/environmental goals – i.e. rather than purely for profit
- (iv) they principally reinvest profit/surplus into the organisation or community to further social/environmental goals – i.e. at least 51 per cent of profit/surplus

The survey relied on the respondent to decide if their organisation’s main aim was social or environmental and also to interpret what was meant by the term ‘social purpose’. It is unlikely that all respondents shared a similar interpretation of what is meant by social aims and purpose.

### ***Sampling frame***

The survey constructed a sample frame by compiling a database of Industrial and Provident Societies (IPS) and Companies Limited by Guarantee (CLG) from the Financial Analysis Made Easy (FAME) database in January 2004. This provided 62,500 organisations. This was reduced by excluding groups within Standard Industrial Classifications (SIC) that were ‘considered unlikely to include social enterprise activity’. These included: those in liquidation; financial intermediaries; insurance and pension providers; education; trade unions; religious and political organisations; and residents’ property management. The resulting database was modified by regional teams of experts who categorised organisations by whether they have social aims and trading income. This produced a revised database with an indicator as to how likely each organisation was to have social aims and trading activities. These estimates were used to determine the order in which the sequence for the telephone surveys were used.

The resulting database consisted of 37,000 potential social enterprises. Telephone numbers were obtained for 16,375 potential social enterprises but of these 2,335 were inaccurate. Of the 14,380 organisations, 14,301 were contacted by telephone and 8,401 were interviewed. Details about those who did not have telephone numbers or whose numbers were wrong are not known. Of the 3,446 who were identified as social enterprises, 1,510 were invited to participate in the full interview and 98 per cent (1,480) agreed to take part.

The methodology was designed to capture a large enough sample of social enterprises to allow for statistically robust analysis of their characteristics. However, this meant that it is not a random sample and so should not be compared with the wider population of all enterprises (IFF Research, 2005).

### ***Results***

The survey focused on organisations registered as Companies Limited by Guarantee (CLGs) or Industrial and Provident Societies (IPS) only and was used to provide an estimate of around 15,000 social enterprises or 1.2 per cent of all enterprises in the UK. It was estimated that they contributed £18 billion to GDP, and employed 475,000 paid staff, of whom two-thirds were full time. Of these 15,000 social enterprises, 88 per cent were CLG and 12 per cent were IPS. Two thirds reported having charitable status, of whom 93 per cent were CLG and 7 per cent IPS. Those with charitable

status were almost twice as likely to receive grants/donations (64 per cent compared to 35 per cent without); and received on average 18 per cent of turnover from grants (compared to 8 per cent for non charities). Of all social enterprises, 42 per cent relied solely on trading income, 15 per cent of the sample had no full-time employees, 49 per cent had fewer than 10 staff, 38 per cent had 10–49 staff, and 11 per cent had 50–249 staff. However, this suggests more paid staff in CLGs/IPS than in social enterprises covered by the later SBS surveys. In part this may be attributable to the dominance of sole traders and organisations with no paid staff in the SBS surveys.

### **Annual Small Business Survey (ASBS) 2005–07**

This is the most quoted source of information on social enterprise in the UK, being found in political documents and speeches of politicians of all parties as well as a range of lobbying organisations, and academic publications. The data presented in the past has been superficial, providing a single overall figure of a minimum of 55,000 social enterprises (rising in 2009 to a minimum of 62,000 based on a three year rolling average for 2005–7) for the public domain. In this paper we provide further analysis of what this figure is based upon and how it can be complemented by other surveys. The objective of this long-running survey was to survey small and medium sized businesses with questions focused on key policy issues identified by the Department for Trade and Industry (later to become the Department for Business, Innovation and Skills). Questions on social enterprise were included for the first time in 2004/05 (IFF, 2008).

#### ***Definition***

The SBS surveys use the same DTI definition of social enterprise as the earlier IFF survey.

The surveys used a self classification system for social enterprises. This involved asking businesses to self define their status through the following conditions. They should:

- think of themselves as a ‘social enterprise’ (Q37 in the 2006/07 survey)
- never pay more than 50 per cent of profits to owners/shareholders (Q36)
- generate more than 25 per cent of income from traded goods/services (or receive up to 75 per cent of income from grants and donations) (Q34A)
- think that they are a very good fit with the DTI definition of a social enterprise (Q38).

While these are clear and specific questions there appears to be room for different interpretation. The term ‘social enterprise’ is understood to mean different things to different people. For example the use of the term ‘principally invested ... in the business’. For a private company wanting to grow, they would be reinvesting surpluses to raise the value of the enterprise which could then be distributed to owners in the future. Furthermore the definition of trading is not clear. For example service level agreements from local authorities could be seen as either grants (non trading) or contracts (trading) and it is up to the discretion of the person reporting on behalf of the organisation. This discretion is also evident when interviewees are asked if they think of their organisation as a social enterprise.

#### ***Sample frame***

In 2006–07 there was a stratified sample of 9,362 small and medium enterprises which was increased from 8,640 in 2005. These are organisations with less than 250 employees. The overall sample is

likely to under-represent companies limited by guarantee, charities, and other third sector organisations (TSOs) as many may decide not to take part in a small business survey. There are only 41 CLGs in the results, or 0.4 per cent of the sample although the Dun and Bradstreet (2009) database from which the ASBS was sampled, has 1.94 per cent of organisations registered as charities and 1.45 per cent registered as CLG. It is possible that some of the private limited companies could be owned by charities.

### **Results**

The analysis of the survey found that in 2006–07, 5 per cent of organisations with and without employees could be classified as social enterprises as they met all the social enterprise filter questions. When applied to the national population of businesses (4.68 m), this equates to between 222,000 and 246,000 enterprises (with a confidence level of +/- 5 per cent). When looking only at businesses with employees, just under 6 per cent were classified as social enterprises (151 social enterprises out of 2,535 businesses). This equates to between 63,000 and 77,000 social enterprises nationally (with a confidence level of +/- 10 per cent). A similar analysis of the 2004–05 data led to the widely quoted figure of 55,000 social enterprises with employees used by policy makers and the social enterprise community. This estimation was recalculated in 2009 to a minimum of 62,000 using a rolling three-year average of ASBS data (Hampson, 2009). These quoted figures are the minimum estimates and have not included the large number of enterprises not employing people but meeting the social enterprise tests. Those not included are predominantly sole traders who are considered to operate differently to other enterprises.

Closer analysis of the survey data yields the interesting finding that the overwhelming majority (95.7 per cent) of these 467 ‘social enterprises’ in the survey have a legal form that places no constraints on the distribution of profits to external shareholders (companies limited by share, partnerships or sole traders). This would result in an estimated 224,000 private sector legal form social enterprises, with only 10,000 social enterprises adopting a legal structure associated with the third sector (CLG, IPS, or Community Interest Company). If only social enterprises with employees are considered, 88.7 per cent of the 151 social enterprises have a legal form which places no constraints on the distribution of profits. So of the 70,000 social enterprises with employees, there are 62,000 (+/- 10 per cent) with a private sector legal structure, and around 8,000 with a third sector legal structure (see Table 1).

The filter questions are likely to exclude traditional third sector organisations, particularly those that rely on grants and donations for more than 75 per cent their turnover. This may include many organisations that would perceive of themselves as social enterprises. When examining the proportion with more than 50 per cent trading income rather than more than 25 per cent trading income, our analysis only shows a 4 per cent increase in the estimated number of social enterprises. This is within the 5 per cent tolerance so as to be insignificant for this data set. It is also of interest that none of the 11 cooperatives and only two of the Friendly Societies in the sample were meeting all of the social enterprise tests. All four CICs were classified as social enterprises, although only one employed staff.

Overall, out of 62 surveyed organisations with a legal structure typically associated with the third sector, less than one third (20) were classified as social enterprises. In the case of cooperatives, only

one respondent thought of their organisation as a social enterprise and none saw their organisation as a good fit with the DTI definition. Also only four of the eleven paid less than 50 per cent of their profit to their owners/shareholders. In the case of CLGs only 37 per cent have more than 25 per cent of income from trading.

Table1: Legal Status by Social Enterprise (2006/7)

	All SEs (0–250 employees)		SEs with 1 or more paid employees		All small and medium enterprises	
	No	%	No	%	No	%
Sole Proprietorship (SP)	262	56.1	49	32.4	4363	46.6
Private Limited Company (PrLC)	93	19.9	63	41.7	3172	33.9
Public Limited Company (PLC)	9	1.9	2	1.3	40	0.4
Limited Partnership (LP)	1	0.2	1	0.7	33	0.4
Partnership	82	17.6	19	12.6	1682	17.9
<b>Cooperative</b>	0	0	0	0	11	0.1
<b>Private Company Limited by Guarantee (CLG)</b>	14	3	14	9.3	41	0.4
<b>Friendly Society* (FS)</b>	2	0.4	2	1.3	6	0.06
<b>Community Interest Company (CIC)</b>	4	0.9	1	0.7	4	0.04
Total	467	100	151	100	9362	100

Source: ASBS 2007 – weighted – categories in bold usually associated with civil society or the 'Third Sector'

\*Includes Community Benefit Societies

Overall, 391 of the 467 social enterprises provided sales turnover data for their last financial year, indicating a median figure of £60,000. Third sector legal form social enterprises (n=18) exhibited a median sales turnover of £250,000, compared with a median of £60,000 for those social enterprises with a private sector legal structure which dominate the sample. Of those, 139 social enterprises with employees provided sales turnover data, indicating a median figure of £250,000. Third sector legal form social enterprises exhibited a far higher median level of £375,000, when compared to the £250,000 of their private sector social enterprise counterparts.

One hundred and fifty social enterprises with employees provided data on their current level of employment, with a median of four employees and a mean of 10. Of these the 16 third sector legal form social enterprises had a median level of 10 employees and a mean of 23.

#### **National Survey of Third Sector Organisations (2008–09)**

This survey was commissioned by Office of the Third Sector and carried out by Ipsos MORI. The aim was to provide a measurement indicator to help assess the contributions made by local authorities to meeting National Indicator 7 – an environment for a thriving third sector. The survey was also

designed to make a stand alone contribution to the evidence base on the third sector, in part through providing estimates of the scale and contribution of the third sector (Ipsos Mori, 2009).

### **Definition**

According to Ipsos MORI and the Cabinet Office of the Third Sector, TSOs share the following common characteristics: 'non-governmental, value-driven, principally reinvest any financial surpluses to further social, environmental or cultural objectives. The term encompasses voluntary and community organisations, charities, social enterprises, cooperatives and mutuals, housing associations, clubs and societies, trusts both large and small.' (Ipsos MORI, 2009).

Four test questions were used to identify social enterprises from the main dataset. These included the following:

Q34: Does your organisation receive income from any of the sources listed below?

Donations and fundraising activities, Membership fees/subscriptions, Grants from non-statutory bodies, National Lottery (e.g. Big Lottery), Grants or core funding (including SLAs), Earned income from contracts, Earned income from trading including retail, Income from investments, Other.

Q36: If your organisation earns income from contracts or from trading (above at question 34), do these sources account for 50 per cent or more of your total income when combined? Please answer for the most recent year for which accounts are available.

Q37: If your organisation does generate a surplus or profit from its contracts or trading, do you use it to further your social or environmental goal? This could include reinvesting it in your or another third sector organisation or in the community. Please answer for the most recent year for which accounts are available.

Q38: Social enterprises are businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners. Does this describe your organisation or not?

### **Sample frame**

The sample frame of 170,552 TSOs was constructed by Guidestar UK, and includes registered charities, CLGs, IPS and CICs (Ipsos MORI, 2009). Most of the organisations, particularly those with a private sector legal structure, identified as social enterprises by the ASBS surveys would not have been included in the sample frame for the NSTSO as they would not be considered part of the third sector. Companies Limited by Share would only be included if they were trading subsidiaries of registered charities. The sample frame is developed using Guidestar UK's own analysis as to which CLGs and IPS should be excluded on the grounds of not being part of the third sector. The sample frame excluded many CLGs and some CICs by filtering based on SIC codes that identify different sectors. This appears to have left out many organisations in sectors such as environmental services, recycling and transport. It also excludes many education related charities such as independent schools. The reasoning being that what is included or not included is not supplied.

The sample frame was developed using national registers of TSOs, and so under-represents smaller informal organisations that are not registered as charities or Companies Limited by Guarantee, most of whom have no staff and limited income (Ipsos MORI, 2009). Ongoing work by TSRC in two

local authority areas has been designed to help estimate what proportion of smaller informal organisations were not included by Guidestar UK in the NSTSO sample frame.

A postal and web-based survey was sent to 104,931 TSOs in England and Wales, followed up twice by post and also with one telephone reminder. In some areas the sample was stratified according to organisational type and size. In other areas a full census was carried out. Questionnaires were returned by 48,939 TSOs (a response rate of 47 per cent). The dataset is deposited in the UK data archive. The following analysis uses the weighting variable designed to ensure results are representative of organisational type at a national level.

### **Results**

Analysis using Ipsos MORI's narrow definition of social enterprise derived using all four social enterprise test questions produces an estimate that 5 per cent of TSOs can be classified as social enterprises, a total of 8,507 nationally. Interestingly, careful examination of the (weighted) data shows that 48.1 per cent of all TSOs (82,046) self identify with the DTI definition used in Q38. The breakdown of the responses to each question provides additional data (see Table 2).

The survey found that 27.6 per cent of TSOs reported that they earned some income through trading and/or contracts, 12.5 per cent of all TSOs (21,344) earned 50 per cent of their income through contracts or trading. However, there seems to be some problems with how the questions have been interpreted. For example 8.9 per cent of those reporting earned income in response to Q34 later suggested they had no earned income in response to Q37.

Table 2: Analysis of NSTSO questions related to social enterprise

	Percent of sample	Estimate of population
Involved in some trading activity	27.6	47,072
Have more than 50% of income from trading	12.5	21,344
Stated that they fit the social enterprise definition	48.1	82,046
Agree with definition and have more than 50% of income from trading	9.6	16,361
More than 50% trading, fit the social enterprise definition and use more than 50% of surplus for social and environmental goals	5.0	8,507

Source: NSTSO, unweighted responses = 48,939

We suspect that many respondents misinterpreted the question on the use of surplus or profit. As all organisations in the sample frame were deemed by Guidestar UK to 'principally reinvest any financial surpluses to further social, environmental or cultural objectives', it could be argued that this question is not relevant other than to help identify which organisations made no surplus in the previous year. As the survey was conducted during the recent economic downturn, it is unsurprising that 35.3 per cent of TSOs earning half their income through trading failed to make a surplus in the last financial year. Whether this should exclude them from being classified as social enterprises is open to

interpretation. For our analysis we have therefore taken a broader definition of social enterprise using the NSTSO data that captures 16,361 TSOs earning at least half their income through trading and agreeing that they fit the social enterprise definition. As mentioned before, this is likely to underestimate the total population of third sector social enterprises as it excludes many smaller organisations, and those operating in sectors such as environmental services, recycling and transport.

Table 3 shows the legal structure of the 16,361 TSOs who derived half their income through trading, *and* felt that the definition of social enterprise describes their organisation. It is likely that a large proportion of the registered Charities are also companies limited by guarantee.

Table 3: Legal form of organisations in NSTSO survey deriving more than 50 per cent of their income through trading and self identifying with the OTS social enterprise definition

	Estimate of population	Percent
Registered Charities	7780	47.6
Community Interest Companies	444	2.7
Companies Limited by Guarantee	5494	33.6
Industrial and Provident Societies	2643	16.2
Total	16361	100.0

Source: NSTSO, unweighted responses = 4,221

An approximation of the scale of the social enterprise sector measured by the NSTSO can be identified using these 16,361 organisations. Although data is only available in size bands, we can make estimates of employment and turnover using median figures. For this definition of social enterprise there are at least 227,000 employees and a turnover of at least £8.5 billion. These figures under-report the turnover of organisations with more than £5 million as each was attributed an income of £5 million.

### **NCVO Civil Society Almanac and Guidestar Data Services**

The Guidestar UK database is based on information from a variety of different sources. They obtain information on charities from the Charity Commission, and augment this by collecting detailed financial information from individual charity accounts. They add information from other sources on the names and locations of companies limited by guarantee, community interest companies, and industrial and provident societies, but the available financial information is less detailed than for charities. The database is used as a sampling frame for other surveys (e.g. NSTSO) and also for analysis in reports such as the National Council for Voluntary Organisations' (NCVO) *UK Civil Society Almanac* (2009 and 2010). The NCVO analysis focuses on the activities of charities and explores what it terms 'social enterprise activity'.

#### **Definition**

The NCVO/Guidestar Data Services analysis of charities differs from previous studies in looking at social enterprise activity where trading occurs 'in direct furtherance of their goals... and as a means to

generate income which can then be spent on furthering their goals' (NCVO, 2008). Table 4 identifies which sources of income were classified as earned. By only looking at activity within organisations, the survey avoids the debates about the percentage of trading income required to qualify as a social enterprise.

The data is based on classifying income as either earned or voluntary donations/grants. However, it is not clear how charities and their accountants have classified their income in their accounts. There is guidance provided by the Charity Commission in their Statement of Recommended Practice (Charity Commission, 2005) but this has changed over time. Furthermore, smaller charities have only had to prepare accounts on a 'receipts and payments' basis, which might not easily lend themselves to coding income streams as voluntary or earned as laid out in the recommendations. There is therefore much judgement required and it is not clear how the Guidestar analysts have coded this data, what guidance they have been given, or how this guidance has changed over time.

Table 4: Types of income

Income included in social enterprise activity	Income excluded from social enterprise activity
Fees for provided services	Legacies
Contracts to provide services	Donations
Sponsorship	Grants including National lottery grants
Research or consultancy services	Investment income
Membership subscriptions (with significant benefits)	Membership subscriptions (without significant benefits)
Trading subsidiaries	Corporate gifts
Hire of facilities	Covenants
Fees for goods	Gift aid reclaimed
Tuition fees	
Financial services (such as insurance)	

Source: NCVO (2008)

### ***Sampling frame***

The NCVO analysis draws on the population of charities that have submitted accounts, many of which would be expected to be registered as Companies Limited by Guarantee, although the proportion is not known. A sample of 13 per cent of all General Charities is taken (18,983 charities) with more of an emphasis on larger charities for which there is data from submitted accounts. Only 0.5 per cent of the 79,702 general charities with income of less than £10,000 are included in this sample. However this is unlikely to make a significant difference to the headline figures as their share of the total income is tiny.

### ***Results***

The analysis found that earned income for charities equated to £15.8 billion in 2006/7 with an additional £1.2 billion from trading subsidiaries. This is out of a total of £33.2 billion income from

170,905 charities in the UK. Further analysis completed for this paper by TSRC finds that of the 60,000 charities submitting accounts in 2006/7, 60 per cent earned more than half of their income from sales and fees. This suggests that there are around 36,000 charities meeting the social enterprise criteria of deriving more than 50 per cent of income from trading, although many would not self-classify themselves as social enterprises. This is likely to be an underestimate as it excludes the 'micro' charities that were previously defined as having less than £10,000 income although this has recently risen to £25,000).

### **Hidden Social Enterprise- Growth oriented mainstream business making a difference (Delta Economics, 2010)**

Delta Economics presented a further analysis of businesses with social, environmental and ethical goals. The objective of the research was to examine high growth for profit businesses, with additional questions added to examine their social orientation. The report aimed to examine the characteristics of the founders of businesses who are motivated to 'make a difference'.

#### **Definitions**

This study classified as social enterprises those mainstream businesses created by founders who selected 'making a difference' as a trigger for starting their business. The authors distinguish between the following categories of social entrepreneur and enterprise:

1. Responsible entrepreneurs: 'making a difference either socially, environmentally or in terms of job creation' as one the triggers for the entrepreneur in setting up their business
2. 'Make a difference' entrepreneurs: making a difference was their primary objective in setting up their business
3. Broad social enterprises: reinvested their surpluses in the business
4. Narrow social enterprises: making a difference was a primary objective, reinvested any surpluses in the business and that they did not pay a dividend to shareholders
5. 'Pure' social enterprises: narrow social enterprises but also had more than 25 per cent of their revenue from sales.

#### **Sample frame**

The sample frame of 2,121 businesses still run by their founders was drawn from the Dun and Bradstreet database. Charitable organisations, businesses with a turnover of less than £200,000, and businesses younger than two years or older than 10 years, were excluded.

#### **Results**

The report starts from the principal that social enterprises are those businesses operating with a 'social purpose'. This was typically found to be job creation (38.1 per cent), improving the environment (9.2 per cent), or making a social impact (45 per cent). The overall headline finding was that just over one fifth of the survey sample (21 per cent) wanted to 'make a difference' ('MAD' enterprises). Weighting the sample to reflect the UK economy as a whole this indicated that approximately 232,000 UK profit-driven businesses, with a total annual sales turnover of £97 billion could be considered as 'hidden social enterprises'. This calculation was further refined to provide a narrow definition of social enterprise where 9.9 per cent stated that 'to make a difference socially, environmentally or through job

'creation' was their primary objective and that the business does not pay dividends (this is a more narrow definition than that imposed by the ASBS). Weighting the sample, it is estimated that this equated to 109,371 UK businesses with average annual sales of £162,000, and that these narrowly defined 'pure hidden' social enterprises are worth £17.7 billion to the UK economy. The report does, however, express concern that these are relatively young businesses that over time may lose their social enterprise objectives as they seek external finance that requires a change in the business model.

Clearly the Delta (2010) study only focuses on larger early to medium stage businesses and is therefore likely to underestimate the total number of 'hidden social enterprises' in the UK. However, it legitimately opens up questions relating to the 'hidden' social enterprise economy, particularly in relation to how the distinction should be drawn between profit driven business and social enterprise and the possibilities for varying degrees of social enterprise, ranging from broad to narrow definitions. Whilst the study claims that it is 'non-ideological and not reliant on 'self defining' responses, questions should be raised as to the methodological approach and line of questioning utilised. For example, what are suitable criteria for assessing whether a business has social interests? Since it may be considered that an aim of most growing early stage businesses (with £200,000 plus annual sales turnover) is to increase employment, is this a legitimate definition of social enterprise?

### **Other surveys related to social enterprise**

There are a number of other surveys of social enterprise that can add some understanding to the general picture, however, many of these are limited due to their lack of clarity of the methodologies used or a sample frame that is drawn from membership of networks and therefore not representative of the population (such as the Social Enterprise Coalition's *State of Social Enterprise*, 2010). Nonetheless this survey does provide valuable data on those organisations who self define as social enterprises by virtue of joining social enterprise networks.

Taking a broader definition of social enterprise activity, the NCVO Civil Society Almanac (2009) examines all trading activity across civil society, drawing in evidence from National Housing Federation, Co-operatives UK, Financial Services Authority, Office for National Statistics, Building Societies Association, Certification Officer for Trade Unions, Higher Education Statistics Agency, Independent Schools Council, and the Electoral Commission.

According to NCVO, there are categories of organisations that rely completely on trading income such as cooperatives (£26.2 billion), industrial and provident societies (£3.6 billion), friendly societies (£0.5 billion), community interest companies (£0.16 billion), housing associations (10.7 billion), building societies (£ 3.95 billion), and working men's clubs (£0.3 billion) (2009).

The NCVO analysis also includes organisations with membership subscriptions which are defined as 'earned' rather than 'voluntary' where there are significant benefits in return. These include trade unions (£1.0 billion) and sports clubs (£6.1 billion). They also include some other aspects of civil society that are not always considered within the social enterprise spectrum such as independent schools (£5.3 billion) and universities (46 per cent income from trading activity equating to £8.9 billion). Finally they remove potential duplication that they estimate to be at £5.2 billion. They produce a total

of 71 per cent of the income of civil society from social enterprise activity (£77.2 billion). This does not include any private sector social enterprise activity.

## Discussion: Towards an estimate of the scale of social enterprise in the UK

This paper examined the range of different research approaches used in the UK to measure and map social enterprise. Each has taken a different approach, using different definitions and different sampling frames in order to examine slightly different elements. The challenge in this paper is to examine what these different data sources can tell us about the scale of social enterprise in the UK.

The reasons to carry out surveys have been shown to vary with only one study (IFF, 2005) purely focused on social enterprise, but this survey had a very limited sampling frame. Other data has been gathered by piggybacking on other surveys, whether they are for small businesses, civil society/third sector or individual entrepreneurs. There is also data gathered for specific sectors from regulatory bodies. This paper started by examining the motivation to measure, and with the methodological challenges, the diversity of approaches, the poor quality of data, and misinterpretation of findings, there are valid questions over whether this is a useful exercise, or rather a diversion from supporting social enterprise activity as a process wherever it may be found. However, there continues to be a demand for evidence from policy makers and an understanding of the current position of social enterprise. This is likely to become more important, as different parts of the UK government continues to push the social enterprise model, and will be requiring even more information to justify privileging social enterprise over other forms of organisation in the private, public or third sectors. This will become even more important as policies emerge that prioritise benefits to social enterprises without specifying to which parts of the social enterprise community they are referring.

The paper has examined the different definitions used in the measurement of social enterprise. The analysis of the different surveys shows that the DTI definition proposed by the previous government has been widely utilised by government funded surveys. However, the negotiated process of arriving at this commonly accepted definition makes it hard to put into practice. There has been a high degree of interpretation required by those carrying out the surveys and those responding to them. Until now these different interpretations have been hidden or ignored. For research to use any data, there is a requirement for clarity on what is and is not included, particularly when looking at longitudinal trends. What is and is not a social enterprise is a political decision and in this paper we are presenting the different approaches used.

As mentioned elsewhere (Lyon and Sepulveda, 2009) the definition of trading can be interpreted in different ways with confusion over issues such as grants and contracts from the public sector. Second, there are debates over what is defined as social. For example, some consider sports or cultural organisations as having social objectives, while others do not.

There is even greater discretion when asking about how surpluses are used and whether the organisation associates itself with the definition of social enterprise. Three of the main surveys used (ASBS, NSTSO and IFF) asked interviewees whether they retain more than 50 per cent of their surplus or profit in the business. According to Jim Brown (2003), the original definition was stricter and social enterprises were those organisations who did not distribute any profit to external shareholders.

However this would have excluded most co-operatives so following a period of lobbying, the definition was widened. In the process it has been operationalised such that it captures private sector businesses it was never intended to catch, and still managed to exclude co-operatives. The retention of at least 50 per cent of annual profits for reinvestment within the business is not unusual for growth oriented businesses and would not in itself be indicative of a social aim. When it is argued that retention of profits allied to, for example, an aim for employment growth is indicative of social enterprise, surely this is in danger of becoming a self-fulfilling prophecy and needs to be further checked against other criteria such as how non-retained profits are used (i.e. to what extent are they reinvested in the local community or for specific social objectives). Furthermore, many, particularly charitable, social enterprises aim only to break even and will manage their cash flow accordingly, offering more services when they predict a potential surplus. The NSTSO survey found that 40 per cent of respondents reported that they made no profit or surplus in the previous financial year.

The respondents' discretion is also evident in whether the organisation she/he is representing is perceived as meeting the DTI social enterprise definition. Analysis that relies on trading income and social goals as a definition of social enterprise can mean that a large number of organisations that do not self-classify as social enterprises are included (for example Housing Associations, charities and co-operatives). In addition there are some organisations that do not fit the government definition (often as they have large proportion of non trading income) but describe themselves as social enterprises. It is also likely that the proportion of organisations reporting that they are social enterprises will increase as the term becomes more widely known and accepted. However, it will not be clear if this increase is due to a change in behaviour, or to the acceptance of a different discourse.

The second research question examined the different methodologies and data sources. This review has identified that each survey has a different sampling frame which prioritises different elements of the social enterprise spectrum. As others have set out elsewhere (Dees, 1998; Teasdale, 2010b) the social enterprise concept incorporates a range of organisations, from profit distributing social businesses to non-profit distributing charities. The ASBS surveys have focused primarily on the private sector businesses, while the NSTSO has focused wholly on TSOs. Until now, the figures from the various surveys have been uncritically accepted, with little attention paid to what the headline figures reveal and conceal. For example the well quoted figures derived from the ASBS of 55,000 or 62,000 social enterprise predominately consists of private sector businesses, and under-reports organisations that have third sector legal forms. However, these figures are frequently quoted when associated with policies looking to support the third sector end of the social enterprise spectrum.

The final research question asked how the different data sources might be used to provide an estimation of the size of the sector. In the past it has not been possible to combine surveys due to the lack of knowledge of where there are overlaps. This paper allows us to provide different estimates based on the different interpretations of the term social enterprise. The data sources appear to map onto the interpretation by Dees (1998 and Dees et al., 2001) with a continuum from the more philanthropic aspects of third sector to the purely commercial aspects of the private sector (see Figure 1).

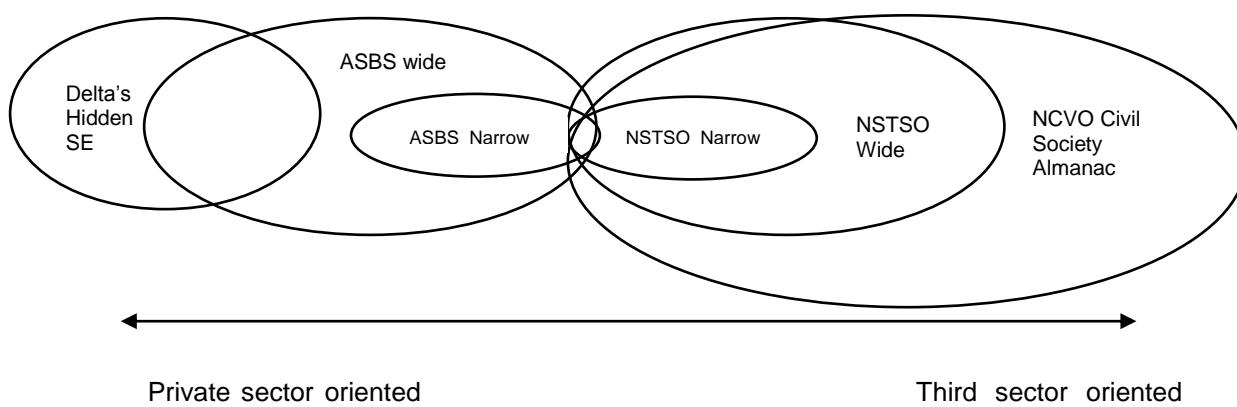
Figure 1: The Social Enterprise Spectrum

Continuum of Options			
	Purely Philanthropic	Hybrids	Purely Commercial
<b>General Motives, Methods, and Goals</b>	Social value creation	Social and economic value	Economic value creation
<b>Beneficiaries</b>	Pay nothing	Subsidised rates and/or mix of full payers and those who pay nothing	Pay full market rates
<b>Capital</b>	Donations and grants	Below-market capital and/or mix of full payers and those who pay nothing	Market rate capital
<b>Workforce</b>	Volunteers	Below-market wages and/or mix of volunteers and fully paid staff	Market rate compensation
<b>Suppliers</b>	Make in-kind donations	Special discounts and/or mix of in-kind and full price	Charge market prices

Source: Dees et al., 2001

Figure 2 below shows how the different surveys can be combined to provide different figures corresponding to different definitions of social enterprise. Each circle represents one of the surveys examined and demonstrates where there is overlap. It is interesting to note that the Annual Small Business Survey has only minimal overlap with the National Survey for Third Sector Organisations.

Figure 2: The overlapping data sources on social enterprise.



The ASBS survey of SMEs estimates there are 234,000 (4.78 per cent of the business population of 4.68 million) 'private' sector social enterprises. These would have an estimated 410,000 staff (based on median employment of 4 per enterprise with employees, plus a minimum of circa 162,000 self-employed/voluntary staff) and turnover of £23.6 billion (based on a calculation for median sales of £50,000 for private social enterprises without employees). If we look only at those private sector social

enterprises with employees the figures are 62,000 (5.3 per cent of business population of 1.17 million with employees), with 248,000 employees (based on a median of 4 employees per enterprise) and turnover of £15.5 billion. A wider definition of businesses with social goals from Delta Economics (2010) suggests that there are 232,000 young businesses with a turnover totalling £97 billion.

Towards the civil society end of the spectrum the NSTSO can be used to identify a narrower definition of social enterprises as TSOs that derive more than 50 per cent of the income from trading and self define as social enterprise. When a wider definition is used to also include those TSOs that derive more than 50 per cent of their income from trading but do not self identify as social enterprises, we can see that there are 21,344 organisations employing 272,000 employees and having a turnover of more than £10.7 billion. Taking an even wider definition of social enterprise activity across civil society, a total figure of £77 billion is reached (NCVO, 2009), although the number of organisations is not specified. The data sources are summarised in Table 5.

There are a number of options for policy makers wanting to assess the number and scale of social enterprises and each one has its advantages and disadvantages. We do not make recommendations for where the lines should be drawn but use these figures as illustrations of how the different definitions can be interpreted. Different possible approaches are listed below:

Table 5: Data sources presenting information on the scale of social enterprise

Data source	Description	Sample details	No of orgs (000s)	T/O (£bns)	Empl (000s)	Comments
IFF 2005	> 25% income from trading and self defining	Only CLG and IPS	15	18	475	
ASBS narrow	SE with employees	Dominated by private, under representing TS	70	15.5	248	Only 8,000 in a third sector legal form
ASBS wide	All enterprises meeting SE tests	As above	234	23.6	410	Only 10,000 in TS legal form
NSTSO narrow	>50% income from trading and self defining	Third sector only	16	8.5	227	
NSTSO wide	>50% income from trading but not self defining	As above	21	10.7	272	
NCVO Delta	SE activity Businesses wanting to make a difference	All civil society Private, less than 2 years old with >£200K income	232	77 97		Not self defining

1. Those with more than 50 per cent trading income, self defining as social enterprises and without the ability to distribute profit. The NSTSO would estimate this to be 16,000 organisations. This

excludes all social enterprises with a private sector legal form and some CLGs that may have been excluded from that sample. The revised NSTSO in 2010 and 2011 may provide further details.

2. The 16,000 above combined with the 62,000 social enterprises with private sector legal forms and employees. This excludes those who meet the same tests but do not have employees. (The ASBS figure refers to those with more than 25 per cent trading income but analysis shows that only 4 per cent are excluded when looking at more than 50 per cent trading income which is within the 10 per cent tolerance/error margin limits.)
3. The above including the organisations identified by the Annual Small Business Survey without employees (at least 240,000 organisations).
4. All private legal form social enterprises (234,000) and civil society organisations with any trading activity, but not necessarily self defining as social enterprises (47,000 identified in NSTSO but likely to be under reporting).
5. All social enterprise activity identified by NCVO (£77.2 billion) combined with Delta's analysis of private enterprises 'making a difference' (£97 billion).

## Conclusion

The aim of this paper has been to shed light on the complicated task of measuring the contested concept of social enterprise. The hybrid nature of social enterprise appears to be mirrored by a hybridity in those data sources that are used to understand the sector. Research looking to provide an evidence base, needs to combine data sources and be clear about what is being included and excluded. Researchers can provide the range of evidence from which interpretations can be made. In this paper we accept this subjectivity but only ask that users of the data are explicit in what they are reporting and more importantly, what they are not reporting.

By breaking down the data sources to help understand which sources examine private social enterprises and which include TSOs, we are able to provide a clearer picture. What has become evident from this review, is the huge confusion in the existing studies. This is also found in the wide range of smaller studies that have been carried out in different regions. The huge investment in research in mapping has been lost through a lack of clarity.

There is also a disjuncture between what has been measured and the focus of policy. While the most quoted data on social enterprise is drawn from the ASBS dominated by organisations from the private end of the social enterprise spectrum, the social enterprise infrastructure is dominated by the civil society end of the spectrum, with very few private social enterprises found on the lists of infrastructure bodies and social enterprise networks (CEEDR, 2008). There continues to be confusion over what is meant by social enterprise with many organisations meeting the definitional criteria rejecting the label, and many others using the label despite not meeting the definitional 'tests'.

What are the recommendations for future attempts to measure the scale of social enterprises? This paper has shown the importance of being clear about the sampling frame, having greater clarity in definitions and questions and being careful in how self reporting questions are interpreted. Any growth in the reported prevalence of social enterprise may therefore be a result of either (or both) a change in

enterprise behaviour by private and TSOs, or the growing acceptance of social enterprise discourses leading to increasing numbers of organisations self defining as social enterprises. The data presented in this paper is the start of the process of providing a better evidence base on the social enterprise sector in the UK. It is recommended that future surveys are clearer about what they are measuring, which sample frames they are drawn from, and most importantly, why they are doing so.

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## About the Centre

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## Social Enterprise

What role can social enterprise play within the third sector? This work stream cuts across all other research programmes, aiming to identify the particular characteristics and contribution of social enterprise. Our research includes theoretical and policy analysis which problematises the concept of social enterprise, examining the extent to which it can be identified as a distinct sub-sector. Quantitative analysis will map and measure the social enterprise sub-sector, and our qualitative case studies will contain a distinct sub-sample of social enterprises.

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