

Policy Briefing

SMEs as Social Enterprises: Regional Disparities, Access to Finance, Strategic Intentions, and the COVID-19 Pandemic

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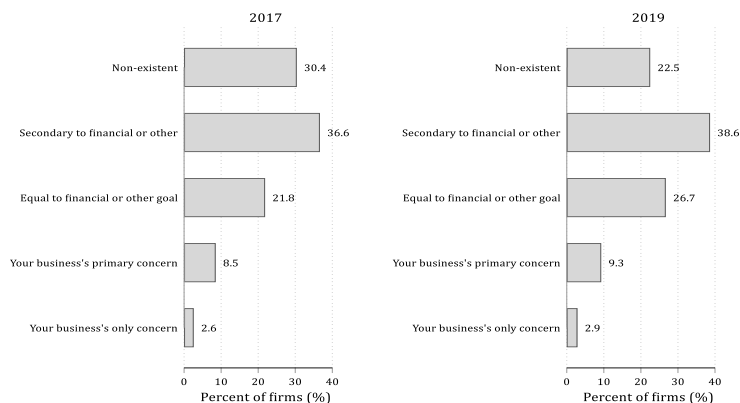
Social enterprises (as distinct from charities, traditional non-profits or commercial businesses) have become an important part of the entrepreneurial ecosystem as more businesses become involved in pursuing social or environmental goals, while generating profits in order to remain financially viable. Using data from the Longitudinal Small Business Survey (LSBS), we examine the recent developments and financing challenges facing UK social enterprises. We also examine the future strategic intentions of social enterprises following the onset of the COVID-19 pandemic.

Key findings

General Observations for UK SMEs

Data from the Longitudinal Small Business Survey suggests that around 2.9% of SMEs (approximately 170,000 SMEs) consider social or environmental goals as their only concern. 9.3% of SMEs (approximately 544,000 SMEs) consider these goals as their primary concern. 26.7% (approximately 1.5 million SMEs) consider them to be equal to financial or other goals, while 38% (approximately 2.2 million SMEs) consider them to be secondary to financial or other goals.

Figure 1: Percentage of SMEs that consider social and environmental goals as a main concern for the business



Source: Longitudinal Small Business Survey (LSBS), question code: D3. This Figure shows the percentage of SMEs that consider social and environmental goals as a main concern for the business. Cross-sectional survey weights have been applied.

Authors



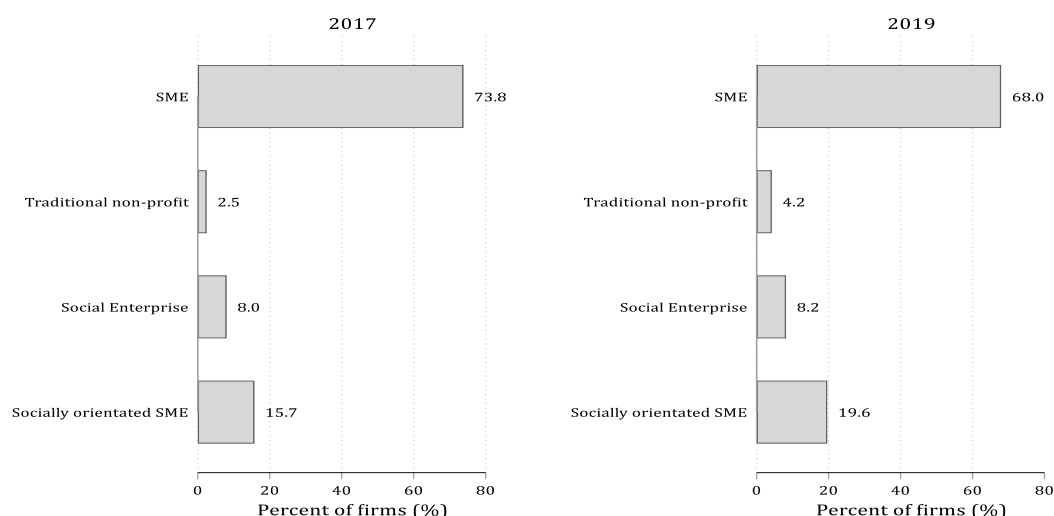
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Social Enterprises as part of the SME Ecosystem

In 2019, 8.2% of SMEs (approximately 480,000 UK SMEs) met the LSBS definition of a social enterprise, which was slightly higher compared to 2017. Most social enterprises operate in the education, health and social work, arts and entertainment, and other services sectors. Compared to other types of SMEs, a significant proportion of social enterprises appear to consider recruiting staff; dealing with regulations/red tape; and finding suitable business premises as major obstacles for their business. Social enterprises are found across the whole of the UK, albeit they are less likely to be in non-urban areas, and more likely to be female- and minority ethnic-led.



Source: Longitudinal Small Business Survey (LSBS), question code: SOCENT. This Figure shows the percentage of SMEs which are classified into 4 categories (i) traditional non-profit SMEs (mostly registered charities), (ii) social enterprises, (iii) socially-orientated SMEs and (iv) commercial SMEs. Classification of SMEs into one of the aforementioned categories is achieved via responses to multiple questions in the LSBS related to: the share of income from trading/commercial activities; rules or restrictions on the use of surpluses/profits to further social/environmental goals; the type of social or environmental goals and how they compare to financial goals; and charitable status and legal form. Cross-sectional survey weights have been applied.

Regional disparities and access to Finance

The North East of England, Northern Ireland, Wales, Yorkshire & Humber, and Scotland have a higher probability of hosting social enterprises compared to London. Regarding financing, social enterprises are more likely to rely on government or local authority grants as a source of funding compared to commercial SMEs. Our results also suggest that, relative to commercial SMEs, social enterprises are less likely to apply for funding from commercial banks. However, conditional on funding application, social enterprises are more successful in securing funding via loans and credit cards compared to commercial SMEs.

Future plans and the COVID-19 Pandemic

Disruptions brought about by the COVID-19 pandemic and resultant government restrictions on trading do not appear to be perceived as a major obstacle to business success for social enterprises compared with commercial SMEs. Operations of social enterprises are found to be increased during the lockdown restrictions compared to commercial SMEs. Social enterprises' future plans to increase skills of the workforce and potential capital investments do not seem to have been affected by the pandemic when compared to commercial SMEs. This suggests preliminary evidence of a degree of business resilience and the ability to respond and adapt to new conditions following sudden and significant exogenous shocks.

Policy and practice implications

Social enterprises have formed an important part of the UK government policy agenda over the past 20 years. Numerous measures have been enacted to support social enterprise growth and provide access to appropriate forms of finance, given their prominent role in reducing social and economic inequalities. The wider social purpose of social enterprises could create potential opportunities to reduce economic and social inequality in the context of recent policy changes related to Brexit, the pressures created by COVID-19 pandemic and the Government's 'levelling up' agenda to address interregional inequalities.

The results presented in this study, which have highlighted many of the significant challenges facing social enterprises, have important implications for public policy by providing valuable information for organisations and other key stakeholders wishing to execute appropriately designed interventions or offer financial support to strengthen UK social enterprises and the important role they play in the UK society.

Full paper link:

<https://www.enterpriseresearch.ac.uk/our-work/publications/>