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Gender, Ethnicity, and Access to Finance: Evidence for UK Social Enterprises

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ABSTRACT

We investigate the access and use of various forms of finance for social enterprises, including those that are women and minority ethnic group (MEG) led. Using data from the UK Longitudinal Small Business Survey, we find that relative to commercial small and medium enterprises (SMEs), social enterprises are less likely to apply for bank overdrafts, but more likely to apply for government grants. However, upon application, social enterprises are more likely to receive credit card and loan funding from mainstream financial intermediaries. By gender lead, our results suggest that women-led social enterprises are more likely to apply for loans from a bank, but less likely to receive funding compared to male-led counterparts. Our results also show that MEG-led social enterprises are less likely to apply for credit cards and government grants, and less likely to get a bank overdraft facility or a loan from a bank.

Keywords: Small and medium-sized enterprises; Social enterprises; Women-led social enterprises; Minority-ethnic group enterprises; Social and Environmental Goals.

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1. INTRODUCTION

Prior evidence suggests that commercial small and medium-sized enterprises (SMEs hereafter) face challenges in accessing sufficient external finance to fund day-to-day operations and longer-term strategic goals (Beck & Demirguc-Kunt 2006). Such challenges can be more onerous and costly for ethnic minority and women-led SMEs (Blanchflower *et al.* 2003; Coleman & Robb 2009; Mascia & Rossi 2017; Guzman & Kacperczyk 2019; Fairlie *et al.* 2021) with resultant implications for subsequent firm investment and growth (Brown *et al.* 2022). In this paper, we augment and complement prior evidence by investigating the underlying factors affecting the use of, and access to various forms of finance for social enterprises,[1] and whether this differs for those that have women or Minority Ethnic Group (MEG) leadership.[2]

Social enterprises are organisations with social, ethical and environmental objectives, which generate income from trading activities, and use resultant profits to further social, ethical and environmental goals (Santos 2012; Smith *et al.* 2013). Given the intersection of their respective commercial activities with ongoing social and environmental societal challenges, social enterprises have attracted the interest of academics and policymakers (Wilson & Post 2013; Wry & York 2017; Robinson 2019; Saebi *et al.* 2019; Hota *et al.* 2020; Hota 2021; Haugh *et al.* 2022). Indeed, social enterprises have become an important part of the entrepreneurial ecosystem as more businesses become involved in pursuing social, ethical or environmental goals, while generating profits in order to remain financially viable. At an aggregate level, social enterprises augment and complement existing commercial for-profit and public sector goods and services provision by engaging in commercial activities with associated social, ethical or environmental goals that contribute to tackling issues related to aging, health, environment, and economic and social exclusion (Spence & Lozano 2000; Murillo & Lozano 2006; Fowler *et al.* 2019). Many social enterprises are also committed to integrating environmental policies to their business models in order to pursue net-zero ambitions (Folmer & Rebmann 2021; Kesidou & Ri 2021).

[1] In contrast to charities and other voluntary sector organisations that rely on grand or donor funding, social enterprises are sustainable organisations which generate trading surpluses.
[2] Women-led social enterprises are defined as those where women make up more than 50% of partners or directors in control of the business, or where the sole proprietor is a woman. MEG-led social enterprises are those where individuals from ethnic minority groups constitute 50% or more of partners or directors in control of the business, or where the sole proprietor is from an ethnic minority group.

Despite forming an important part of the SME ecosystem and promoting inclusive growth via employment creation, skills development and investment in local communities, the current knowledge regarding social enterprises remains limited relative to the substantial evidence base available for mainstream commercial SMEs (York *et al.* 2016; Belz & Binder 2017). Social enterprises are involved in complex relationships with multiple stakeholders (customers, competitors, employees, funders, government, recipients, suppliers) emanating from diverse backgrounds (Austin *et al.* 2006; Lumpkin & Bacq 2019). In common with mainstream SMEs, social enterprises face a myriad of challenges, including access to sufficient finance to fund day-to-day operations and longer-term strategic goals. However, relative to mainstream SMEs, financing constraints are likely to be more pronounced for social enterprises, given that their social mandate combined with a need to generate profit presents additional challenges to demonstrating creditworthiness to prospective lenders (Bull *et al.* 2014; European Parliament 2016). The ability of social enterprises to access external finance is an issue (Doherty *et al.* 2014), which has become even more pronounced in the wake of the COVID-19 pandemic, and the cessation of public policy business support measures implemented during that time. Consequently, there is an urgent need for further research on access to finance for social enterprises, especially those that are MEG-led and women-led (Carter *et al.* 2015; Lyon & Owen 2019). The present study goes some way toward filling the evidence gap by providing new evidence on the financing of social enterprises.

As a setting for the current study, we use the United Kingdom, where the social enterprise sector represents approximately 3% of UK GDP, and is one of the fastest-growing forms of business, with over 100,000 organisations contributing £60 billion to the economy and employing over two million individuals (Social Enterprise UK 2018). In the UK, social enterprises are a core part of the wider SME population (businesses with less than 250 employees), conducting a variety of commercial activities across economic sectors and contributing to job creation (Haugh *et al.* 2022).

Social enterprises are characterised by a more diverse leadership than commercial SMEs.[3] According to Social Enterprise UK (2019), 40% of social enterprises are led by women, over twice that of commercial SMEs (17%). Moreover, 13% of social enterprises are MEG-led, which also represents a much higher proportion relative to commercial SMEs (5%). Given the

[3] Prior evidence suggests that social enterprises also play an increasingly important role in acting to advance female entrepreneurship and empowerment (British Council 2017).

general importance of social enterprises and specific importance of women- and MEG-led social enterprises for the UK economy, there are obvious economic and social development grounds for undertaking research on factors affecting access and use of various forms of finance, and whether this differs for those that are MEG- and women-led (Di Domenico *et al.* 2010; Lee & Cowling 2013; Doherty *et al.* 2014).

Our data set for the current study is the 2016-2019 Longitudinal Small Business Survey (LSBS) commissioned and published by the Department of Business, Energy and Industrial Strategy (Department for Business Energy and Industrial Strategy 2022). The LSBS is a large-scale cross-sectional and longitudinal telephone survey of owners/proprietors, managing directors or other senior directors in UK-based SMEs. We utilise specific questions included in the survey to identify social enterprises and SMEs. The main advantage of using the LSBS as an information source is that the sample of SMEs is representative of the population of 5.5 million UK SMEs. Moreover, the LSBS uses a consistent classification method to identify social enterprises, and thus overcomes definitional challenges prevalent in prior research. Our data set also allows us to identify gender and ethnicity-based leadership characteristics, and thus investigate how leadership gender and ethnicity affect access to finance at social enterprises.

Our investigation proceeds in two stages. In stage 1, we examine the usage of various forms of finance by social enterprises. We utilise probit models to estimate (relative to commercial SMEs) the usage of different sources of debt by social enterprises including: bank overdrafts; commercial mortgages; credit cards; equity finance; factoring/invoice discounting; government or local authority grants; leasing or hire purchase; loans from a bank, building society or other financial institution; loans from family/friends; loans from a peer-to-peer platform; and loans from business partner/director/owner. We also consider, the potential impact of leadership diversity (in the form of MEG-led or women-led business) on the type of finance used. Consequently, the results of stage 1 of the analysis provide important evidence regarding the actual use of various sources of debt finance by social enterprises compared with commercial SMEs. We find a lower probability of using debt finance, with the exception of government grants. While the results for women-led social enterprises do not appear to indicate substantial differences in terms of usage of debt relative to male-led counterparts, our results do suggest that MEG-led social enterprises are more likely to use bank-overdraft facilities and loans from mainstream financial intermediaries. While informative, the results of our stage 1 analysis do little to disentangle the supply and demand for finance. Given that the likelihood of a social

enterprise receiving finance is conditional upon applying for it, a sample selection adjustment is necessary. Consequently, in stage 2 of our analysis, we utilise a Heckman sample selection probit model in order to investigate how being a social enterprise that is women or MEG led influences the demand (applying) and supply (receiving a successful funding application) of finance. This analysis provides insights to the extent to which social enterprises have access to the appropriate forms of funding necessary to achieve economic, ethical, social and environmental objectives, and how this differs for social enterprises that are women- and MEG-led. The results of this (stage 2) analysis suggest that there is a mismatch between the demand and supply of social enterprise funding in terms of bank overdrafts, commercial mortgages, credit cards, government grants and loans. More specifically, we observe that despite little difference in demand, social enterprises do appear to find it easier to secure mortgages, credit cards and loans relative to commercial SMEs counterparts. Our results also suggest that the demand and supply of certain sources of funding are significantly affected by leadership diversity. For example, MEG-led social enterprises exhibit a higher probability of securing government or local authority funding relative to non-MEG-led counterparts. Moreover, we find that women-led social enterprises are less likely to receive bank funding, despite being more likely to apply than male-led counterparts.

We contribute to several strands of literature. First, we contribute to literature regarding financial resource mobilization for social enterprises. Prior evidence suggests that accessing finance is an important barrier for social enterprises (European Commission 2015), given that these entities are not perceived as viable clients by mainstream financial intermediaries (Doherty *et al.* 2014). Therefore, it is crucial for social enterprises to have adequate access to external financial resources for the pursuit of their respective social, ethical and environmental mission (Doherty *et al.* 2014). Previous research also suggests there are significant impediments in the form of informational asymmetries, limited collateral and unstable cash flows to SMEs seeking bank funding (Berger & Udell 1998; Cowling *et al.* 2012; Berger & Black 2019). These impediments are likely to be more severe among social enterprises given their less conventional business model, where social, ethical and environmental goals augment conventional financial targets as an integral component of business strategy. Our results suggest that relative to commercial SMEs, social enterprises are less likely to use bank overdrafts, loans (from either mainstream financial institutions or business partner/director/owner) and leasing or hire purchase, but are more likely to rely on grant funding provided by government and local authorities and to a lesser extent factoring / invoice discounting. Our analysis also provides insights to the demand (funding applications) and

supply (outcomes of funding applications) for the main sources of finance used by social enterprises to pursue their ambitions. Compared to commercial SMEs, social enterprises are less likely to apply for bank overdrafts, and more likely to apply to government grants. However, upon application, social enterprises are more likely to receive commercial mortgage and credit card funding and loans from mainstream financial intermediaries.

Second, we contribute to the literature on female entrepreneurship. The findings of prior academic research and various government inquiries suggest that relative to male counterparts, women-led businesses find it difficult to access external financing to set up and scale up their enterprises (Marlow & Patton 2005; Roper & Scott 2009; Rose 2019, 2022).[4] Our results suggest that women-led social enterprises are less likely to use equity finance and loans from business partners/directors/owners. Considering the importance of leadership diversity of social enterprises for the demand and supply of finance, our results suggest that women-led social enterprises are more likely to apply for loans from a bank, but conditional upon application, less likely to receive funding compared to male-led social enterprises.

Third, we contribute to the literature on ethnic minority led enterprises. Prior US evidence suggests that MEG-led SMEs are more likely to be: refused credit (Cavalluzzo *et al.* 2002; Fairlie *et al.* 2021); pay more for credit (Blanchflower *et al.* 2003); and be discouraged from applying for credit (Neville *et al.* 2018; Fairlie *et al.* 2021). Furthermore, Kickul *et al.* (2013) suggest that social entrepreneurs tend to operate in resource-scarce environments. The prevalence of such financing constraints leads to an organisational size gap emerging between white- and MEG-led firms (Fairlie *et al.* 2021; Barkley & Schweitzer 2022; Brown *et al.* 2022). Our results suggest that MEG-led social enterprises rely less on commercial mortgages, factoring/invoice discounting, government grants and leasing or hire purchase forms of finance compared to non-MEG-led counterparts, but are more likely to use bank overdrafts, loans from mainstream financial intermediaries (such as a bank, building society or other financial institution) or loans from a business partner/director/owner. Our results also show that MEG-led social enterprises are less likely to apply for credit cards and government grants, and conditional upon application, are less likely to be granted a bank overdraft facility or a loan. However, upon application, MEG-led social enterprises exhibit the largest probability of securing funding from a government or local authority grants. This combination of a paucity

[4] Recent evidence does however suggest that barriers to accessing finance are diminishing for female entrepreneurs (Cowling *et al.* 2020; Rose 2022).

of bank-based funding and reliance on grant funding is likely to affect the longer-term sustainability of MEG-led social enterprises.

Finally, we contribute to the growing literature on social entrepreneurship (Austin *et al.* 2006; Lepoutre *et al.* 2013; Hota *et al.* 2020; Hota 2021; Haugh *et al.* 2022) in the context of SMEs. Social entrepreneurs are often characterized by their ethic of care (André & Pache 2016), and assumed to be guided by ethical and moral considerations with the primary intention to help others (Pless 2012). Social enterprises have grown in prominence as they offer innovative solutions to pressing and complex social and environmental societal challenges (Zahra *et al.* 2009; Lepoutre *et al.* 2013; Sarracino & Fumarco 2020), while operating as commercial businesses and adding value to the economy via employment creation and investment. However, the likely trade-off between profit and purpose (social goals) faced by social enterprises may result in substantial financial resource constraints and inhibit future tangible and intangible investments, employment creation and growth.

Overall, our findings have important implications for current and future policy toward social enterprises (Bacq & Lumpkin 2021). Social enterprises represent a growing sector playing an important role in promoting the circular economy (OECD/European Commission 2022) and contributing to addressing the persistent social and environmental inequalities (Resolution Foundation 2022) and the UK government levelling up agenda (Harrari & Ward 2022; UK Government 2022). Against this backdrop, the provision and access to appropriate forms of finance is crucial to ensuring that the financial sustainability and social mission of social enterprises is realised. In addition, our results suggest that the disadvantages faced by MEG- and women-led social enterprises in accessing finance could lead to this group of social enterprises failing to meet their full potential (Hyde 2021; Rose 2022).

The remainder of the paper is structured as follows. Section 2 provides a background on the evolution and policy toward UK social enterprises, and the importance of women- and MEG-leadership. Section 3 describes the data set and the research methodology utilised in stages 1 and 2 of our empirical analysis. In section 4, we present the results of the empirical analysis. Section 5 provides a conclusion.

2. BACKGROUND

2.1 SMEs as social enterprises

Social enterprises are for the most part, small and medium-sized enterprises engaged in the provision of goods and services with a wider social, ethical or environmental purpose. As such social enterprises play a vital role in stimulating entrepreneurial activity, increasing employment, building social capital and enhancing individual well-being, investing in disadvantaged areas, tackling social and financial exclusion, and addressing environmental and social challenges (Lepoutre *et al.* 2013; Sarracino & Fumarco 2020).[5]

Social enterprises differ from traditional for-profit organisations, which utilise capital and labour inputs to produce goods and services with a primary aim of maximising profits. In contrast, social enterprises use labour and capital inputs to engage in entrepreneurial activity and produce goods and services in order to achieve social, ethical or environmental objectives that tackle problems arising from poverty, health and educational inequalities and environmental damage (Zahra *et al.* 2009). As such, social enterprises are a distinctive organisational form, which combine business activities with social, ethical and environmental goals.[6]

Social enterprises have formed an important part of the UK government policy agenda over the past 20 years. Teasdale (2012) provides an early discussion of the development of social enterprises in the UK. In 2001, a Social Enterprise Unit was established (within the Department for Trade and Industry), which produced a strategy to support social enterprise growth. Later reports charted the design and progress of various initiatives (Department of Trade and Industry 2002; Bank of England 2003; Department of Trade and Industry 2003). In 2006, responsibility for the oversight of social enterprises was assigned to the Office of the Third Sector. A 2007 UK Treasury review of the third sector (encompassing voluntary and

[5] Social enterprises focus on: serving a specific community; supporting vulnerable individuals; improving health and well-being; creating employment opportunities for the disadvantaged; tackling financial and social exclusion; addressing environmental issues; and supporting charities (Social Enterprise UK 2017).

[6] Typologies and definitions of social enterprises are numerous and varied. Extensive early discussions and taxonomies of social enterprises can be found in Austin *et al.* (2006) and Alter (2007). Other useful discussions regarding definitions and typologies of social enterprises include Bull (2007), Spear *et al.* (2009), Zahra *et al.* (2009), Martin and Thompson (2010), Dacin *et al.* (2010), Teasdale (2012), Doherty *et al.* (2014), Eldar (2017), Defourny and Nyssens (2017). OECD (2015) and Rawhouser *et al.* (2019) provide a detailed discussion of social enterprise impact performance measurement, while Saebi *et al.* (2019) provide a more general overview of the salient literature.

community organizations, cooperatives and mutuals and social enterprises), set out a vision for government mechanisms to support the social enterprise sector including fostering access to appropriate forms of financial support (HM Treasury 2007). In 2010, the Office for Civil Society was established to oversee and support social enterprise. This coincided with a new coalition government, which envisioned social enterprises as playing a vital role in the so-called Big Society. Big Society Capital was established (using proceeds from dormant bank accounts) as a social investment institution providing finance to financial intermediaries, which provided funding to social enterprises (UK Cabinet Office 2010). Other funding initiatives included the development of Social Impact Bonds. In 2016, the Office for Civil Society was moved to the Department for Digital, Culture Media and Sport.

The scale and scope of social enterprises has increased in recent years in (part) response to gaps left in the provision of many goods and services following cuts to public services via government-imposed austerity programmes instituted in the aftermath of the global financial crisis. Social enterprises have emerged as a hybrid organisational form as the demarcations between the private, public, and non-profit sectors have eroded to become less distinct (Doherty *et al.* 2014). For the most part, social enterprises are SMEs, albeit there are some notable exceptions to this (Borzaga *et al.* 2020). Moreover, social enterprises can adopt one of several organisational forms including mutuals, cooperatives, limited liability partnerships, companies limited by guarantee with charitable status, and more recently (in the UK) so-called community interest companies (BIS 2011; Lyon & Owen 2019).[7] Overall, successive UK governments have undertaken a variety of measures to support the development and sustainability of social enterprises (Phillips 2006). More recently, the so-called Levelling Up agenda (Harrari & Ward 2022; UK Government 2022) presents an opportunity to inject more capital towards the social economy in the most left-behind communities.[8]

[7] Provision for the establishment of community interest companies (CIC) is provided under the terms of the Companies (Audit, Investigations and Community Enterprise) Act, 2004. CICs are limited liability companies with a mission to conduct business for wider community benefit (Haugh *et al.* 2022). To gain approval to establish a CIC, an organization must demonstrate that the proposed activities (community interest test) and accumulated assets (asset lock) are used for community benefit. CICs are required to produce an annual community interest company report containing information regarding activities. Establishment approval and subsequent monitoring and regulation of CICs is carried out by the Office of the Regulator of Community Interest Companies. In August 2021, there were approximately 25,000 CICs registered in the UK (Social Enterprise UK 2021).

[8] The levelling up agenda is a UK government initiative designed to tackle persistent economic and social inequalities prevalent across the UK. This is underpinned by four overarching objectives aimed at enhancing productivity, wages, employment and living standards via growth in private sector

2.2 Debt finance, asset finance and alternative financing instruments

Social enterprises rely on multiple sources of finance to fulfil operational, cash flow and investment needs. Figure 1 proves a descriptive summary of the finance instruments commonly used by social enterprises.

[Insert Figure 1 around here]

Traditional debt finance instruments include bank loans, overdrafts, credit cards and commercial mortgages. These represent the most common source of external finance for many SMEs, including social enterprises, as their use does not involve a sacrifice of ownership or control. The defining characteristic of these instruments is that they represent an unconditional claim on the borrower and should be repaid at an arranged later date, usually through regular repayments with added interest.

Bank loans are generally a relatively quick and straightforward way to secure the funding, with successful applications conditional upon overall creditworthiness and projected future performance. Figure 1 shows that bank loans were used by approximately 5% of Social Enterprises in 2019. Bank overdrafts (or credit lines) and credit cards are a type of short-term flexible loan up to an agreed limit provided by a financial intermediary. There is a fee payable with the use of any overdraft facility and interest paid on funds used. This represents an important source of funding for SMEs experiencing a temporary cash flow shortfall or requiring a cash boost because of short-term or unexpected situations. Figure 1 shows that in 2019, approximately 25% of social enterprises used bank overdrafts and 24% used credit cards.[9] Commercial mortgage loans from high street banks (or specialist lenders) secured against commercial property or land for business purposes are also available to business owners. A small proportion of social enterprises of approximately 4% rely on this type of debt instrument (as shown in Figure 1).

Factoring and leasing are two types of asset-based finance instruments also available to social enterprises. These allow firms to obtain funding based upon the value of specific assets (such

economic activity; improving access to and the provision of public services; restoring pride to community; and providing funding and support for local empowerment.

[9] Brown *et al.* (2019) suggest that firms located in peripheral geographical areas have greater usage of credit cards relative to counterparts located in 'core' location.

as trade accounts receivable, inventory, fixed assets, and real estate). As such, asset-based finance provides firms with access to cash (working capital) under flexible terms regardless of creditworthiness and projected future cash flows. The costs incurred are likely to be higher and the amount of funding received lower than that typically associated with conventional bank loans. Figure 1 suggests that leasing is a popular instrument (used by approximately 13% of social enterprises), while factoring (or invoice discounting) is less popular (used by approximately 3% of social enterprises).

Equity finance refers to all financial resources that are provided to firms (mainly growth-oriented and innovative start-ups) in return for an ownership interest. Family, friends, business angels and venture capitalists have been considered as the main providers of equity finance for SMEs. Figure 1 suggests that a small proportion of (approximately 2%) of social enterprises rely on this type of finance.

Social enterprises may also access other types of loans (from family, friends and related enterprises or owners). This unconventional form of business loan can provide funding at lower interest rates and fees, without the need to undergo onerous credit checks. This type of funding is used by approximately 15% of social enterprises. More recently, crowdfunding/peer-to-peer lending (P2P) has emerged as an alternative source of funding under which firms that are a member of an internet platform can borrow and lend money to one another directly, thus removing the need for a traditional financial intermediary. This type of funding option is typically unsecured, so is attractive to firms lacking collateral or credit history – albeit this form of funding is only used by approximately 2% of social enterprises.

Finally, grant funding is also a potential option for social and non-profit ventures. Given that funding is usually project-specific, and repayment is not always required, excessive reliance on this type of funding could potentially erode the financial self-sufficiency of these firms. Figure 1 suggests that approximately 6% of social enterprises use this type of funding.

2.3 Women-led businesses

In terms of access to finance for women-led social enterprises, the results presented later in this study have relevance for longstanding debates (Hertz 2011) and evidence suggesting that female entrepreneurs face significant barriers to accessing finance (Marlow & Patton 2005; Azam Roomi *et al.* 2009). Empow'Her (2019) conducts a European survey regarding the difficulties women social entrepreneurs face in starting and scaling up their businesses. The

results of this study suggest that regardless of the longevity and size of their enterprise, 47% of respondents cite a lack of access to appropriate funding as their main obstacle to business success. Prior research suggests that relative to male counterparts, women-led firms are required to post higher levels of collateral and receive lower amounts of bank funding (Orhan 2001).

In the UK, the government commissioned Rose Review finds that access to finance is the most important barrier to female entrepreneurship (Rose 2019, 2022). Specifically, women-led SMEs are established with significantly less capital than male-led counterparts. Moreover, female entrepreneurs are less aware of funding opportunities and are less likely to accrue significant debt. The review concludes that £250 billion of additional wealth could be added to the UK economy if women-led business were financed and grew at the same rate as male founded enterprises. Following the recommendations of the Rose Review, the UK Government (in partnership with private sector financial intermediaries) introduced the Investing in Women Code to provide mechanisms to overcome financing obstacles. Overseen and supported by the British Business Bank, approximately, 134 signatories across a range of financial services organisations, including banks, venture capitalists, business angels and charities, are committed to equality of funding opportunities for female entrepreneurs (HM Treasury 2021; Rose 2022). Moreover, the results of prior academic research suggests that women-led businesses also face higher costs of bank funding relative to male-led counterparts (Mascia & Rossi 2017). Consequently, many women-led enterprises rely significantly more on informal forms of funding (Coleman & Robb 2009).

2.4 MEG-led businesses

MEG-led SMEs play a crucial role in adding value to the UK economy (Federation of Small Business 2020) via employment and innovation despite having less access to finance than white led counterparts (British Business Bank 2020). Access to finance challenges have been found to arise from insufficient collateral, lack of credit history and language barriers (Department for Communities and Local Government 2013; BDRC Continental 2017). Prior UK research suggests that MEG-led firms are more likely to be refused credit. These firms are more likely to be discouraged from applying for credit (Fraser 2009). However, more recent evidence suggests that immediately preceding and following the onset of the COVID-19 pandemic, ethnicity was not a significant factor in determining the success of loan applications (Cowling *et al.* 2021). Challenges to accessing finance facing women-led or MEG-led SMEs

are even more pronounced for ethnic minority female entrepreneurs (Hyde 2021). These constraints are likely to limit the full potential of MEG-led SMEs to contribute to employment creation, capital accumulation and economic growth (British Business Bank 2020). The results presented in this study (discussed in further detail below) augment recent evidence, which suggests that traditional routes to gaining access to information, networks and finance do not recognise the needs of MEG-led social enterprises (Sepulveda & Rabbevåg 2021).

3. DATA AND METHODOLOGY

3.1. Data

The UK Longitudinal Small Business Survey (LSBS) is the primary data source used in the present study. Commissioned by the Department for Business, Innovation and Skills (BEIS), the LSBS is a large-scale telephone survey of owner/proprietors, managing directors or other senior directors in UK-based Small and Medium-sized Enterprises (SMEs). The LSBS database includes a cross-sectional and panel data file for respondents from Year One (2015), Year Two (2016), Year Three (2017), Year Four (2018), Year Five (2019) and Year Six (2020). The number of observations equals 35,336 cases across the six years, with: 15,502 in 2015; 9,248 in 2016; 6,619 in 2017; 15,105 in 2018; 11,002 in 2019; and 7,636 in 2020. The first year of the survey (2015) is intentionally excluded from the sample because of changes to the questionnaire after 2015, which do not allow us to draw comparisons over time. The final year of the survey (2020) is also excluded because it does not allow us to identify social enterprises (discussed in Section 3.2). The longitudinal element of the LSBS survey allows us to track social enterprises over time and across UK regions and industry sectors.

3.2 LSBS classification of social enterprises

Prior estimates of the scale of UK social enterprises have been based largely upon results from the Small Business Survey (SBS), which was replaced by the LSBS in 2015 (Department for Business Energy and Industrial Strategy 2022). The most common definition of social enterprise used by the UK government is: '*A social enterprise is 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 and owners*' (Department of Trade and Industry 2002).

In 2017, the LSBS introduced a new module to identify businesses as social enterprises following a framework developed in partnership between the Department for Business Energy and Industrial Strategy and the Department for Digital, Culture, Media and Sport (DCMS). Specific questions to identify social enterprises are included in the Survey every other year, and thus were included in the 2019, but not in the 2020 wave of the LSBS survey. The LSBS defines four types of organisations based on social and environmental goals, comprising: social enterprises; traditional non-profit enterprises; socially-orientated SMEs; and commercial SMEs.

The identification of social enterprises is based upon four key characteristics, comprising: income generated from trading; charitable status & legal form; use of surpluses/profits; and organizational goals (social/environmental/financial). Based on the LSBS classification (see Figure 2), *social enterprises* are classified as enterprises that have identifiable social/environmental goals; generate income from trading activities (i.e., engage in entrepreneurial activity); and use surplus/profit to further social/environmental goals. Social enterprises also include organizations that pursue social goals and generate more than 50% of income from trading activities. *Socially-oriented SMEs* are enterprises that have social/environmental goals and generate income chiefly from trading activities, but do not use profits to further those goals. *Traditional non-profits* are organisations that pursue social goals, but generate less than 50% of income from trading activities.[10] *Commercial SMEs* have clear financial objectives and do not use profits to further social, ethical or environmental objectives.

[Insert Figure 2 around here]

Figure 3, based on the LSBS sample, shows that commercial SMEs represent around 70.18% of the business population in the UK, followed by socially oriented SMEs (18.16%), social enterprises (8.1%) and traditional non-profits (3.5%).

[Insert Figure 3 around here]

[10] Some social enterprises have charitable status. The distinguishing feature of a social enterprise is the proportion of turnover derived from trading being above 50%. Therefore, for this study, we exclude SMEs that earns under 50% of its revenue from commercial activity (the term 'traditional non-profit' has been traditionally used to indicate this type of SMEs which represents around 3.5% of the UK business population).

3.3 Descriptive statistics: SME characteristics and organisational forms

The LSBS encompasses detailed information on the characteristics of SMEs. A detailed definition of all the variables used in the empirical analysis is presented in Table 1. A key dependent variable used in this study is a dummy variable that measures whether SMEs in the sample are social enterprises or SMEs in a broad sense (which includes both commercial and socially oriented SMEs). Traditional non-profit SMEs are excluded from the analysis in order to facilitate direct comparisons between social enterprises and commercial SMEs.

[Insert Table 1 around here]

Our estimable models defined in the following section include several control variables related to the demographic and managerial characteristics of the SMEs in the sample. Table 2 presents summary information. Commercial SMEs (the benchmark category in our empirical analysis) represent 91.6% of our sample, while social enterprises represent 8.4% of the sample. Women-led businesses (controlled by a single woman or having a management team composed of a majority of women) represent 20.2% of our sample. 4.8% of our sample is defined as MEG-led. 53% of SMEs are growth-oriented, and therefore aim to grow sales over the next three years. Firm size is measured by the number of employees currently on the payroll, excluding owners and partners across all sites of the firm. Most SMEs belong to the category of zero employees (76%) followed by micro (19.8%), small (3.7%) and medium (0.6%) sized SMEs. To control for firm age, a set of binary variables are constructed for start-ups (0-5 years) to mature SMEs (20+ years) are included. The distribution across age categories is relatively even, albeit most SMEs are classified in the 20+ years category (36.9%). 28.7% of SMEs in the sample stated that turnover had increased over the past 12 months, and 81% of the SMEs generated a profit in the last fiscal year. 69.7% of all SMEs in the sample are located in urban areas. 87.6% of SMEs in the sample are family-owned businesses, and 29% of SMEs have a business plan. In terms of geographical distribution, most SMEs are located in England (88.2%) followed by Scotland (5.8%), Wales (3.7%) and Northern Ireland (2.3%). The sample distribution by industry shows that most SMEs operate in the business services sector (33.6%). Table 3 presents correlations between the explanatory variables used in the empirical analysis. The highest pair-wise correlation is 0.34 (between size and business plan dummy), suggesting that multicollinearity issues are not a concern in the baseline model specification used in our empirical analysis.

[Insert Tables 2 and 3 around here]

3.4 Empirical methodology

The present study utilises the four most recent waves (2016-2019) of the LSBS. We exploit the longitudinal element of the survey, and thus deal with endogeneity concerns by using lagged variables in our regression analysis. In order to investigate the access to and usage of various forms of finance by social enterprises, we rely on probit and sample selection (Heckman) probit models.

3.4.1 Types of finance currently being used by social enterprises - Probit Models

In Stage 1 of our empirical analysis, probit models are used to investigate the determinants of the current use of different financing sources of SMEs. Here, the dependent variable is equal to one if the SME *i* is using a specific source of finance, and zero otherwise.

$$\Pr(Finance\_Source_i = 1) = \Phi(X_i\beta + v_i) \quad (1)$$

v_i are i.i.d., $N(0, \sigma_v^2)$, and Φ is the standard normal cumulative distribution function. We include a wide range of covariates that prior theory suggests are likely to affect the decision to use various sources of finance by social enterprises. These include firm size, age, along with various other firm-level characteristics (such as women- or MEG- leadership), industry and regional fixed effects. In addition, our empirical approach (where appropriate) uses lagged independent variables to mitigate endogeneity concerns arising from reverse causality to capture growth ambition, changes in turnover, profitability, and management characteristics (women-led and minority ethnic-led SMEs). All results associated with these models are presented in terms of average marginal effects (AME) and errors are clustered at regional level to account for correlations of any unobserved components of outcomes of SMEs located within the same cluster or geographical area.[11]

3.4.2 Demand and supply for funding - Heckman Probit Models

In stage 2 of our analysis, we investigate the drivers of funding applications and their resultant outcome using a probit model with sample selection (Van de Ven & Van Praag 1981), which

[11] Marginal effect estimates capture how the probability of the dependent variable changes as the predictor changes. The marginal effect for a continuous independent variable is the partial derivative of the event probability with respect to the variable of interest. For a binary independent variable, this is the change in probability when the variable of interest changes from 0 and 1.

applies the Heckman (1979) approach to correct for selection bias in probit-type equations. The basic indicator of supply of finance is whether SMEs are successful in the applications for finance. However, given that the likelihood of a firm being rejected for finance is conditional upon applying for it, a sample selection adjustment is necessary. As a consequence, we follow previous literature and use a Heckman correction for selection (Lee & Drever 2014; Lee & Brown 2016). This assumes that there is an underlying relationship (latent equation)

$$Y_j^* = X_j\beta + \mu_{1j} \quad (2)$$

such that we observe only the binary outcome (outcome equation: successful finance application by SMEs)

$$y_j^{probit} = (y_j^* > 0) \quad (3)$$

The dependent variable, however, is not always observed. Rather, the dependent variable for SME j is observed if (selection equation: SME j applied for finance)

$$Y_j^{select} = (Z_j\gamma + \mu_{2j} > 0) \quad (4)$$

where $\mu_1 \sim N(0,1)$; $\mu_2 \sim N(0,1)$; $corr(\mu_1,\mu_2) = \rho\ (rho)$.[12] The model requires that the vector (Z_j) in the selection equation (which estimates the probability of applying for finance) contains an instrumental variable which should be excluded from the outcome regression (which estimates likelihood of obtaining finance, corrected for the likelihood of applying). Seeking any form of business advice by the SME in the last 12 months was used as selection variable.

We include a wide range of independent variables (X_j) and (Z_j), which are expected to affect the decision to use various sources of finance by social enterprises. These include firm size, age, along with various other firm-level characteristics (such as women- or MEG- leadership), industry and regional fixed effects. All results associated with these models are presented in terms of average marginal effects (AME) and errors are clustered at regional level to account

[12] When $\rho = 0$, there is no evidence of selection bias; and thus, the outcome and selection equations are independent, making the estimation of the selection model unnecessary. However, since the model is estimated by maximum likelihood (ML), ρ is not directly estimated. Instead, the Heckprobit routine directly estimates a nonlinear transformation of ρ (athrho) defined as: $athrho = \frac{1}{2}\ln(\frac{1+\rho}{1-\rho})$. A significant athrho indicates the presence of selection bias in the model.

for correlations of any unobserved components of outcomes of SMEs located within the same cluster or geographic area.

4. RESULTS

In this section, we present the main results derived from the analysis of the LSBS (section 4.1). Next, we present the empirical results associated with the differential effect of social enterprises and the diversity of their leadership in using specific types of finance sources, but also the impact on supply and demand for finance (section 4.2).

4.1 Use of different types of finance by social enterprises

We commence by comparing social enterprises to commercial SMEs with respect to the use of various forms of finance including bank overdrafts, commercial mortgages, credit cards, equity finance, factoring/invoice discounting, government or local authority grants, leasing or hire purchase, loans from a bank, building society or other financial institution, loans from family/friends, loans from a peer-to-peer platform, and loans from business partner/director/owner. Then, we focus our analysis on the influence of leadership diversity (women-led and MEG-led) within the sample of social enterprises on their use of various forms of finance.

Finance use by social enterprises versus commercial SMEs

The results presented in Table 4A suggest that compared to commercial SMEs, social enterprises are 2.8% less likely to rely upon bank overdrafts, and 5.6% less likely to use leasing or hire purchase. Social enterprises rely more on factoring and invoice discounting relative to commercial SMEs, albeit the differential effect in economic terms is small (0.6%). Such funding is well suited to the needs of social enterprises given that it allows them to obtain finance based on the value of accounts receivables rather than relying on an externally generated credit rating. However, social enterprises have greater success in securing government or local authority grants. Specifically, our results suggest that social enterprises have a 7.6% higher probability of using grants as a funding source compared to commercial SMEs.

Table 4B presents results for various categories of loans. The most important finding is that compared to commercial SMEs, social enterprises are 3.2% less likely to use loans from

mainstream financial intermediaries, and 5.4% less likely to use loans from business partners, directors or owners.

[Insert Table 4A and Table 4B around here]

Finance use by women-led and MEG-led social enterprises

By restricting the sample to social enterprises only, we can assess the differential importance of leadership diversity across social enterprises (women- and MEG-led) on the use of different forms of debt. The results presented in Table 5A suggest that relative to male-led counterparts, women-led social enterprises are less likely to rely on equity finance compared to male-led counterparts. However, MEG-leadership determines the use of certain types of funding. Specifically, relative to non-MEG counterparts, MEG-led social enterprises are 3.5% more likely to use bank overdrafts. However, they are less likely to use: commercial mortgages (6.9%); factoring and invoice discounting (0.5%); government grants (12.5%); and leasing or hire purchase agreements (0.3%). Table 5B present findings in relation to the various forms of loans. The results suggest that relative to male-led counterparts, women-led social enterprises are 5.7% less likely to use loans from business partners, directors or owners. On the other hand, relative to non-MEG-led counterparts, MEG-led social enterprises are 3.4% more likely to access loans from mainstream financial intermediaries, and 4.2% more likely to use internal funding via loans from partners, directors or owners.

[Insert Table 5A and Table 5B around here]

4.2 The supply and demand for main sources of finance by social enterprises

In this section, we present the results from a Heckman probit model with sample selection (Van de Ven & Van Praag 1981), which allows us to account for both the demand and supply for finance. In this empirical setting, the selection equation in Table 6 relates to the probability of applying for finance (demand) and the outcome equation relates to the probability of obtaining finance conditional upon having applied for finance (supply).

The results presented in Table 6 complement the findings provided in the previous section regarding the use of specific forms of debt. The results suggest that compared to commercial SMEs, social enterprises are 11.4% less likely to apply for bank overdrafts, but 10.4% more likely to apply to government or local authority grants or schemes. Interestingly, conditional

upon application, social enterprises have an 18% greater chance of success obtaining a commercial mortgage, 8.7% greater chance in terms of credit card funding, and 5.8% higher probability of securing loans from banks compared to SMEs.

[Insert Table 6 around here]

Finally, we assess whether leadership diversity has an influence on the demand and supply for finance. Here, we use results reported in Table 6 to compute average marginal effects for women-led and MEG-led firms conditional on being social enterprises, while adjusting for all other covariates. The results reported in Figure 4 focus on applications, and suggest that women-led social enterprises are 5.2% more likely to apply to loans from a mainstream financial intermediary. However, MEG-led social enterprises are 8% less likely to apply to credit card funding and 13% less likely to apply to government or local authority grants.

[Insert Figure 4 around here]

In terms of the outcome of funding applications, the results in Figure 5 suggest that women-led social enterprises are 3.7% less likely to secure loans from mainstream financial intermediaries compared to male-led counterparts. The results for MEG-led social enterprises suggest that this group of SMEs are 14% less likely to secure funding via bank overdrafts. However, conditional on application, MEG-led social enterprises present the highest probability of securing funding from government or local authority grants compared to non-MEG-led counterparts.

[Insert Figure 5 around here]

5. CONCLUSIONS

Social enterprises are a unique form of organisation pursing economic, ethical, social and environmental goals. As such, their respective commercial activities intersect with the significant social, ethical and environmental challenges facing society today. A notable feature of social enterprises is that relative to mainstream commercial SMEs, they are more likely to be women- or MEG-led.

In this study, we use 2016-2019 waves of the LSBS survey to investigate access to finance issues faced by UK social enterprises, which are often women and MEG-led. The findings of

an extensive empirical analysis suggest that social enterprises are less likely to apply for bank overdrafts compared to commercial SMEs, but are more likely to apply to government grants. However, upon applying for funding, social enterprises are more likely to receive commercial mortgages, credit card financing and loans from mainstream financial intermediaries compared to commercial SME counterparts.

In terms of leadership diversity of social enterprises, our results suggest that women-led social enterprises are less likely to use equity finance and loans from business partners/directors/owners. We also find that MEG-led social enterprises rely less on commercial mortgages, factoring/invoice discounting, government grants and leasing or hire purchase forms of finance compared to non-MEG-led counterparts, but are more likely to use bank overdraft, loans from mainstream financial intermediaries (e.g., a bank, building society or other financial institution) or loans from a business partner/director/owner. Considering the effect of leadership diversity of social enterprises on their demand and supply for finance, our results suggest that women-led social enterprises are more likely to apply for loans from a bank but, conditional on application, less likely to receive funding compared to male-led social enterprises. Our results also show that MEG-led social enterprises are less likely to apply for credit cards and government grants; and conditional on application, less likely to get a bank overdraft facility or a loan from a bank. However, conditional on application, they MEG-led social enterprises exhibit the largest probability of securing funding from a government or local authority grants.

Overall, the results presented in this study have important implications for public policy by providing valuable information for organisations and other key stakeholders introducing or monitoring interventions or offering financial support to UK social enterprises. Social enterprises face specific barriers to access to finance, which differ from those encountered by commercial SMES. Having a business model where profits are used to achieve social, environmental and ethical goals appears to exacerbate many of the access barriers inherent in the SME finance market. This is particularly important for MEG and women-led social enterprises, and it is here where more support should be provided to fill existing knowledge and funding gaps in order to ensure these enterprises can access finance appropriate to their mission, business model, industry and stage of development, and thus fulfil their full potential.

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Table 1: Variable definition

This Table shows variable names and definitions of our dependent and explanatory variables. All variables were gathered from the Longitudinal Small Business Survey, 2016-2019.

Variable	Definition	LSBS code
Classification of enterprises		SOCENT
SME (base category) Social Enterprise	See Figure 1	
Women-led	Women-led businesses are defined as those majority-led by women, which is controlled by a single woman or having a management team of which a majority are women. 'Majority' here means over 50%.	WLED
Minority ethnic-led	A business where at least half of the leadership team comes from minority ethnic groups (as this is a UK survey, minority ethnic groups are those that are not White British, where White British includes White English, White Scottish etc). The leadership team comprises the directors and working owners. We can include members of several ethnic groups and can include people who describe themselves as mixed ethnicity where White British is one of those ethnicities.	MLED
Aims to grow	Aim to grow sales over the next 3 years.	R1
Size		A2SPSS1
Zero employees (base category)	Zero employee business had no employees on their payroll (excluding owners and partners) at the time of the interview.	
Micro	1-9 employees.	
Small	10-49 employees.	
Medium	50-249 employees.	
Business age	Age of the firm.	A6SUM and A6, missing values for 2016 are completed with values from 2015
0 – 5 years (base category)		
6 – 10 years		
11 – 20 years		
20+ years		
Turnover change	Turnover in the past 12 months, compared with the previous 12 months.	P2
Decreased (base category) Stayed roughly the same Increased		
Profit	Firm generates a profit or surplus after considering all sources of income in the last fiscal year.	P12
Urban area	Broad urban/rural categorisation from postcode.	URBRUR2
Family-owned	Business is a family-owned business (i.e., one which is majority-owned by members of the same family).	A12
Business plan	The business has a formal written business plan.	F5
Partnership		
Region	Region where the firm has its headquarters.	NATION
England (base category) Scotland Wales Northern Ireland		
Sector	Industry Sector	SECTOR
Manufacturing sector (base category)	Production and construction (SIC 2007: ABCDEF).	
Transportation and retail services	Transport, retail, and food service / accommodation (SIC 2007: GHI).	
Business services	Business services (SIC 2007: JKLMN).	
Other services	Other services (SIC 2007: PQRS).	

Table 2: Summary Statistics

This table reports the summary statistics using data from the Longitudinal Small Business Survey, 2016-2019. Cross-sectional survey weights applied to represent the population of SMEs in the UK. SMEs comprise both commercial SMEs and socially-oriented SMEs. Traditional non-profit SMEs (which are mostly charities) and respondents who answer ‘‘I do not know’’ or “refused” to answer are excluded from the sample. Variable definitions are reported in Table 1.

	Mean	Std. Dev.	N
CLASSIFICATIONS OF ENTERPRISES			
Commercial SME (base category)	0.915905	0.277539	16,650
Social Enterprise	0.084095	0.277539	16,650
LEADERSHIP DIVERSITY			
Women-led	0.202084	0.40156	38,479
Minority ethnic-led	0.048442	0.214701	37,262
CONTROL VARIABLES			
Entrepreneur orientation			
Aims to grow	0.531077	0.499039	40,984
Size			
Zero employees (base category)	0.759152	0.427604	40,984
Micro (1-9)	0.19809	0.398565	40,984
Small (10-49)	0.036667	0.187945	40,984
Medium (50-249)	0.006092	0.077811	40,984
Business age			
0 – 5 years (base category)	0.175876	0.380719	40,842
6 – 10 years	0.187938	0.390667	40,842
11 – 20 years	0.267648	0.442739	40,842
20+ years	0.368538	0.482414	40,842
Turnover change			
Decreased (base category)	0.224819	0.417469	38,992
Stayed the same	0.488598	0.499876	38,992
Increased	0.286583	0.452171	38,992
Profitability			
Profit	0.808942	0.39314	38,594
Business characteristics			
Urban area	0.697155	0.459494	40,934
Family owned	0.875787	0.329828	40,797
Business plan	0.294884	0.455996	39,603
Region			
England (base category)	0.881782	0.322871	40,984
Scotland	0.058327	0.234364	40,984
Wales	0.037044	0.188872	40,984
Northern Ireland	0.022847	0.149418	40,984
Sector			
Manufacturing sector (base category)	0.259762	0.438509	40,984
Transportation and retail services	0.190615	0.392791	40,984
Business services	0.33622	0.472421	40,984
Other services	0.213403	0.409715	40,984

Table 3: Correlation matrix

This table reports the correlation matrix between all variables used in this study. *** p<0.01, ** p<0.05, * p<0.1.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(1) SME type	1.000													
(2) Women-led	0.049*	1.000												
(3) MEG-led	0.024*	-0.006	1.000											
(4) Aim to grow	0.029*	-0.030*	0.031*	1.000										
(5) Firm size	0.099*	-0.029*	0.014*	0.276*	1.000									
(6) Firm Age	0.049*	-0.052*	-0.067*	-0.074*	0.205*	1.000								
(7) Turnover change	0.037*	-0.012	-0.016*	0.183*	0.158*	-0.088*	1.000							
(8) Profit	-0.011	-0.038*	-0.031*	0.019*	0.055*	0.035*	0.186*	1.000						
(9) Urban	0.000	0.007	0.098*	0.060*	0.089*	-0.042*	-0.004	-0.021*	1.000					
(10) Family business	-0.201*	0.064*	-0.005	-0.114*	-0.298*	-0.072*	-0.068*	0.062*	-0.128*	1.000				
(11) Business plan	0.128*	0.013	0.022*	0.222*	0.343*	-0.009	0.111*	-0.030*	0.066*	-0.222*	1.000			
(12) Legal Status	-0.118*	-0.102*	0.012	0.120*	0.175*	0.014*	0.048*	0.074*	-0.045*	-0.007	0.085*	1.000		
(13) Region	0.016	-0.012	-0.055*	0.000	-0.015*	-0.034*	0.011	0.000	-0.112*	0.035*	-0.011	-0.029*	1.000	
(14) Broad Sector	0.166*	0.170*	0.058*	-0.022*	-0.005	-0.062*	0.001	-0.048*	0.149*	-0.169*	0.118*	-0.124*	-0.068*	1.000

Table 4A: Marginal effects of Social Enterprises with respect to commercial SMEs on use of finance

This table shows average marginal effects (AMEs) from a probit model of SMEs characteristics on the probability of using various sources of debt. All regressions include a constant term. The base categories for categorical variables are: zero employees (size), 0-5 years (business age), 18–30 years old (owner's age), decreased (turnover change). All models include industry and regional fixed effects. Z-statistics adjusted for clustering at regional level are reported in parentheses. Statistical significance at the 10%, 5%, and 1% levels are showed by *, ** and ***.

	Bank overdraft	Commercial Mortgage	Credit Cards	Equity Finance	Factoring/Invoice discounting	Government or local authority grants	Leasing or hire purchase
Social enterprise	**-0.028*** (-3.80)**	**-0.001 (-0.20)**	**-0.013 (-0.81)**	**-0.007 (-1.56)**	**0.007** (2.50)**	**0.076*** (8.29)**	**-0.056*** (-10.66)**
Women-led $_{t-1}$	-0.030***	0.000	-0.009	-0.011***	0.001	0.002	-0.020*
	(-2.70)	(0.04)	(-1.26)	(-3.24)	(0.69)	(0.97)	(-1.75)
Minority ethnic-led $_{t-1}$	-0.008	0.032***	-0.031*	0.009***	-0.005**	0.002	-0.019
	(-0.54)	(6.82)	(-1.95)	(4.26)	(-2.28)	(0.14)	(-1.28)
Aims to grow $_{t-1}$	0.036***	-0.006	0.062***	0.013***	0.029***	0.020***	0.056***
	(3.55)	(-0.73)	(11.67)	(8.21)	(3.62)	(8.22)	(7.47)
Size: Micro	0.078***	0.035***	0.045***	-0.005	0.029***	0.025***	0.104***
	(8.63)	(6.79)	(16.14)	(-1.39)	(7.69)	(21.38)	(17.21)
Size: Small	0.065***	0.080***	0.120***	0.005	0.075***	0.037***	0.254***
	(10.86)	(6.30)	(30.47)	(1.30)	(13.82)	(5.32)	(66.35)
Size: Medium	0.080***	0.114***	0.180***	0.021***	0.116***	0.035***	0.304***
	(9.64)	(12.78)	(16.85)	(3.69)	(11.75)	(3.95)	(26.36)
Business age: 6 – 10 years	0.027	0.023***	0.067***	-0.013***	0.024**	0.011	0.022***
	(1.46)	(2.96)	(5.84)	(-3.53)	(2.10)	(0.94)	(6.72)
Business age: 11 – 20 years	0.088***	0.048***	0.141***	-0.008***	0.004	0.014	0.044***
	(5.46)	(5.53)	(6.80)	(-3.18)	(0.31)	(1.64)	(5.16)
Business age: 20+ years	0.099***	0.046***	0.135***	-0.025***	-0.003	0.025***	0.054***
	(6.90)	(7.69)	(22.37)	(-14.04)	(-0.27)	(2.84)	(5.94)
Turnover change (stayed the same) $_{t-1}$	-0.035***	-0.009*	-0.012*	0.001	-0.011***	-0.011**	0.012**
	(-4.15)	(-1.82)	(-1.76)	(0.48)	(-4.11)	(-1.97)	(2.43)
Turnover change (increased) $_{t-1}$	-0.015**	0.006	-0.001	0.008**	-0.005	0.005	0.013
	(-2.52)	(1.03)	(-0.02)	(2.40)	(-1.46)	(0.92)	(1.47)
Profit $_{t-1}$	-0.064***	0.009	-0.015***	-0.018***	-0.008***	-0.026***	-0.009
	(-4.77)	(1.21)	(-2.75)	(-4.48)	(-2.86)	(-4.65)	(-0.84)
Location $_{t}$: Urban area	-0.021*	-0.011***	-0.023**	-0.001	0.009***	-0.026***	-0.042***
	(-1.76)	(-2.76)	(-2.05)	(-0.29)	(2.86)	(-13.73)	(-11.19)
Family owned	0.076***	0.024***	-0.019*	-0.025***	0.010***	-0.019***	-0.002
	(6.95)	(18.05)	(-1.71)	(-10.77)	(3.15)	(-3.55)	(-0.11)
Business plan	0.041***	0.018***	0.034***	0.013***	0.020***	0.030***	0.018***
	(9.82)	(7.80)	(8.58)	(7.16)	(2.75)	(4.12)	(4.18)
Fixed effects							
Regional / Industry FEs	YES	YES	YES	YES	YES	YES	YES
N	9525	9525	9525	9525	9525	9525	9525
Log pseudo-likelihood	-5735.429	-2425.357	-	-	-1971.132	-1689.341	-
R2	0.689	0.921	0.638	0.974	0.939	0.948	0.748

Table 4B: Marginal effects of Social Enterprises with respect to commercial SMEs on use of finance (Cont'd)

This table shows average marginal effects (AMEs) from a probit model of SMEs characteristics on the probability of using various sources of debt. All regressions include a constant term. The base categories for categorical variables are: zero employees (size), 0-5 years (business age), 18–30 years old (owner's age), decreased (turnover change). All models include industry and regional fixed effects. Z-statistics adjusted for clustering at regional level are reported in parentheses. Statistical significance at the 10%, 5%, and 1% levels are showed by *, ** and ***.

	Loan from a bank, building society or other financial institution	Loan from family/friend	Loan from a peer-to-peer platform	Loan from business partner/director/owner
Social enterprise	**-0.032****	**-0.001**	**-0.004**	**-0.054*****
	(-2.03)	**(-0.20)**	**(-0.85)**	**(-8.42)**
Women-led $_{t-1}$	-0.024***	0.015***	-0.009***	-0.015**
	(-3.75)	(2.88)	(-2.78)	(-2.26)
Minority ethnic-led $_{t-1}$	0.019***	0.049***	0.011***	0.025**
	(3.35)	(10.25)	(7.93)	(2.06)
Aims to grow $_{t-1}$	0.031***	0.027***	0.016***	0.045***
	(6.23)	(8.25)	(6.25)	(6.28)
Size: Micro	0.063***	-0.010*	0.005**	0.041***
	(25.39)	(-1.75)	(2.24)	(4.09)
Size: Small	0.094***	-0.010***	0.015***	0.049***
	(14.15)	(-2.85)	(3.70)	(13.47)
Size: Medium	0.171***	-0.028***	0.009***	0.056***
	(23.21)	(-4.45)	(3.99)	(8.89)
Business age: 6 – 10 years	0.003	-0.001	-0.005**	-0.024
	(0.33)	(-0.46)	(-2.27)	(-1.39)
Business age: 11 – 20 years	0.021*	-0.012***	-0.003	-0.046***
	(1.70)	(-5.73)	(-0.84)	(-6.13)
Business age: 20+ years	0.023***	-0.027***	-0.011***	-0.069***
	(2.84)	(-39.84)	(-2.69)	(-3.97)
Turnover change (stayed the same) $_{t-1}$	-0.007**	-0.017***	-0.002	-0.017***
	(-2.10)	(-3.64)	(-0.64)	(-4.03)
Turnover change (increased) $_{t-1}$	0.017**	-0.004	-0.001	-0.001
	(2.14)	(-1.11)	(-0.50)	(-0.39)
Profit $_{t-1}$	0.006	-0.027***	-0.007**	-0.100***
	(1.14)	(-3.61)	(-2.50)	(-25.38)
Location $_{t}$: Urban area	-0.037***	-0.006***	-0.004**	-0.025***
	(-7.92)	(-3.89)	(-2.42)	(-8.46)
Family owned	0.042***	0.039***	0.002	0.012***
	(5.05)	(9.06)	(1.18)	(3.59)
Business plan	0.030***	0.001	0.007***	0.029***
	(26.17)	(0.46)	(3.65)	(6.14)
Fixed effects				
Regional / Industry FEs	YES	YES	YES	YES
N	9525	9525	9525	9525
Log pseudo-likelihood	-4298.093	-1862.864	-862.648	-3884.544
R2	0.816	0.947	0.981	0.850
AIC	8602.185	3731.728	1731.295	7775.088
BIC	8623.670	3753.213	1752.780	7796.573

Table 5A: Marginal effects of leadership diversity on use of finance by social enterprises

This table shows average marginal effects (AMEs) from a probit model of social enterprises' characteristics on the probability of using various sources of debt. The sample is restricted to SMEs which are classified as social enterprises. All regressions include a constant term. The base categories for categorical variables are: zero employees (size), 0-5 years (business age), 18–30 years old (owner's age), decreased (turnover change). All models include industry and regional fixed effects. Z-statistics adjusted for clustering at regional level are reported in parentheses. Statistical significance at the 10%, 5%, and 1% levels are showed by *, ** and ***.

	Bank overdraft	Commercial Mortgage	Credit Cards	Equity Finance	Factoring/Invoice discounting	Government or local authority grants	Leasing or hire purchase
Women-led $_{t-1}$	**0.018**	**-0.000**	**-0.010**	**-0.030*** **	**0.003**	**-0.014**	**-0.012**
	(1.18)	**(-0.02)**	**(-0.42)**	**(-5.71)**	**(0.23)**	**(-0.90)**	**(-0.65)**
Minority ethnic-led $_{t-1}$	**0.035*** **	**-0.069*** **	**-0.022**	**-0.000**	**-0.005*** **	**-0.125*** **	**-0.030*** **
	(2.81)	**(-18.45)**	**(-1.17)**	**(-0.03)**	**(-3.88)**	**(-16.13)**	**(-3.18)**
Aims to grow $_{t-1}$	0.016	0.002	0.030	0.006	0.034***	-0.015	0.065***
	(0.50)	(0.04)	(1.39)	(0.65)	(5.50)	(-0.55)	(6.65)
Size: Micro	0.002	-0.003	0.002	-0.007	0.045**	0.065***	0.077**
	(0.04)	(-0.22)	(0.05)	(-0.49)	(2.35)	(3.20)	(2.45)
Size: Small	-0.039***	0.046***	0.051	-0.003	0.041***	0.106***	0.203***
	(-2.83)	(9.40)	(1.02)	(-0.34)	(11.46)	(3.91)	(7.56)
Size: Medium	-0.004	0.180***	0.187***	-0.009	0.024	0.047**	0.283***
	(-0.61)	(12.51)	(3.66)	(-0.86)	(1.22)	(2.21)	(7.39)
Business age: 6 – 10 years	0.001	0.030***	0.021	-0.014	0.055***	0.078***	0.014
	(0.01)	(6.69)	(0.57)	(-0.88)	(3.28)	(8.36)	(0.80)
Business age: 11 – 20 years	0.085**	0.071***	0.174***	0.012	0.050***	0.115***	0.015
	(2.13)	(4.27)	(5.79)	(1.62)	(3.80)	(10.47)	(1.04)
Business age: 20+ years	0.111*	0.069***	0.159***	-0.027***	0.028	0.126***	0.049***
	(1.79)	(6.95)	(6.53)	(-3.19)	(1.62)	(5.69)	(8.74)
Turnover change (stayed the same)	-0.097***	-0.068***	-0.079	0.009	0.019***	-0.014	-0.096***
	(-5.54)	(-11.91)	(-1.48)	(0.70)	(5.75)	(-0.48)	(-2.59)
Turnover change (increased) $_{t-1}$	-0.078***	-0.058***	-0.019	0.002	0.027***	0.024	-0.068***
	(-8.77)	(-8.30)	(-0.32)	(0.27)	(2.97)	(0.92)	(-2.97)
Profit $_{t-1}$	-0.027	0.082***	-0.061	-0.004	0.030*	-0.081***	0.027
	(-0.84)	(6.79)	(-1.41)	(-0.68)	(1.67)	(-4.50)	(1.39)
Location $_t$: Urban area	-0.027**	-0.006	0.014	0.009**	-0.009*	-0.001	-0.039***
	(-2.37)	(-0.59)	(0.66)	(2.49)	(-1.78)	(-0.04)	(-3.26)
Family owned	0.144***	0.007	0.030	-0.007	-0.004	-0.117***	0.001
	(14.93)	(0.91)	(1.13)	(-1.33)	(-0.51)	(-5.57)	(0.05)
Business plan	0.130***	-0.006	0.087***	0.030**	0.043**	0.040	0.062***
	(5.84)	(-0.38)	(15.88)	(2.51)	(2.11)	(1.25)	(4.30)
Fixed effects							
Regional / Industry FEs	YES	YES	YES	YES	YES	YES	YES
N	-439.408	-217.227	-	-67.193	-173.882	-286.990	-374.595
Log pseudo-likelihood	0.716	0.901	0.638	0.980	0.936	0.848	0.775
R2	884.816	440.455	992.121	140.386	353.764	579.981	755.190
AIC	898.797	454.436	1006.10	154.367	367.746	593.963	769.171
BIC	-439.408	-217.227	-	-67.193	-173.882	-286.990	-374.595

Table 5B: Marginal effects of leadership diversity on use of finance by social enterprises (Cont'd)

This table shows average marginal effects (AMEs) from a probit model of social enterprises' characteristics on the probability of using various sources of debt. The sample is restricted to SMEs which are classified as social enterprises. Loans from a peer-to-peer platform has been excluded because of lack of data. All regressions include a constant term. The base categories for categorical variables are: zero employees (size), 0-5 years (business age), 18–30 years old (owner's age), decreased (turnover change). All models include industry and regional fixed effects. Z-statistics adjusted for clustering at regional level are reported in parentheses. Statistical significance at the 10%, 5%, and 1% levels are showed by *, ** and ***.

	Loan from a bank, building society or other financial institution	Loan from family/friend	Loan from business partner/director/owner
Women-led $_{t-1}$	**0.016**	**0.018**	**-0.057*** **
	(1.29)	**(1.43)**	**(-4.82)**
Minority ethnic-led $_{t-1}$	**0.034*** **	**0.015**	**0.042** **
	(2.99)	(0.83)	(2.34)
Aims to grow $_{t-1}$	0.018	0.051*	0.046
	(0.59)	(1.75)	(1.00)
Size: Micro	0.031	-0.054***	-0.066**
	(1.48)	(-4.42)	(-2.21)
Size: Small	0.102***	-0.039***	-0.077***
	(3.44)	(-3.54)	(-2.68)
Size: Medium	0.196***	0.000	-0.077*
	(4.88)	(.)	(-1.68)
Business age: 6 – 10 years	-0.093*	0.006	-0.024
	(-1.80)	(0.16)	(-0.53)
Business age: 11 – 20 years	0.018	0.036	-0.007
	(0.24)	(0.64)	(-0.30)
Business age: 20+ years	-0.024	0.011	-0.052
	(-0.35)	(0.42)	(-1.16)
Turnover change (stayed the same) $_{t-1}$	-0.078***	-0.033***	-0.035***
	(-4.26)	(-10.90)	(-3.90)
Turnover change (increased) $_{t-1}$	-0.028	-0.023	-0.028**
	(-1.20)	(-1.00)	(-2.52)
Profit $_{t-1}$	0.052	-0.012	-0.037**
	(0.92)	(-1.24)	(-2.01)
Location $_{t}$: Urban area	-0.047*	-0.022**	-0.044
	(-1.92)	(-2.03)	(-1.48)
Family owned	0.039	0.051***	0.008
	(1.40)	(8.49)	(0.52)
Business plan	0.043***	0.013	0.061***
	(2.60)	(1.17)	(3.69)
Fixed effects			
Regional / Industry FEs	YES	YES	YES
N	-316.059	-127.941	-242.073
Log pseudo-likelihood	0.836	0.941	0.896
R2	638.117	259.882	490.146
AIC	652.099	268.754	504.128
BIC	-316.059	-127.941	-242.073

Table *6*: Social enterprises and the supply and demand for main sources of finance

This table present the marginal effects from a Heckman probit model with sample selection. The selection equation relates to the probability of applying for finance (demand). The outcome equation relates to the probability of obtaining finance conditional on having applied for finance (supply). All regressions include a constant term. The exclusion restriction used in the selection equation is whether the firm used business advice in the last 12 months. The base categories for categorical variables are: zero employees (size), 0-5 years (business age), 18–30 years old (owner's age), decreased (turnover change). All models include industry and regional fixed effects, except for the outcome equation in Model 4 where regional effects were excluded to achieve convergence. Z-statistics adjusted for clustering at the regional level are reported in parentheses. ***, ** and * denote significance at the 1%, 5% and 10% levels, respectively.

	Model 1: Bank overdrafts		Model 2: Commercial mortgage		Model 3: Credit Cards		Model 4: Government or local authority grants or schemes		Model 5: Loans from banks building societies, etc.	
	Selection	Outcome	Selection	Outcome	Selection	Outcome	Selection	Outcome	Selection	Outcome
Social enterprise	-0.114***	0.032	-0.016	0.180***	0.006	0.087***	0.104***	0.105	-0.047	0.058***
	(-5.12)	(0.69)	(-0.99)	(7.57)	(0.37)	(7.14)	(3.36)	(1.28)	(-1.21)	(3.44)
Women-led t-1	-0.037	-0.046*	0.009	-0.009	0.038	-0.112***	0.001	0.038	0.054**	-0.045***
	(-1.61)	(-1.77)	(0.90)	(-0.22)	(1.14)	(-14.20)	(0.18)	(1.18)	(2.42)	(-2.73)
Minority ethnic-led t-1	-0.023	-0.167***	-0.007	0.709***	-0.078**	0.521***	-0.069***	1.599**	0.018	-0.072
	(-1.30)	(-4.23)	(-0.24)	(2.87)	(-2.47)	(12.25)	(-6.28)	(2.34)	(0.39)	(-1.41)
Aims to grow t-1	-0.015	-0.060***	0.007	0.039	-0.016*	0.003	0.019***	0.045	0.039	0.008
	(-1.23)	(-3.70)	(0.74)	(0.46)	(-1.86)	(0.13)	(3.71)	(0.69)	(1.40)	(0.22)
Size: Micro	0.031*	-0.032	0.014	-0.106**	0.007	-0.019***	0.041***	0.346**	0.071***	0.063
	(1.95)	(-1.49)	(1.49)	(-1.99)	(0.21)	(-2.81)	(3.91)	(2.45)	(3.93)	(1.57)
Size: Small	-0.009	0.004	0.033***	-0.051**	0.012	0.058**	0.003	0.406***	0.038***	0.119*
	(-0.56)	(0.13)	(3.49)	(-2.35)	(0.28)	(2.35)	(0.34)	(8.88)	(3.45)	(1.88)
Size: Medium	-0.030**	0.041	0.071***	0.079***	-0.006	0.051***	0.016**	0.370**	0.118***	0.174***
	(-2.41)	(1.15)	(15.82)	(4.91)	(-0.17)	(3.06)	(2.41)	(2.08)	(5.69)	(5.33)
Business age: 6 - 10 years	0.006	-0.011	-0.036*	0.195***	0.015	0.004	0.069***	-0.176***	0.012	-0.102***
	(0.24)	(-0.21)	(-1.91)	(10.73)	(0.74)	(0.04)	(4.88)	(-3.77)	(0.28)	(-4.94)
Business age: 11 - 20 years	0.034	0.057	-0.027	0.038	0.058***	0.085***	0.042***	-0.305***	-0.011	-0.097**
	(1.23)	(1.22)	(-1.62)	(1.58)	(4.16)	(3.98)	(2.77)	(-5.94)	(-0.52)	(-2.39)
Business age: 20+ years	0.092***	0.083*	0.008	0.085***	0.031	0.060**	0.027***	-0.134***	0.015	-0.044**
	(19.47)	(1.72)	(0.35)	(2.65)	(1.27)	(2.31)	(2.69)	(-3.51)	(0.41)	(-2.57)
Turnover change (stayed the same) t-1	0.008	-0.015	-0.004	-0.003	0.011	-0.010	0.000	0.024	-0.031	0.127***
	(0.80)	(-0.71)	(-0.29)	(-0.07)	(1.15)	(-0.19)	(0.03)	(0.23)	(-0.93)	(10.92)
Turnover change (increased) t-1	0.044***	-0.023	-0.010	-0.037	0.015	-0.014	0.004	-0.100	-0.004	0.036**
	(4.79)	(-0.51)	(-1.42)	(-1.11)	(1.05)	(-0.84)	(0.31)	(-1.16)	(-0.17)	(2.19)
Profit t-1	-0.040	0.077**	0.012	0.268***	-0.029*	-0.031***	-0.032***	0.227	-0.018	0.142***
	(-1.41)	(2.32)	(0.68)	(10.56)	(-1.68)	(-4.69)	(-6.90)	(1.45)	(-0.52)	(7.37)
Location t: Urban area	-0.052**	-0.038	0.009	0.032	0.007	-0.003	-0.021	0.023	-0.016*	-0.041***
	(-1.99)	(-1.07)	(0.82)	(1.46)	(0.45)	(-0.11)	(-1.39)	(1.02)	(-1.82)	(-2.75)
Family owned	0.003	0.026*	0.041***	-0.065	0.007	-0.102***	-0.046**	-0.087	0.049	-0.003
	(0.07)	(1.76)	(5.49)	(-0.73)	(0.24)	(-4.09)	(-2.41)	(-0.87)	(1.44)	(-0.18)
Business plan	-0.034	0.016	0.012	-0.036**	-0.036***	-0.002	0.048***	0.074	-0.027**	0.011
	(-0.88)	(0.76)	(1.40)	(-2.02)	(-3.91)	(-0.06)	(11.18)	(1.03)	(-2.50)	(0.69)
Business advice	0.039***		0.020***		0.019*		0.016		0.025*	
	(4.47)		(3.03)		(1.91)		(1.29)		(1.77)	
Athrho	0.521		-0.492		-0.178		-0.607		-0.432	
	(0.30)		(-0.24)		(-0.17)		(-0.35)		(-0.76)	
P	0.479		-0.456		-0.177		-0.542		-0.407	
N	1283.000		1281.000		1293.000		1288.000		1263.000	
Selected	454.000		91.000		169.000		88.000		493.000	
Nonselected	829.000		1190.000		1124.000		1200.000		770.000	
Log pseudo-likelihood	-973.515		-328.876		-517.241		-314.980		-1045.431	
Wald test of indep. Eqns (ρ = 0)	0.088		0.056		0.029		0.123		0.572	
Prob > chi2	0.767		0.814		0.865		0.726		0.449	

Figure 1: Forms of Finance used by UK Social Enterprises

This figure shows the various forms of debt finance, asset finance and alternative financing instruments typically used by Social Enterprises. Cross-sectional survey weights from the LSBS survey have been applied to represent the population of SMEs in the UK. Respondents who answer ‘‘I do not know’’ or “refused” to answer are excluded from the sample.

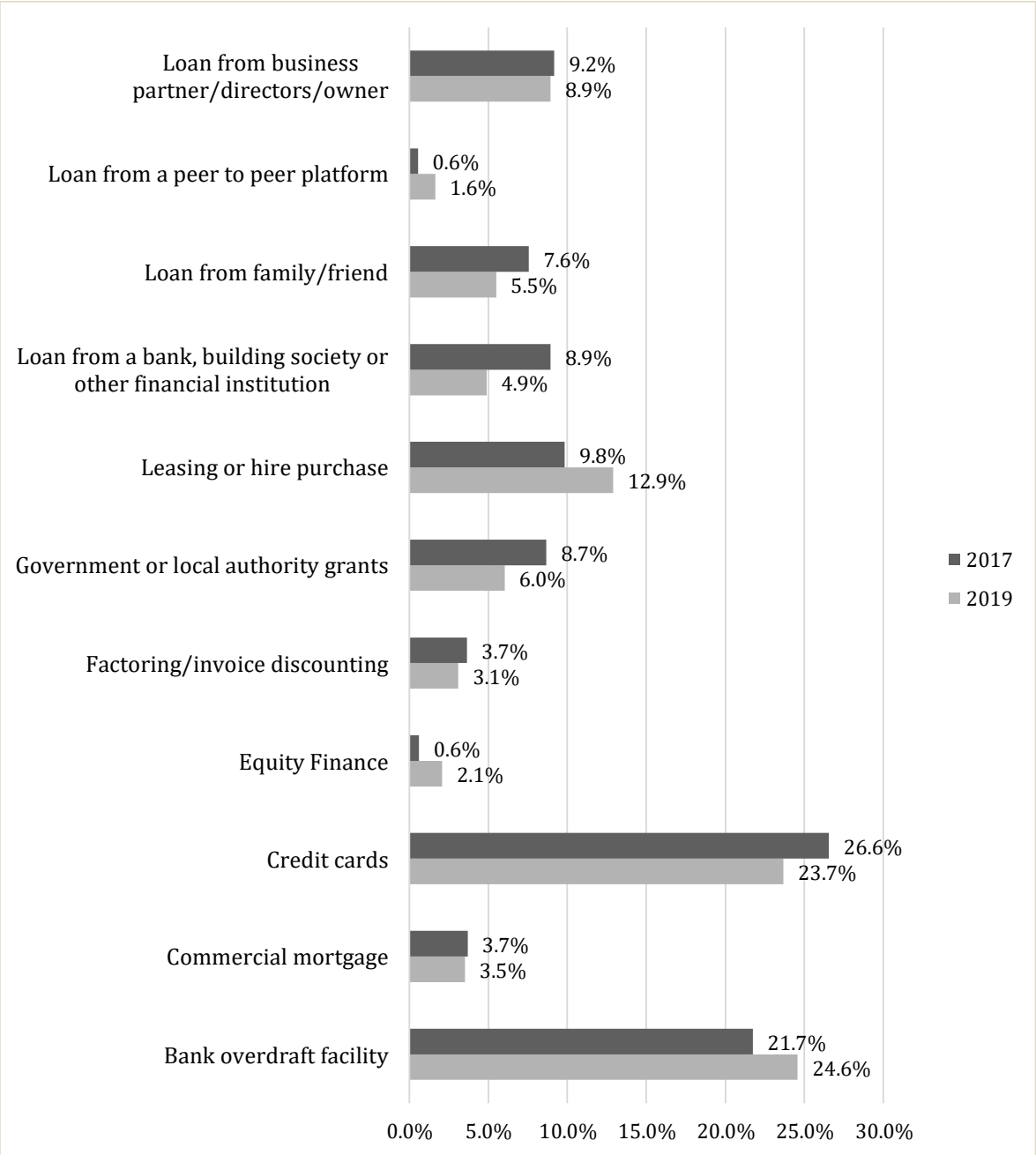


Figure 2: Decision tree to identify social enterprises

This figure summarises the decision process used by the LSBS to identify and classify social enterprises. 'For-profit' legal forms include sole proprietorship/trader, private limited company (by shares), public limited company, private unlimited company, foreign company. 'Other' legal forms include partnerships, limited liability partnerships, private company (limited by guarantee), co-operative, 'other', do not know and refused answers. 'Social' legal forms include community interest company (limited by guarantee or shares), friendly society, industrial and provident society, trust, unincorporated association, community benefit society, charitable un/incorporated organization. 'Env.' - Environmental. S/E – social or environmental. Source: Longitudinal Small Business Survey Year 3 (2017): Technical Report.

Figure 3: UK SME ecosystem by organisational form

Profit-with-purpose' businesses are also known as socially-oriented SMEs. These are SMEs that have social/environmental goals but do not use surplus/profit chiefly to further these goals. In this study, we use a broad definition of commercial SMEs which comprises commercial and socially-oriented SMEs (so-called profit-with-purpose' businesses) in line with the 2017 Social Enterprise Market Trends report published by the Department for Digital, Culture, Media and Sport (DCMS). The report is available at: https://www.gov.uk/government/publications/social-enterprise-market-trends-2017

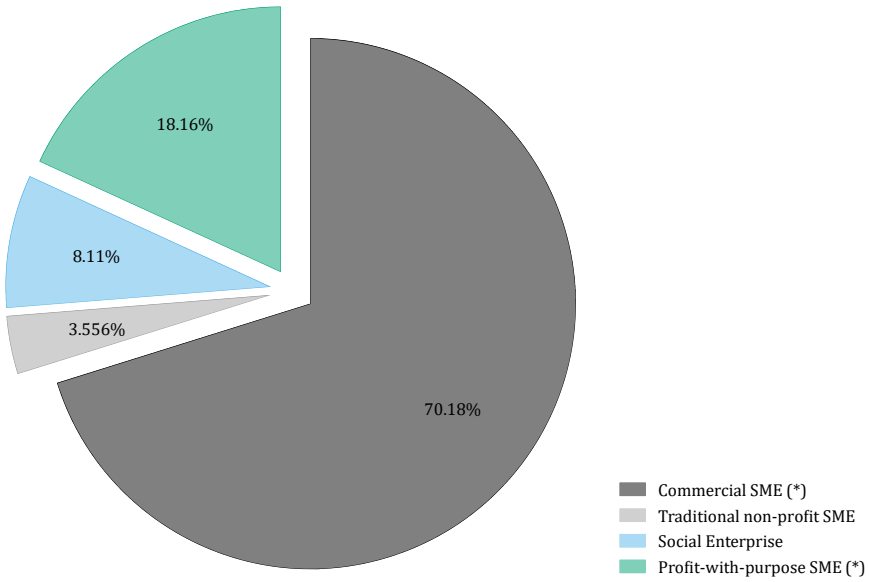
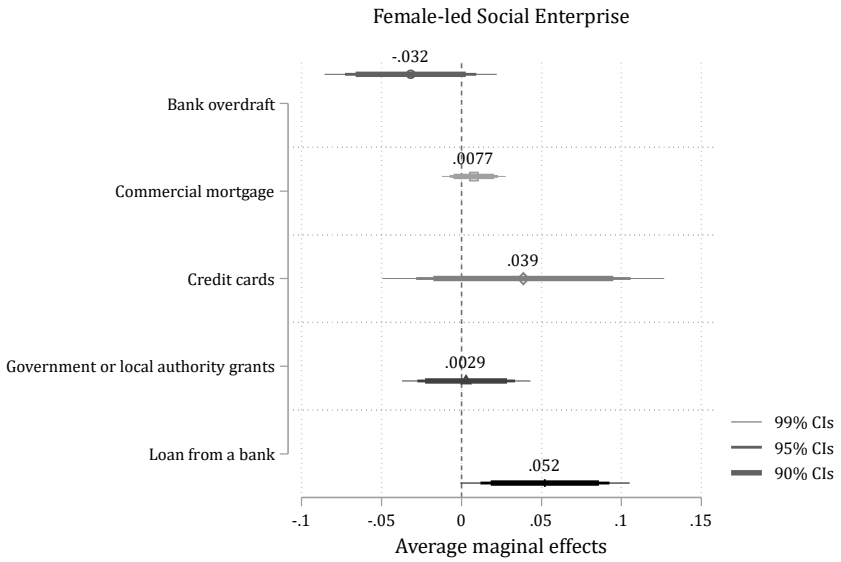


Figure 4: Conditional marginal effects of leadership diversity of social enterprises on *demand* for main finance sources

This Figure shows average marginal effects (AMEs) from results reported in Table 6 (selection equation) for women-led (Panel A) and MEG-led business (Panel B) *conditional* on being social enterprises, while adjusting for all other covariates. This figure uses a horizontal layout in which sources of funding (Models 1 -5 in Table 6) are placed on the Y-axis and the estimated AMEs and their (99%, 95% and 90%) confidence intervals are plotted along the X-axis.

(Panel A)



(Panel B)

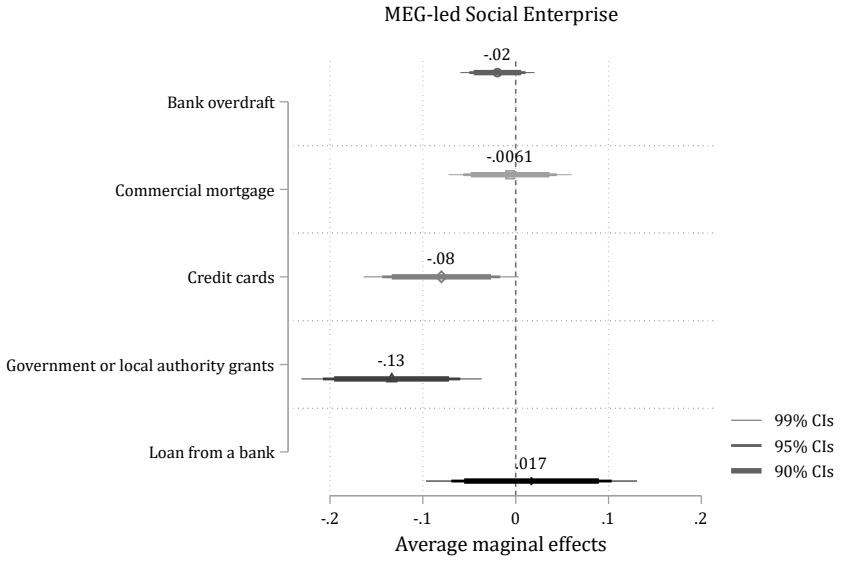
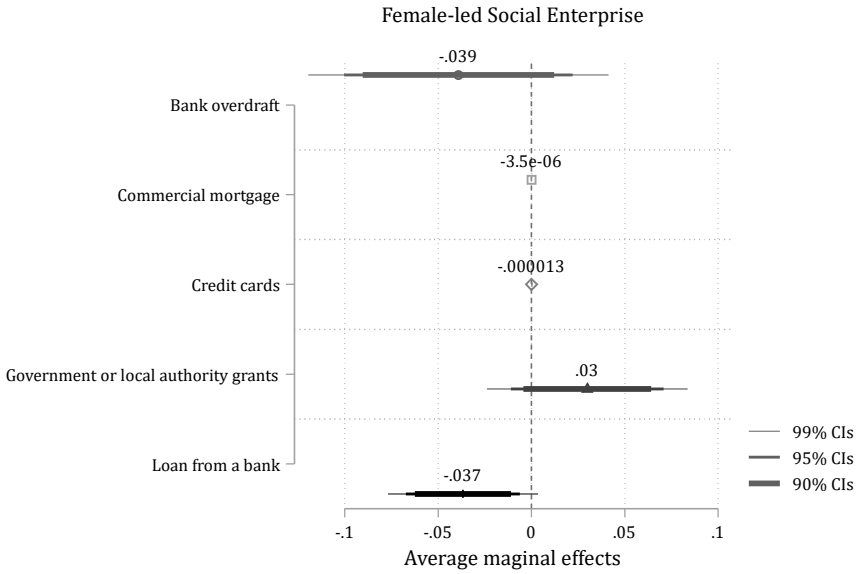


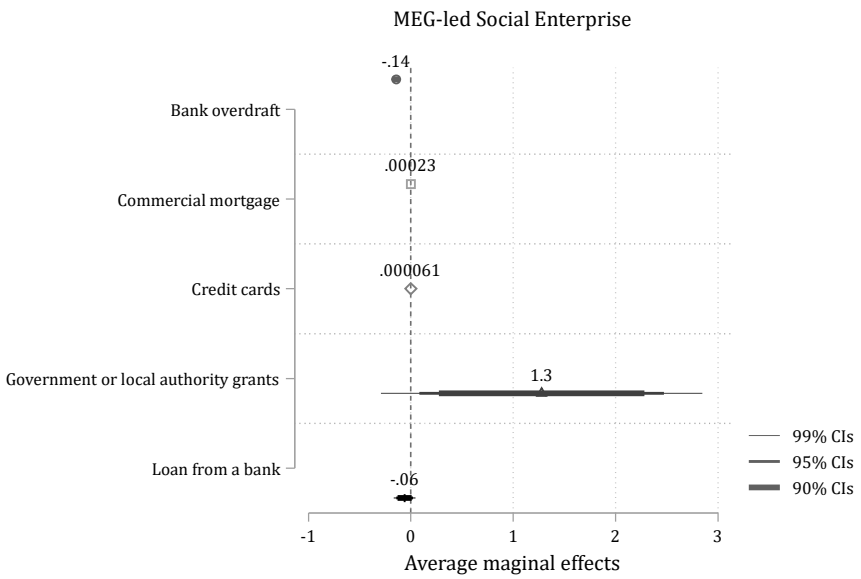
Figure 5: Conditional marginal effects of leadership diversity of social enterprises on *supply* for main finance sources

This Figure shows average marginal effects (AMEs) from results reported in Table 6 (selection equation) for women-led (Panel A) and MEG-led business (Panel B) *conditional* on being social enterprises, while adjusting for all other covariates. This figure uses a horizontal layout in which sources of funding (Models 1 -5 in Table 6) are placed on the Y-axis and the estimated AMEs and their (99%, 95% and 90%) confidence intervals are plotted along the X-axis.

(Panel A)



(Panel B)



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