



About the Project

This is the third comprehensive account of social enterprise activity in Scotland. It forms part of a 10-year commitment by the Scottish Government to track the development of the sector nationally.

THE PROJECT INVOLVES:

Systematic investigation of the active social enterprise population

Analysis of financial statements from 4,529 social enterprises

A large-scale survey that received 1,107 eligible responses

An analysis of the economic contribution of the sector

The project has been led by CEIS as part of a wide-ranging partnership initiative, with the research carried out by Social Value Lab.

Composition Of The Sector

The study shows that the social enterprise sector in Scotland is growing at a consistent rate. Today there are an estimated 6,025 active social enterprises. This represents a 16% growth in numbers since 2015 and a net increase of 425 social enterprises in the last two years.

Scotland's social enterprise community is made up of a mix of organisations, some are newly formed while others date back to the 1800s.

Social enterprises are active in many parts of the economy, with four main fields still accounting for around half of all social enterprises: Community Centres & Halls; Arts & Creative Industries; Early Learning & Childcare; and Health & Social Care.

Social enterprises in Scotland take many forms. Three-quarters are incorporated under law. A small but fast growing group of social enterprises are becoming registered as Community Interest Companies.



Geographic Coverage

The study suggests that the social enterprise landscape across Scotland is complex and uneven.

Social enterprises can be found in settlements of all types, usually taking hold as a response to local circumstances. They can now be found in 27% of built-up areas with more than 500 residents.

Large urban areas provide home to most social enterprises (67% of all), with a significant clustering of activity in the main cities but some under-representation in Scotland's large towns.

Social enterprises are disproportionately represented in rural areas, particularly remote rural communities which contain 20% of all social enterprises but account for only 6% of Scotland's population. Rural areas also show the fastest rise in new social enterprise activity.

Markets

The study indicates that social enterprise activity is often a localised phenomenon. One-quarter of organisations serve only a single neighbourhood or community.

Some social enterprises, however, have a global outlook and ambitions. The share of social enterprises selling products or services overseas has remained consistent at 6-8% since 2015, but remains below that of the business community at large.

The social enterprise sector has a service orientation. Three-quarters of social enterprises provide services only, although this varies across fields of operation.

Social enterprises sell to multiple customer segments. The last four years have shown a marked increase in social enterprises that sell direct to consumers (now 79% of all) and a decline in those selling to the public sector (now 53%). There remain key challenges in entering public markets, most notably the capacity of social enterprises to deliver on the requirements of tenders, and the mismatch between what the public sector requires and what social enterprises provide.



Social Enterprise in Scotland: Key Facts



6,025

Social enterprises currently operating in Scotland



88,318

Full-time equivalent employees in the sector



33%

Of social enterprises are located in rural Scotland



55%

Of leaders identify their organisation as a social enterprise



75%

Of social enterprises pay at least the living wage to all employees



75%

Of social enterprises are incorporated



£3.1bn

The earned income generated from trading activity



20%

The proportion of income covered by grant funding



£2.3bn

Gross Value Added (GVA)
to the Scottish economy



65%

Of Scotland's social
enterprises are led by
women



6%

Of social enterprises have
exported within the last 12
months



79%

Of social enterprises
selling direct to consumers



18%

Of social enterprises have
won a public contract
within the last year



£4.4bn

The total annual income
of social enterprises in the
country



4.1%

The typical profitability of
social enterprises



£6.1bn

The net worth of
Scotland's social
enterprises

Business Practices

Almost all social enterprises are subject to special forms of regulation that encourage good governance, either by virtue of the form they take (e.g. regulated charity) or the field in which they operate.

The study shows diverse leadership at the top of social enterprises. Women now form a majority on the boards of 60% of organisations, and a growing number of women are taking up paid leadership positions (65% of CEOs are female). There is impetus to ensure that leadership opportunities in the sector remain diverse and open to all.

Social enterprises are built on the principles of fair pay. The average pay differential between the lowest and highest paid employee has held constant at 1:2.5 since 2015. An increasing proportion of social enterprises are now paying the Scottish Living Wage to all employees. However, there remains an industry-specific reliance on the use of flexible contracts among social enterprises employing workers in care, leisure and other service occupations.

The study also suggests that social enterprises are progressive employers. In most cases they recruit locally, but are also successful in advancing workplace diversity and inclusion. Four-in-five social enterprises have a policy and budget in place for staff development and 56% now employ young people aged under 25 years.

Financial Performance

The social enterprise sector is large and growing. Total income has reached £4.37 billion, an increase of 22% since 2015.

The vast majority of the sector's income (70%) comes from trading activity. While many social enterprises continue to make use of grant funding, the extent to which they are dependent on it has decreased considerably in the last four years.

The financial scale and growth of social enterprise activity continues to be driven by trade in the fields of Housing and Health & Social Care. Together these account for three-quarters of the sector's earned income.

Positive overall revenue growth, however, disguises different individual trajectories. While most organisations have experienced a growth in income in the last two years, 43% of social enterprises experienced a decline. More than half of all organisations also still operate with an annual income of less than £100,000 and earned income from trading remains at modest levels in many cases.

There are also continuing cost pressures facing the sector. Costs have risen 13% since 2015. Staffing remains the largest cost, although wage constraint means that it now typically accounts for less than half of a social enterprise's expenditure.

The sector remains profitable overall. The annual surplus generated has grown to £396m from £287m two years ago. However, profitability is uneven across the sector, with margins particularly squeezed in the fields of Financial Services, Early Learning & Childcare, and Transport.

Overall, the balance sheet for the sector has strengthened considerably, with total assets of £17.6bn and liabilities of £11.5bn, resulting in a net worth of £6.1bn. This represents a £1.1bn increase in two years.

Contribution To Scotland

The study shows strong growth in Gross Value Added (GVA) produced by the sector to £2.3bn in 2019. While the number of social enterprises in Scotland has grown by 8% in two years, their economic contribution has grown by 13% in the same period.

The social enterprise sector is providing employment to a growing number of people in Scotland. Employment in the sector has grown to 88,318 Full Time Equivalent (FTE) employees, a 9% increase over two years.

The study also highlights the broad based contribution to social and environmental outcomes, and to vulnerable people and groups. However, it remains challenging for the sector to adequately measure and communicate this contribution.

Prospects and Needs

Reflecting wider trends in the business community, the study points to a continued weakening of confidence in the sector. Two-in-five social enterprise leaders have reported feeling slightly or much less confident in the economic prospects facing their organisation.

Key challenges remain for the sector. The most widely declared barrier relates to insecure or declining grant funding, an obstacle consistently reported by around half of respondents in the three surveys since 2015.

Some difficulties in accessing finance remain, although these are not widespread. The latest survey data suggest no major shift in respondents' awareness of the options (56%), ability to access repayable finance (38%), or willingness to consider it (30%).

While key support requirements remain, they have been less widely reported than in 2017. Support to measure social impact is again the form of help most widely requested, along with help developing a marketing strategy, researching new opportunities, developing the workforce and collaborating with others.

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