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The social enterprise numbers game

Ever since Ed Miliband was made Minister for the Office of the Third Sector, a year ago, the government has been claiming that there are 55,000 social enterprises in the UK.

There were a few confused looks when the figure first emerged. Surely some mistake, we thought. Doesn't he mean 15,000 not 55,000? After all, the government had the results of a major survey it had commissioned from IFF Research 12 months earlier, which had estimated there were 15,000 social enterprises in the UK. And that replaced an earlier estimate by Ecotech that there were just 5,300. Were social enterprises breeding like proverbial rabbits, or were the foxes in the statistics department getting better at tracking them down?

Last summer I was doing some research into the number of social enterprises in the South East of England, when I first tried to understand this discrepancy between the new figure - which we were told was an early finding from the Annual Survey of Small Businesses 2005 - and the IFF Research evidence. In August 2006 I wrote to the Social Enterprise Unit to ask for the source of the new 55,000 figure, only to be told that the evidence hadn't been published yet, and wasn't likely to be until later in the year. Despite this lack of published evidence, the 55,000 figure was soon being quoted by the Social Enterprise Coalition and lots of government departments and agencies. Try googling "55,000 social enterprises" now, and everyone, from the BBC to West Sussex County Council, is quoting this figure.

Eventually, in November 2006, six months or so after the figure emerged, the Annual Survey of Small Businesses 2005 was published. The survey makes interesting reading. For example, it estimates that 5% of all UK businesses are social enterprises, but doesn't convert this into an estimate of the total number of social enterprises. According to the government's own statistics there were 4.3 million business enterprises in the UK in 2005. Five per cent of this figure is 215,000, so where did the 55,000 figure come from? Or was 215,000 just too big a figure to be taken seriously?

The survey also used a random sample of small and medium sized enterprises, drawn from the Dunn and Bradstreet database of UK enterprises. Nearly two thirds of the sample were unincorporated sole traders or partnerships. One of the questions put to this sample, to test whether they were social enterprises, was: "*Do you pay more than 50% of your trading profit or surplus (when you generate one) to owners/shareholders?*" Not a bad question for a limited company, but a pretty meaningless question for a sole trader or partnership where there is no distinction between earnings and profits.

But maybe the most controversial aspect of the survey is that it employed a self-definitional approach to identifying social enterprises. Any respondent that said no to the question about profit distribution was then asked: "*Do you think of your business as a social enterprise...a business which has social or environmental aims?*" Those

who answered yes to this question were then asked to confirm their new status by deciding whether their business fitted the government's definition of social enterprise. So, you can be a social enterprise if you think you are one; a sort of Alice in Wonderland approach to the numbers game. No need for asset locks, dividend caps and any of the other legal and regulatory requirements placed on community interest companies.

When I started work on this article I wrote to the Small Business Service Analytical Unit to ask them how the 55,000 figure was arrived at. They explained that they had decided to base their estimate on businesses with employees only, of which there are only 1.2 million in the UK. Five per cent of that gives 60,000, but with confidence intervals around this estimate of +/- 5,000, this produces a lower bound estimate of 55,000. Mystery solved.

So does all this matter? Personally I'm not too convinced of the utility of conducting headcounts of social enterprises, but I do think we should know that the Government has adopted a self-definitional approach to measuring the number of social enterprises. When I first realised this I was quite shocked. But the more I thought about it, the more I was heartened by the fact that so many small businesses think of themselves as social enterprises. Let's hope we can persuade plenty more entrepreneurs to develop their businesses for a social purpose.

If we are going to play the numbers game, I think we should count all businesses that think they are social enterprises, with or without employees. Surely it isn't the number of employees that makes a business a social enterprise. What about social entrepreneurs who don't have any employees, who are helped by volunteers instead? Don't they deserve to be counted?

So maybe there is Ed Miliband would like to use his first anniversary as a Minister to tell us that there are really 215,000 social enterprises in the UK. And maybe even more than that?

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