



ELEMENT A

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## What is a Social Firm?

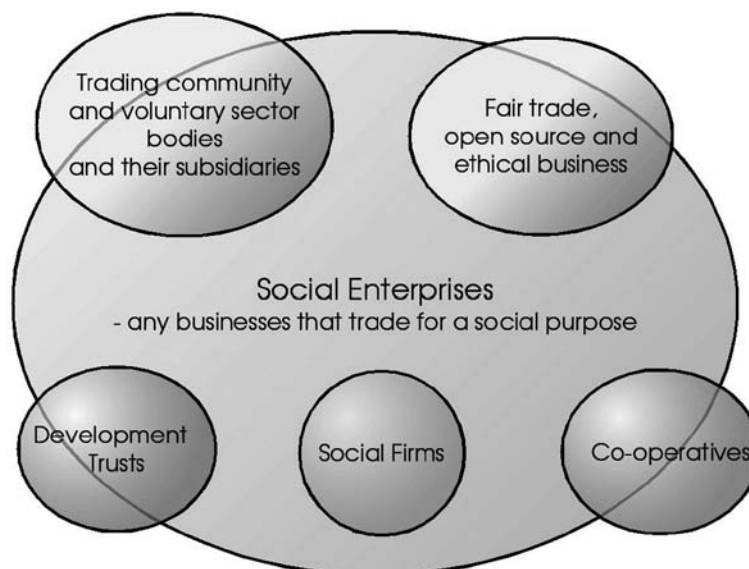
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### Key issues in this element:

- How do we define a 'social enterprise' and a 'Social Firm'?
- What characteristics do viable Social Firms share?

### How do we define a 'social enterprise' and a 'Social Firm'?

'Social enterprise' has become a widely known and used term over recent years, though beyond the blindest definition - 'any business that trades for a social purpose' - it has no widely agreed meaning. The most frequently quoted examples of types of social enterprise sometimes fall outside even the blindest definition - some Development Trusts, for example, cannot sensibly be called 'businesses' because they hardly trade at all; some marketing co-operatives, on the other hand, are quite clearly businesses - but cannot really be said to have any more 'social purpose' than any other business.



Social Firms, however, are different: they are always real businesses and always have a social purpose.

In 1997 the European Confederation of Social Firms and Co-operatives (CEFEC) agreed a definition for Social Firms, and this is available on the CEFEC website: [www.cefec.org](http://www.cefec.org)

In the UK, Social Firms UK has worked hard with the sector to adapt this European definition to reflect the values held dear by Social Firms - Enterprise, Employment and Empowerment, as follows:

***Enterprise – Social Firms are businesses that combine a market orientation and a social mission ('businesses that support' rather than 'projects that trade'):***

- At least 50% of the firm's turnover is earned through sales of goods and/or services. (Lowest for Social Firms April 2005 - 66%)
- The firm has an appropriate legal status. It must not be governed or driven by individual profit (except for worker co-operatives). Remote shareholders must not extract unreasonable profit.
- The firm is trading and follows business processes, such as having a business plan in place.
- The firm has a constitution or written guiding principles that reflect its employment objective for people severely disadvantaged in the labour market.
- The firm has a management structure that supports trading as the firm's primary purpose.

***Employment – Social Firms are supportive workplaces where the working environment is one that provides all employees with support, opportunity and meaningful work:***

- 25% or more of employees are severely disadvantaged..
- All employees have a contract of employment and market wage at or above national minimum wage.
- An equal approach is taken to the type of employment contracts used (permanent, fixed term, temporary) between disadvantaged and non-disadvantaged staff.
- The firm operates processes to engage employees in their own and the organisation's development.
- The firm has procedures and policies in place in respect of Equal Opportunities and Health and Safety.
- The firm is compliant with relevant employers legislation e.g. Disability Discrimination Act and National Minimum Wage.
- All employees have the opportunity to progress either within the Social Firm or into alternative employment as appropriate.
- The firm is acknowledged as a good employer by employees and stakeholders.

***Empowerment – Social Firms are committed to the social and economic integration of disadvantaged people through employment. A key means to this end is economic empowerment through the payment of market wages to all employees***

- Reasonable adjustments are made for employees relevant to their needs.
- Staff development is a priority for the firm to maximise each employee's ability and potential.

- There are processes in place for managing stress. Staff are encouraged to have control over their working environment.
- The firm demonstrates a commitment to maintaining staff confidentiality. There is a procedure in place that demonstrates when staff have agreed what information can be shared.
- Volunteers have agreements that reflect good practice in volunteering.
- The firm provides diversity training to all staff as appropriate (e.g. mental health awareness).
- The firm has an added emphasis on training for disadvantaged staff. Training reinforces and builds on learning and takes account of developing social skills as appropriate.
- The firm's organisational structure is enabling and encourages staff to participate in business decisions as appropriate.
- Trainees, work experience candidates and volunteers have different programmes and responsibilities to those of employees. Training should be time-limited and should lead to an award once competences are achieved.

However, characteristics such as these, though very important, are only part of the answer to the question, 'what is a Social Firm?'

For a better understanding we need to look at the central problem in almost every Social Firm business proposition:

By its very nature, a Social Firm puts more time and energy into supporting its staff than its competitors (actual or potential) - this is precisely the social value it is adding - but how can it pay for this extra value when it must sell in a market-place alongside competitors with lower staff costs?

The truth is in fact that Social Firms find all sorts of creative ways to pay for the social value they create and remain competitive. Sometimes they do charge more - but rely on customers who understand that they are creating social value as well and are therefore willing to pay more. Sometimes they rely on suppliers or other inputs - such as good product design - similarly willing to charge less because they want to help create the social value (either for genuinely philanthropic motives or because they are looking for a public relations return). Sometimes Social Firms set up in deliberately capital-and-labour intensive trades - such as the hotel business - and grant-fund their start-up, giving them room for more staff support where their competitors usually pay finance charges, or return money to investors. Most commonly, perhaps, Social Firms sell an 'employment support product' alongside their main trade. This means supplying paid vocational training or supported employment places to care or training purchasers, such as Social Services Departments - either on the basis of individual contracts or a 'Service Level Agreement' (a grant-like funding agreement, usually with terms such as a specified number of supported places, but without hard outputs). The employment support provided contributes back to the main trade. This option is explored in ELEMENT E of the Trainer. Or, of course, Social Firms concoct a heady mixture of some or all of these techniques.

## Case Study - PACK-IT

Pack-IT was established in 1988 as a small enterprise carrying out light industrial packing services. It is now a thriving three-pronged business supplying mailing, on-line order fulfilment and storage and distribution, with an enviable reputation as a fast turn-around specialist.

Pack-IT was originally set up by Cardiff City Council to provide training opportunities and paid employment for people with learning disabilities. However, the organisation is now an almost unique example of a Social Firm that has been successfully externalised from a local authority. Pack-IT employs 16 staff, half of whom have Down's Syndrome, profound deafness or have behavioural and learning difficulties. Yet everyone at Pack-IT is paid above market rates and works full-time.

This committed, long-serving workforce has played a vital part in the business's success story. Since John Bennett joined as Manager in 1994 turnover has increased from £70,000 to £1.2m (2003). Accrued profits stand at £121,000 and these are ploughed back into the business and invested in people and machinery.

In 2003 Pack-IT won the DTI Social Enterprise Award for 'Enterprising Solutions' and in 2005 the 'European Social Firm of the Year' award.

*"I am proud of the unique tag that Pack-IT carries and equally proud of the staff that are fully involved in the day-to-day business that Pack-IT is. However, I want all businesses and organisations with whom we work to recognise that whilst we are firmly committed to the principles of Social Firms and social enterprise, that commitment shouldn't detract from the fact that we are a commercial business in our own right. 16 years on, evidence is that we are in it for the long haul. Pack-IT wants to be judged by the success of the business that it carries out, not by the people it employs"*

John Bennett

For more information visit: [www.pack-it.com](http://www.pack-it.com)



## What characteristics do viable Social Firms share?

Because of this central need to find a way to pay for their added social value, most viable Social Firms must share some or all of the following 5 key trade-structural characteristics:

1. The potential to sell to favourable markets, such as ethical consumers, perhaps at a slight premium - or at least to focus on some other kind of niche market, or one that is difficult for potential competitors, usually around public or voluntary sector contracts.
2. Sales prices that need not be too closely tied to direct revenue costs (because part of what customers pay for is represented by qualities that are hard to value, such as good design) - in general, this means that Social Firms work best in high added value market positions rather than 'pile 'em high and sell 'em cheap' positions.
3. If part of what customers pay for is represented by assets such as land, buildings or equipment, which, in a Social Firm, can be funded partly through grants or patient capital, there is even more room to pay for higher staff costs and remain competitive; although it can make start-up more difficult. Social Firms may, therefore, actually work better with high start-up costs.
4. A built-in business need for a wide range of skills and work times – allowing say somebody with mental health problems to work part-time or seasonally, or somebody with a learning disability to work within structured routines. This is one reason why hotels, for example, can make good Social Firms.
5. The potential for good community or other social enterprise links - Social Firms work best in a supportive environment.



The Lounge at Six Mary's Place

## Case Study - SIX MARY'S PLACE

Six Mary's Place was created 16 years ago when Andy Hunter gave Edinburgh Community Trust (now Forth Sector) a soft loan with which to buy the building. It is a beautifully refurbished Georgian (1829) town house with a warm, friendly ambience, based in the heart of Edinburgh. It offers Bed & Breakfast accommodation and Meeting Room Hire and has been given a rating of 3 stars by VisitScotland and 4 diamonds by the AA. It recently won the prestigious Scottish Thistle Award for Outstanding Customer Care, was the only new entry in Edinburgh in the Which 'Guide To Good Hotels 2004' and has won a Green Tourism Silver Award.

Four full-time staff and 20 trainees are employed at the hotel, some of whom have mental health problems. Six Mary's Place has an annual turnover of £157,000. Says Sales Manager, Ruari Wilson: *"I feel that the success of this business is due to 3 main factors: its excellent location, outstanding customer care and the ongoing market support it receives from its parent company, Forth Sector. Guest surveys show that people choose Six Mary's Place initially because of location, but come back time and again because of the warm, relaxed atmosphere they find."*

*"Thank you for making our stay so comfortable and enjoyable, the hospitality of the staff will never be forgotten. I have never been to any hotel where the stay has been so homely, lively and friendly."*

For more information visit: [www.sixmarysplace.co.uk](http://www.sixmarysplace.co.uk)

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## Suggested Planning Task

If you are reading this trainer with a view to setting up your own Social Firm, you might find it useful to measure your business proposition now against the 5 essential characteristics outlined here.

First assessment of Social Firm characteristics <i>Score 3 for a really good match, 2 for fair, 1 for poor and 0 for the complete absence of that characteristic from your proposition.</i>	Your Score
The enterprise has the potential to sell to favourable markets (at a premium)	
It is a <b>high added value</b> business (there is scope for higher staff costs because selling prices need not be very directly linked to revenue costs)	
Part of what customers pay for is represented by big assets such as land, buildings or equipment, which can be funded through grants or patient capital	
There is a built-in business need for a wide range of skills and work times (rather than a need to artificially create a lot of very different jobs)	
There is potential for good community or other social enterprise links	
<b>TOTAL</b> <i>You probably need at least 6 points to go ahead</i>	

