




unity trust
bank

BANK WITH US. BANK ON US.

Profit with Purpose

Insight Report

Hidden Social Enterprises

Unity Trust is a commercial bank with a difference; we only work with organisations and businesses who want to help create a better society.

Established over 30 years ago with a vision to create a bank that would serve the needs of its customers and enrich society, our purpose is to enable organisations to prosper, and contribute to economic, community, and environmental change.

Based in Birmingham, we offer an ethical alternative for organisations and businesses with a social conscience.

We focus on delivering positive social impact, not simply maximising profit. This is known as our 'double bottom line' strategy.

In October 2017, we surveyed 1,050 UK companies to gain a better understanding of what it means to be a 'Socially Conscious Business'.

We set out to:

- Understand the differences between mainstream and socially conscious businesses
- Estimate the size of the market for socially conscious business
- Better understand their needs

Why now?

There has never been a more important time to address the role of alternative business models in the UK. Slow real wage growth relative to inflation has placed more individual households into the "just about managing" category.

This should be the moment for socially conscious businesses; companies that are motivated by social or environmental goals rather than solely by the pursuit of profit.

They may make profit, after all some form of surplus is critical to invest in a better future, but they do not have profit as their only motivation and will often reinvest that profit in their employees or in the social objectives that they set out to achieve. Because of this, they potentially offer a stakeholder-based way of operating that doesn't necessarily make less money but will make that money in pursuit of social and environmental objectives, reinvesting accordingly.

We found that as many as 66% of the 1,050 companies surveyed had social or environmental objectives as part of their business goals. Interestingly, 22% of UK businesses have social or environmental objectives as their main motivation.

44% of these Socially Conscious Businesses are for profit, private limited companies; they are not charities and have legal structures consistent with investment led growth:

- 18% of them paid a dividend to directors
- Nearly 30% paid a dividend to shareholders
- Just over 70% reinvested some or all of their surplus and
- 25% shared any surplus with their workforces.

Socially Conscious Businesses have much larger workforces and turnovers than expected, with nearly 30% having turnovers greater than £500 million.

Compared to mainstream businesses, Socially Conscious Businesses have an increased share of job growth, making up 29% of businesses who created between 50 and 99 jobs, and 25% of businesses creating between 100 and 249 jobs.

The survey revealed that sources of income for Socially Conscious Businesses were similar to those of mainstream businesses. Over 80% of Socially Conscious Businesses generate all or part of their turnover from sales, with revenues comprising 100% of

turnover for over 30% of the Socially Conscious Businesses sample, and more than 50% of turnover for a further 29% of those sampled.

Socially Conscious Businesses operate across a wide range of sectors, and although they are more likely to operate in education, health and welfare-related areas, ICT and professional services also have a substantial number of Socially Conscious Businesses'.

Geographically, Socially Conscious Businesses are widespread throughout the UK.

Methodology

This report was produced in collaboration with Dr Rebecca Harding for Unity Trust Bank.

The methodology was survey based, sampling a business population in the UK rather than specifically UK social enterprises. It surveyed 1050 businesses comprising of 276 founders and 774 senior decision makers from companies of any size. The survey was conducted online Quarter 4 2017 by Research Now. No samples or quotas were set by sector or region.

What is a Socially Responsible Business?

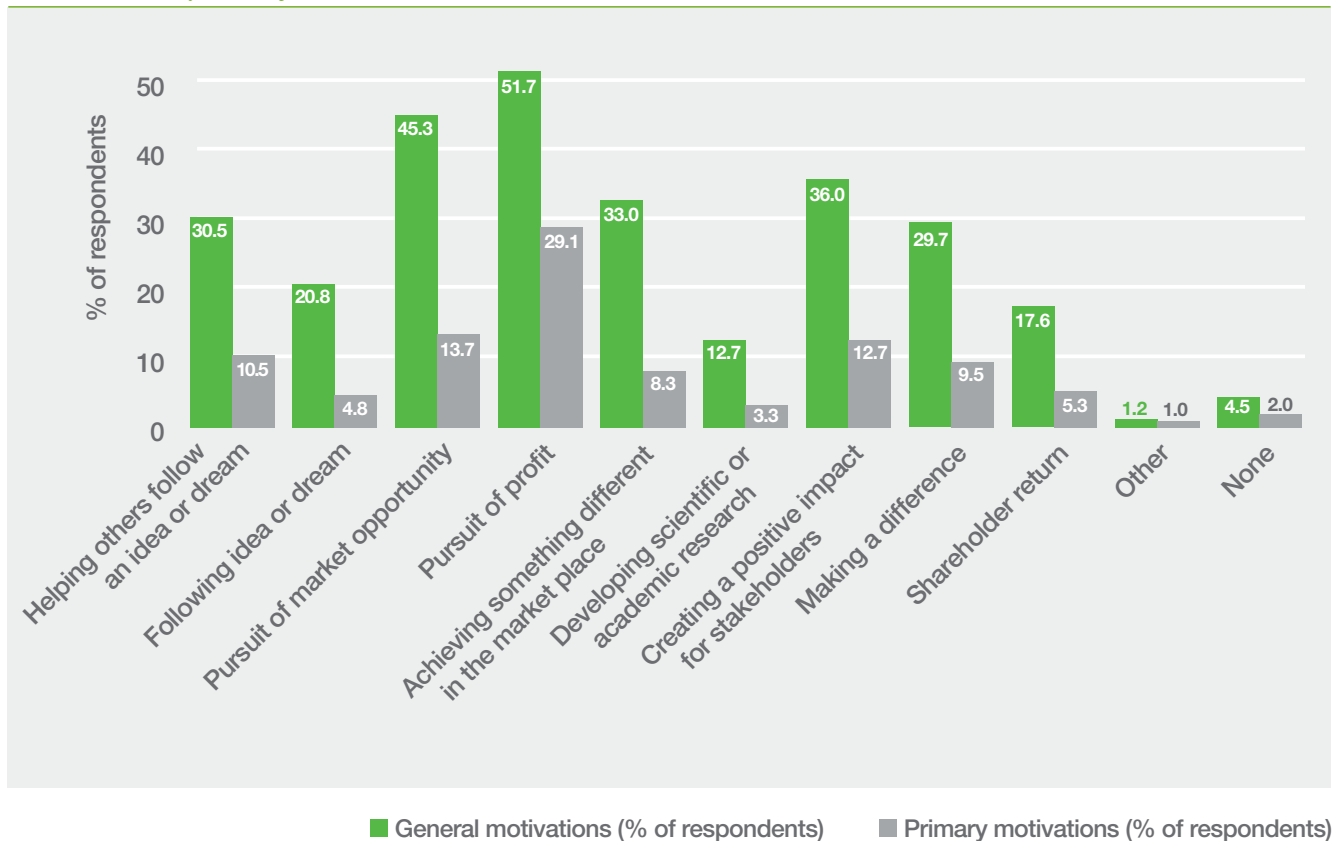
To understand what differentiates a Socially Responsible Business from the mainstream we questioned respondents about their motivations for being in business and asked them to select the most important factors.

We asked 1,050 respondents to select as many motivations as they wanted from a series of options that might be business goals. If respondents selected **'creating a positive impact for stakeholders'** or **'making a difference'**, we then asked them to identify their most important business objective.

Making a positive social impact is the most important aim for 60% of Socially Conscious Businesses.

For 18% it is making a positive environmental impact, where as for 17% it is creating jobs.

General and primary motivations



The responses to these two questions produce the definitions used in this report:

66% Socially Aware

Being either motivated by the desire to produce a positive outcome for stakeholders or to make a difference either socially, environmentally, or in terms of job creation.

Taken as a proportion of UK businesses this equates to 3.6 million businesses.

For the purpose of this report, unless otherwise stated, **Socially Conscious Businesses** refers to the 22% of all organisations surveyed.

22% Socially Conscious Businesses

Either producing a positive outcome for stakeholders or making a difference is their **primary motivation**.

Taken as a proportion of UK businesses this equates to 1.2 million businesses.

78% Mainstream

All other motivations.

Taken as a proportion of UK businesses this equates to 4.29 million businesses.

For comparative purposes, three other groups were also created within mainstream businesses:

- **Innovation-based:** those who wanted to achieve something different in the market place or were pursuing scientific research
- **Entrepreneurial:** those who were pursuing a dream or helping others to pursue a dream
- **Market-focused:** those who were motivated by profit or giving a dividend to shareholders

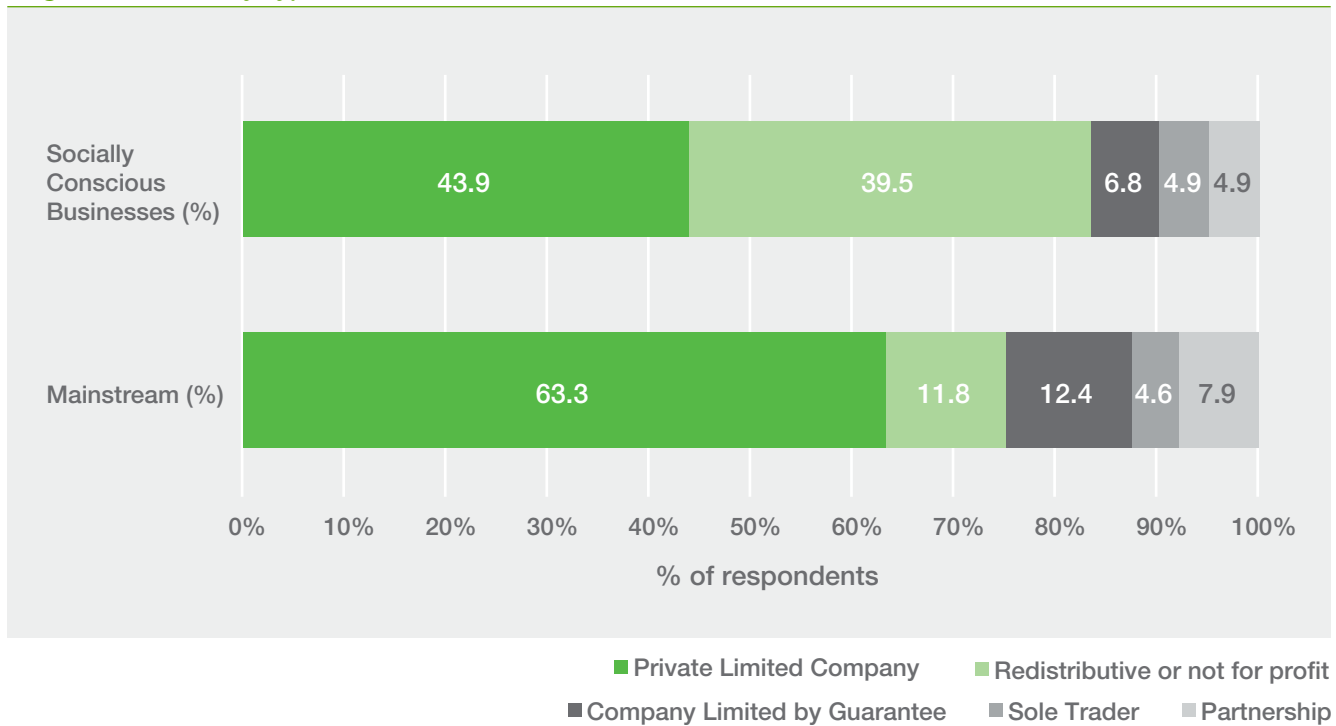
What is the legal structure of Socially Conscious Businesses?

Socially Conscious Businesses are investible.

They are large and to a substantial extent, have legal structures consistent with investment-led growth. Companies limited by guarantee and not for profits

are traditionally associated with social enterprises but 44% of Socially Conscious Businesses are for profit, private limited companies. Nearly a quarter of mainstream businesses are not-for-profit and companies limited by guarantee.

Legal structure by type of business

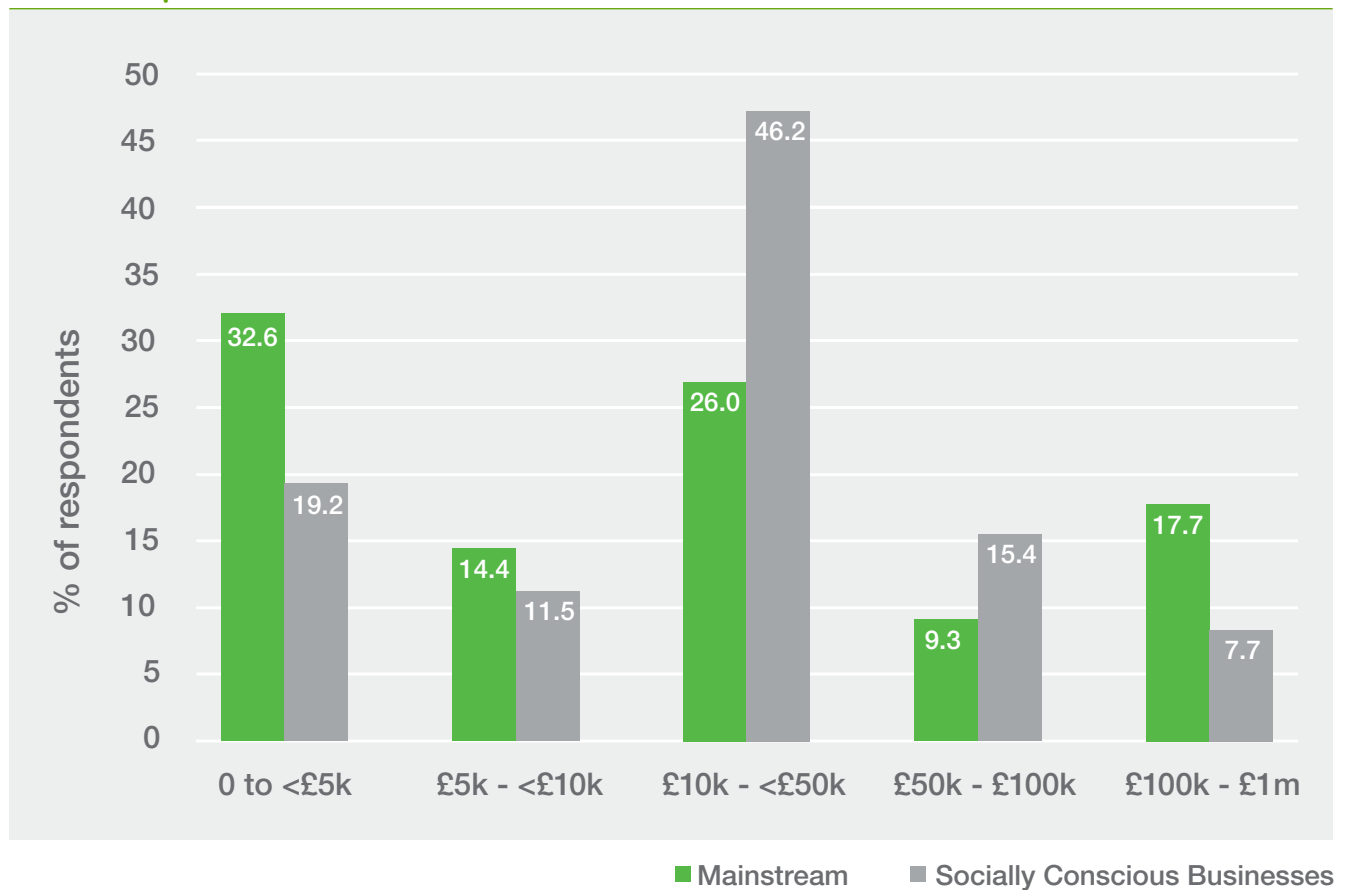


Sourcing of funds to set up

The investment required to start up Mainstream and Socially Conscious Businesses is similar and amounts to £20,000.

Mainstream founders tend to fund a larger percentage of the start up fund (83%) compared to Socially Conscious businesses (70%).

Amount required to start business

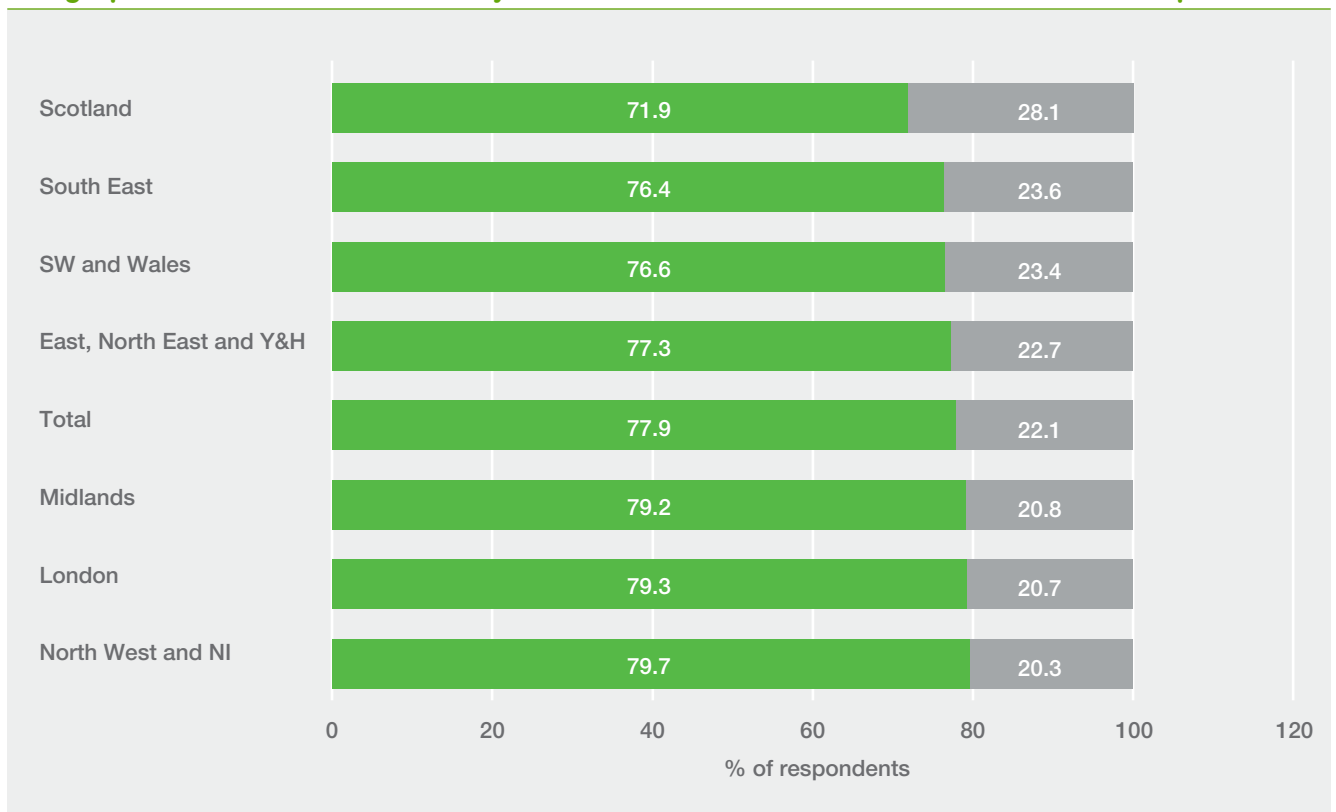


Where are Socially Conscious Businesses located?

Socially Conscious Business are found all over the UK, but the regions with the most Socially Responsible Businesses are Scotland, the South East, the South West and the East of England.

The regions with the lowest proportion of Socially Conscious Businesses are the North of England and Northern Ireland.

Geographical distribution of Socially Conscious Businesses versus Mainstream Enterprises



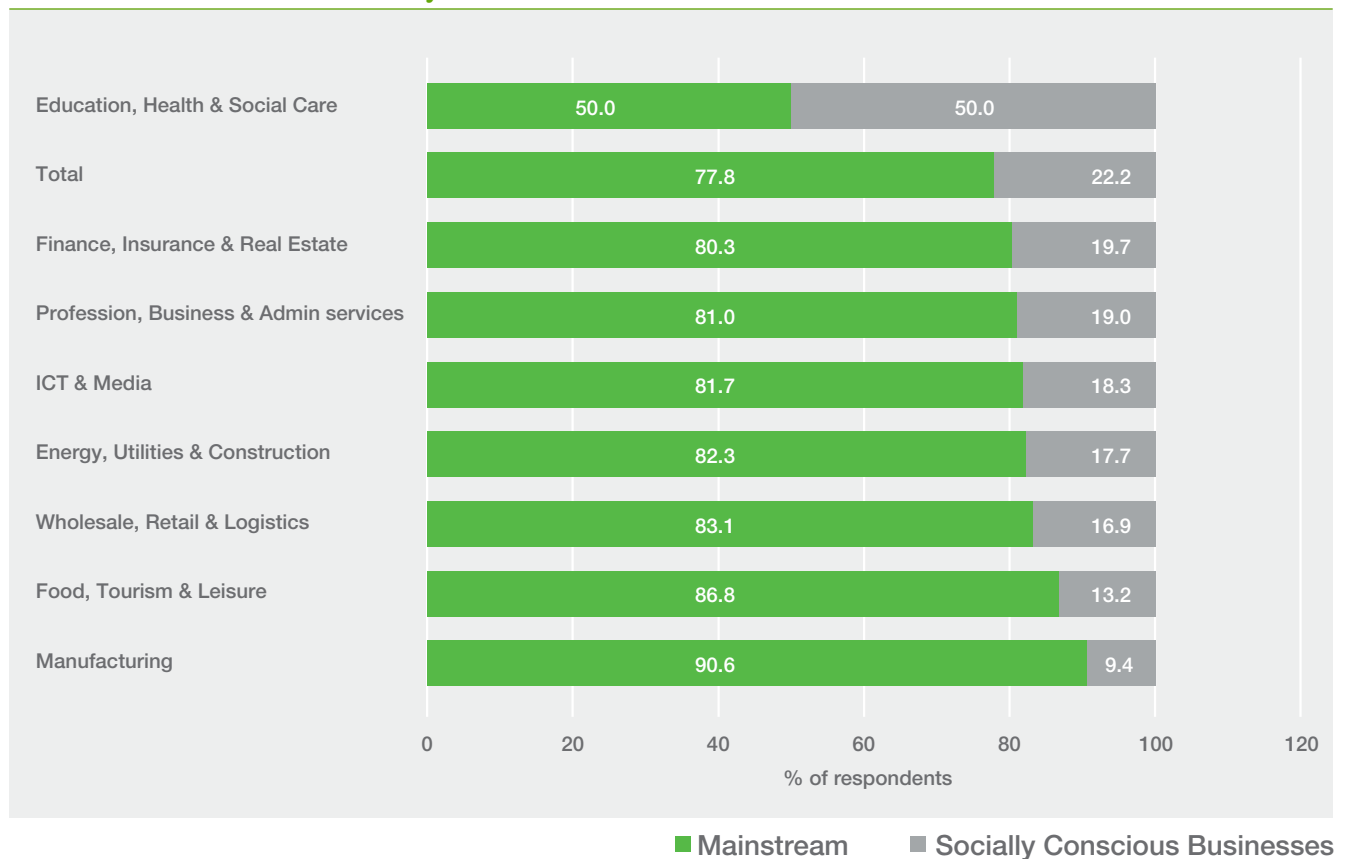
■ Mainstream ■ Socially Conscious Businesses

What sectors do Socially Conscious Businesses operate in?

Education, health and social care have the highest proportion of socially conscious businesses while manufacturing has the least.

Finance, professional services and ICT have the second to fourth highest proportions of Socially Conscious Businesses but they are significantly below the average of 22.2%.

Sectoral distribution of Socially Conscious Businesses versus Mainstream Businesses



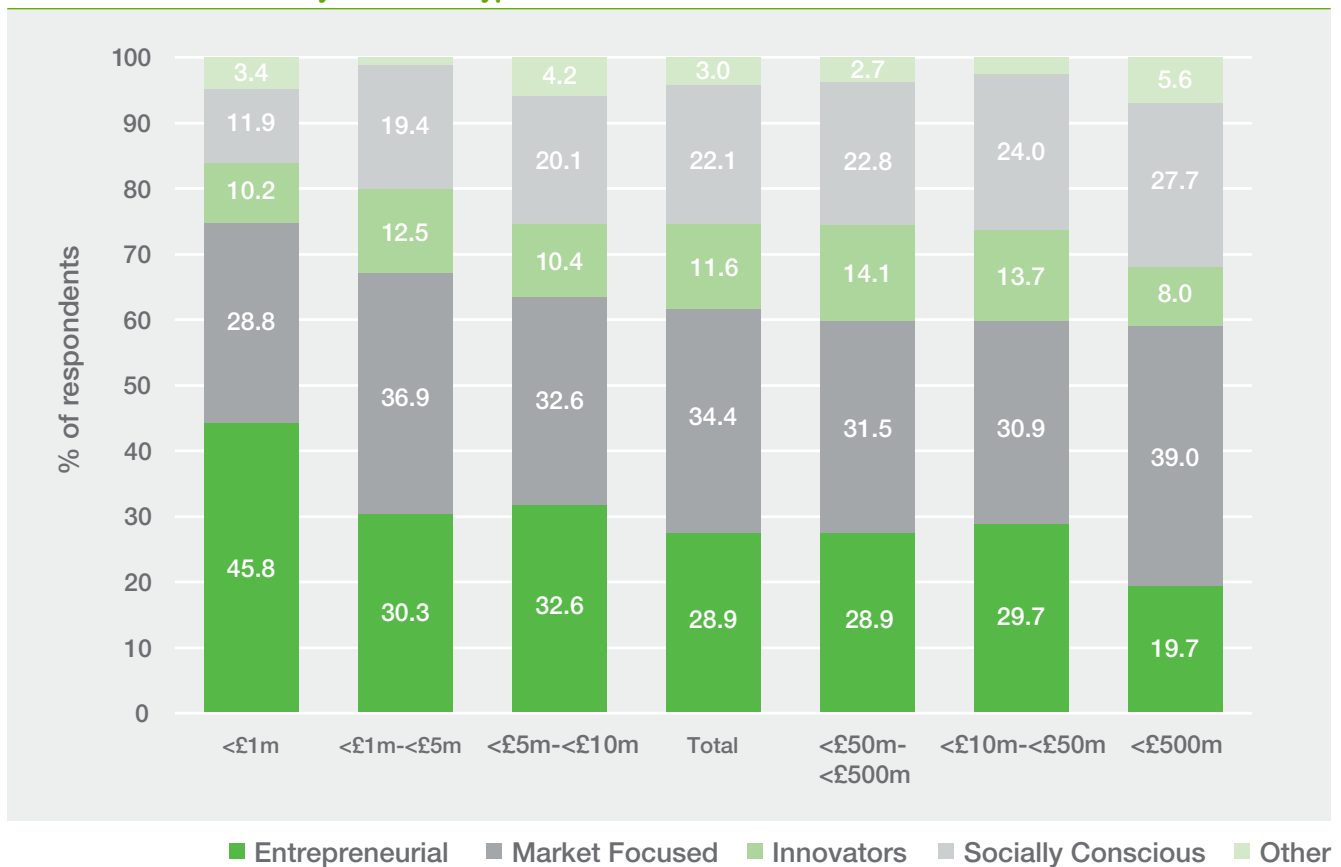
What is the turnover and size of Socially Conscious Businesses?

A common myth associated with investing in Socially Conscious Businesses is that they are smaller and financial return must be sacrificed in the interests of pursuing a social impact.

This is not the case; Socially Conscious Businesses are more likely to be represented in higher turnover brackets compared to lower turnover brackets.

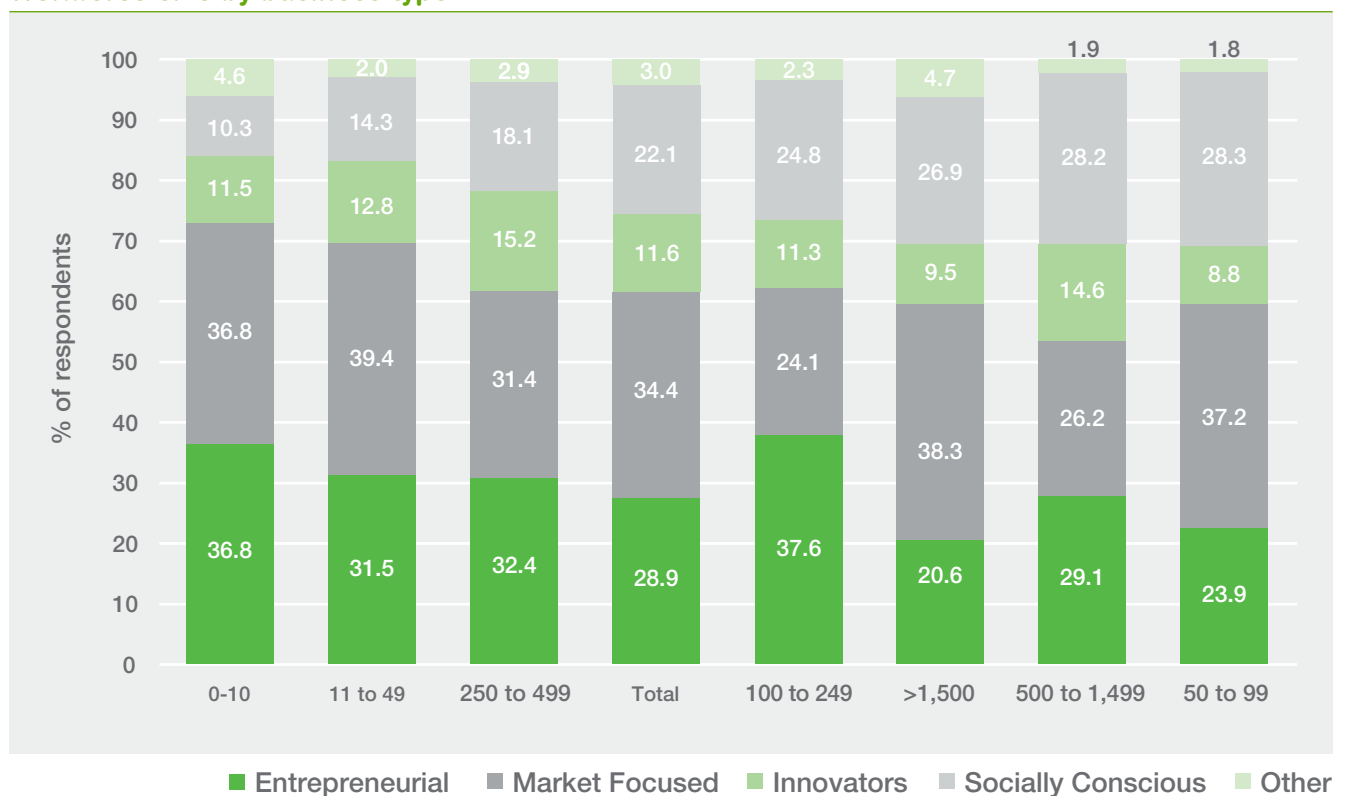
The group with the highest number of Socially Conscious Businesses is companies with turnover of more than £500m. This is a stark contrast to the group with the highest proportion of mainstream businesses, which is with turnovers of less than £1m.

Turnover distribution by business type



Socially Conscious Businesses do not have small work forces as perhaps expected. Socially Conscious Businesses are likely to employ over 50 employees.

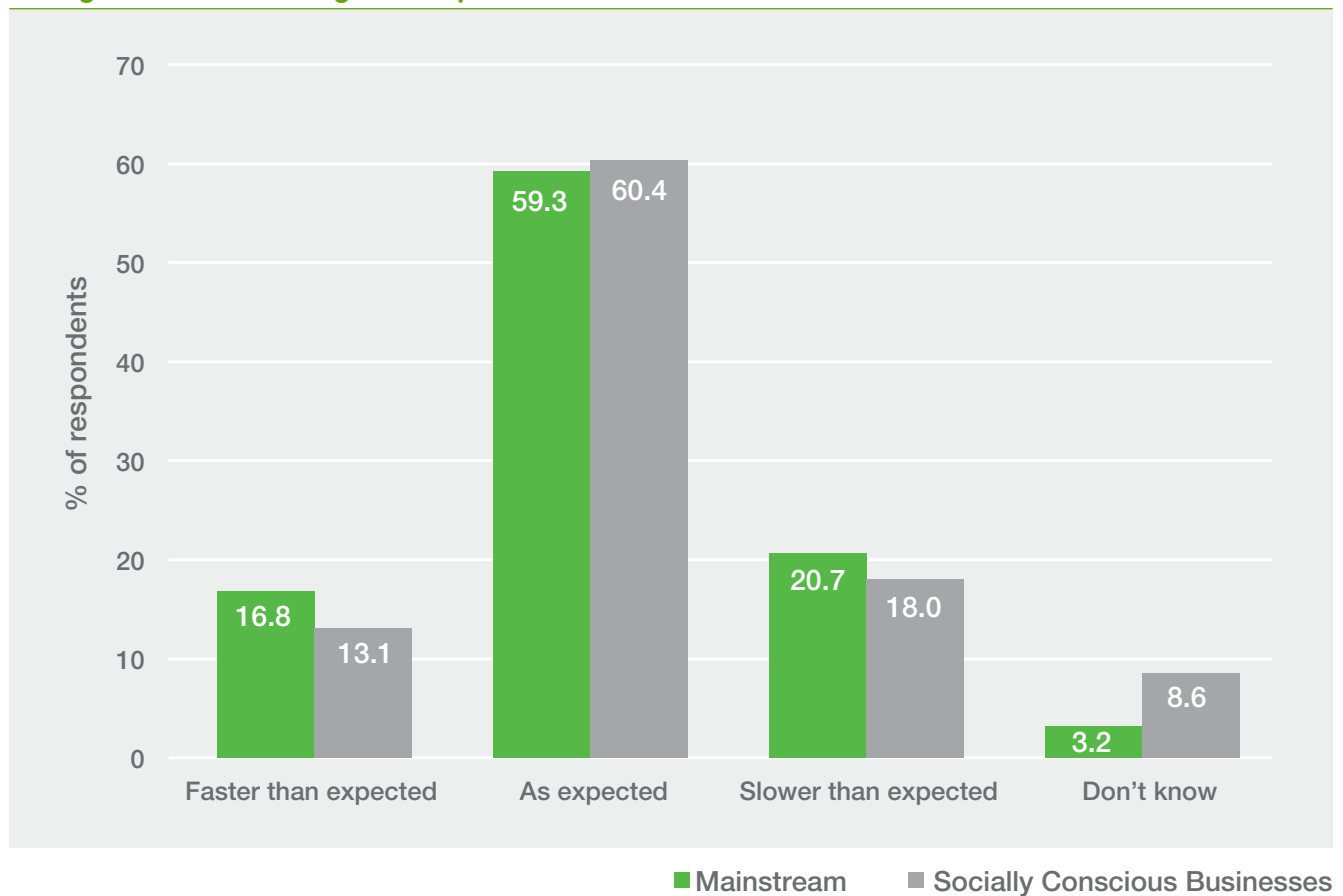
Workforce size by business type



What is the growth and performance of Socially Conscious Businesses?

Socially Conscious Businesses are slightly more muted about their growth. They tend to be bigger so their growth in terms of turnover and jobs is lower.

How growth has been against expectations

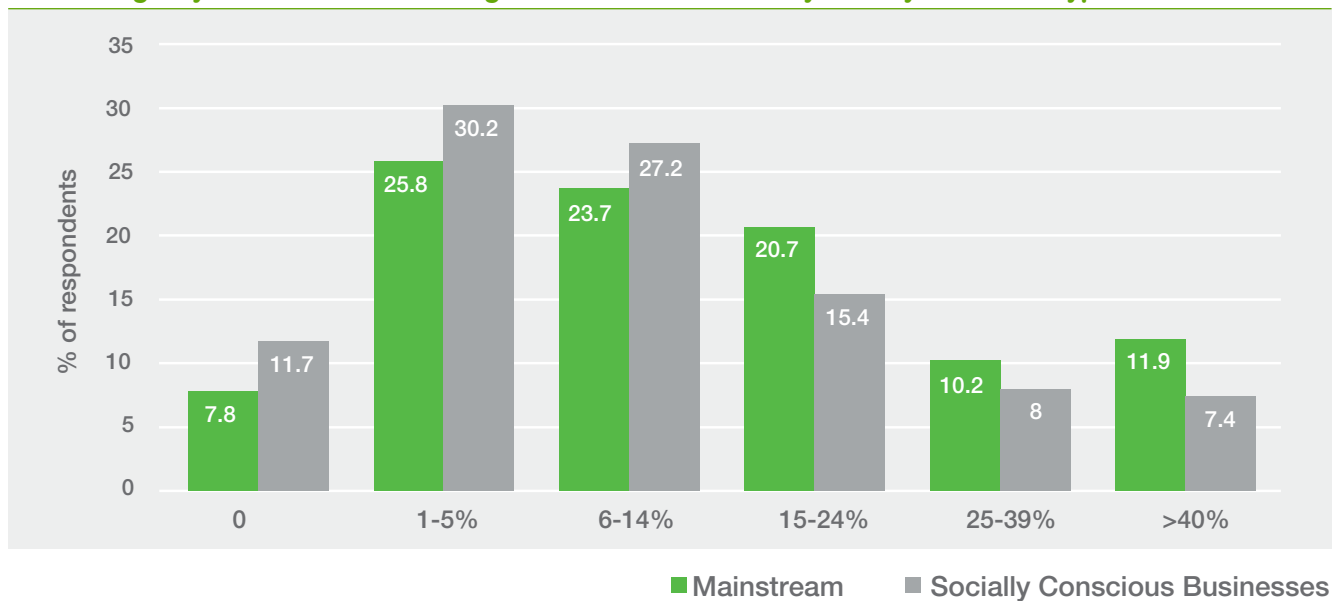


Expectations of Socially Conscious Businesses

Almost one-third more Socially Conscious Businesses have reported zero turnover growth over the last three years and compared to mainstream. The distribution of growth for Socially Conscious Businesses is skewed towards the lower end.

Note that some of these organisations are heavily dominated by public sector organisations, and even if they have private revenues, for these organisations turnover growth has been limited.

Percentage by which turnover has grown in the last three years by business type

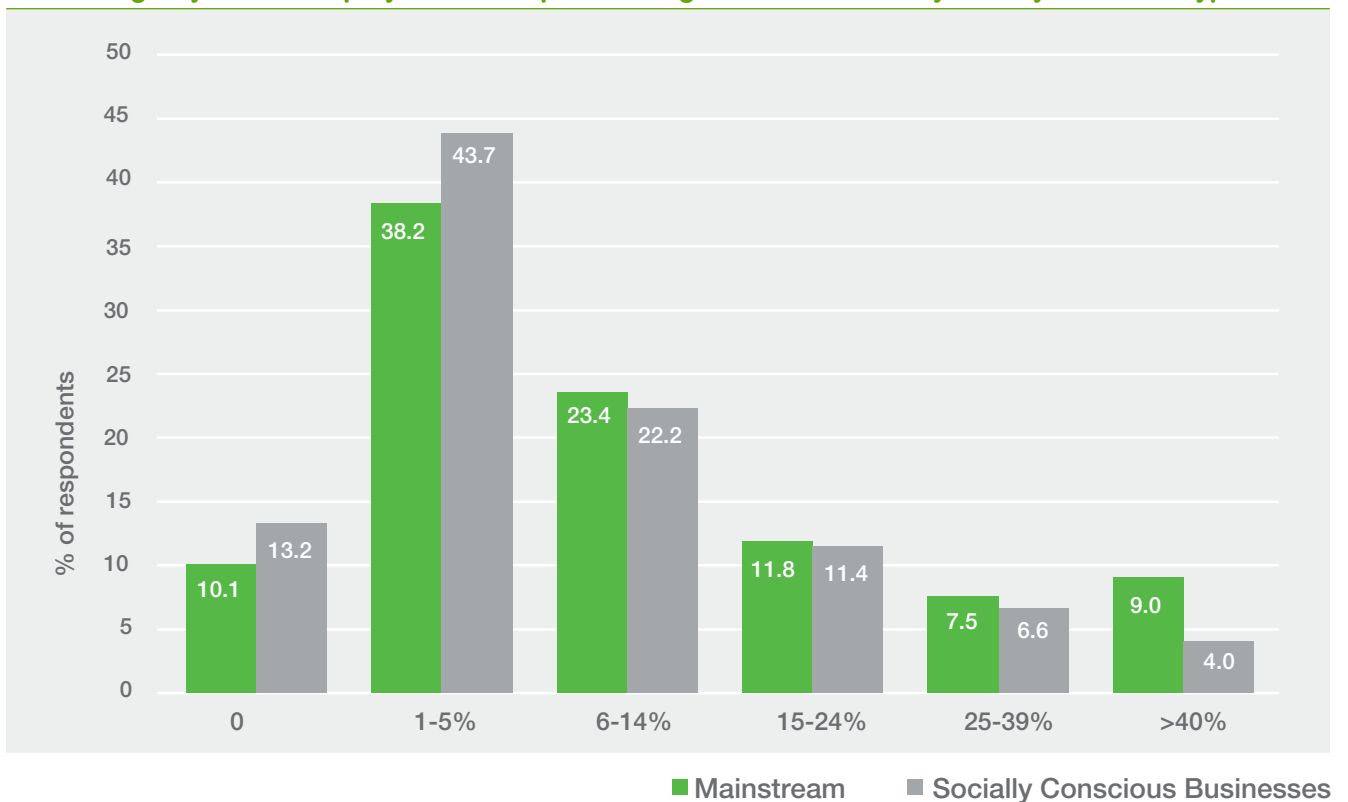


Expectations of Socially Conscious Businesses

Socially Conscious Businesses are expecting growth but at lower levels.

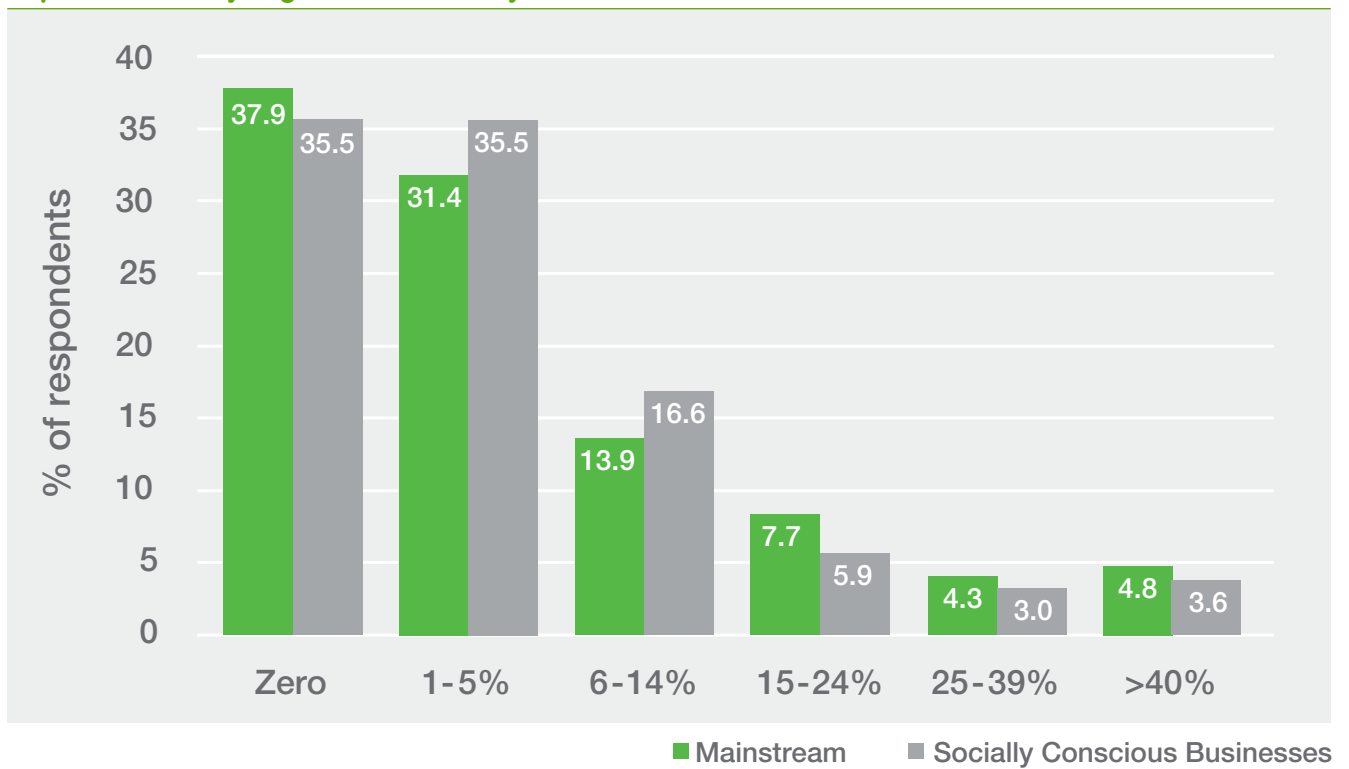
This again may be a function of size.

Percentage by which employment is expected to grow in the next 3 years by business type



Socially Conscious Businesses are more likely to expand their workforces in the next 3 years with nearly 52% responding that they expected their workforce to grow by between 1% and 14%, compared to 45% of mainstream businesses.

Expectations of job growth in next 3 years

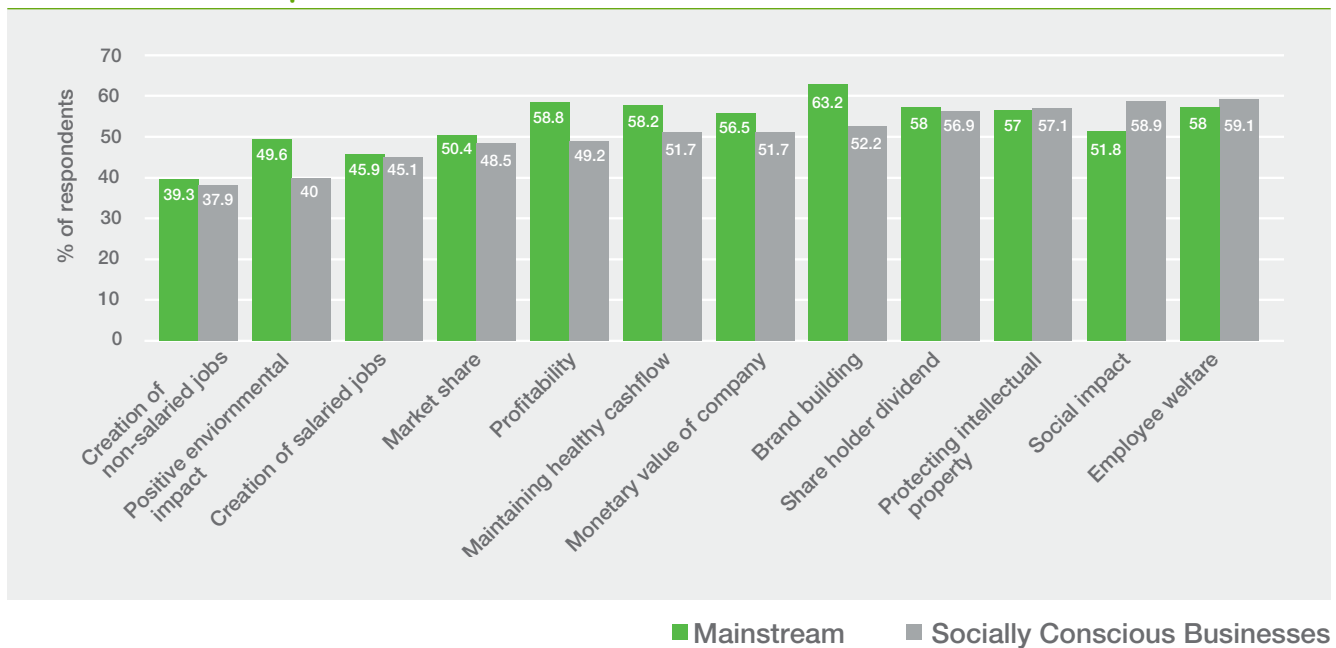


What is the performance of Socially Conscious Businesses?

Socially Conscious Businesses assess their intangible performance the same as, or slightly better than mainstream businesses with one notable exception; environmental performance.

This may be because they are more sensitive to environmental challenges and therefore are likely to downplay their performance.

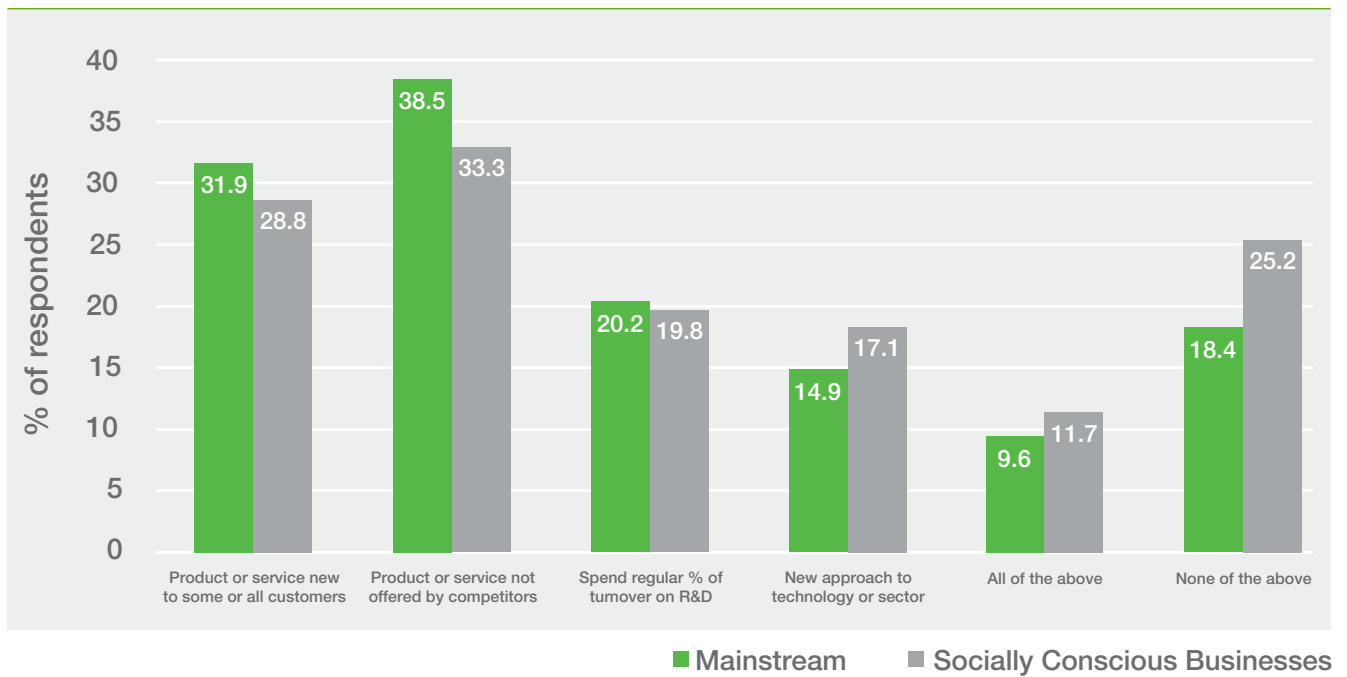
Performance of companies



How innovative are Socially Conscious Businesses?

Socially Conscious Businesses are innovative across the board.

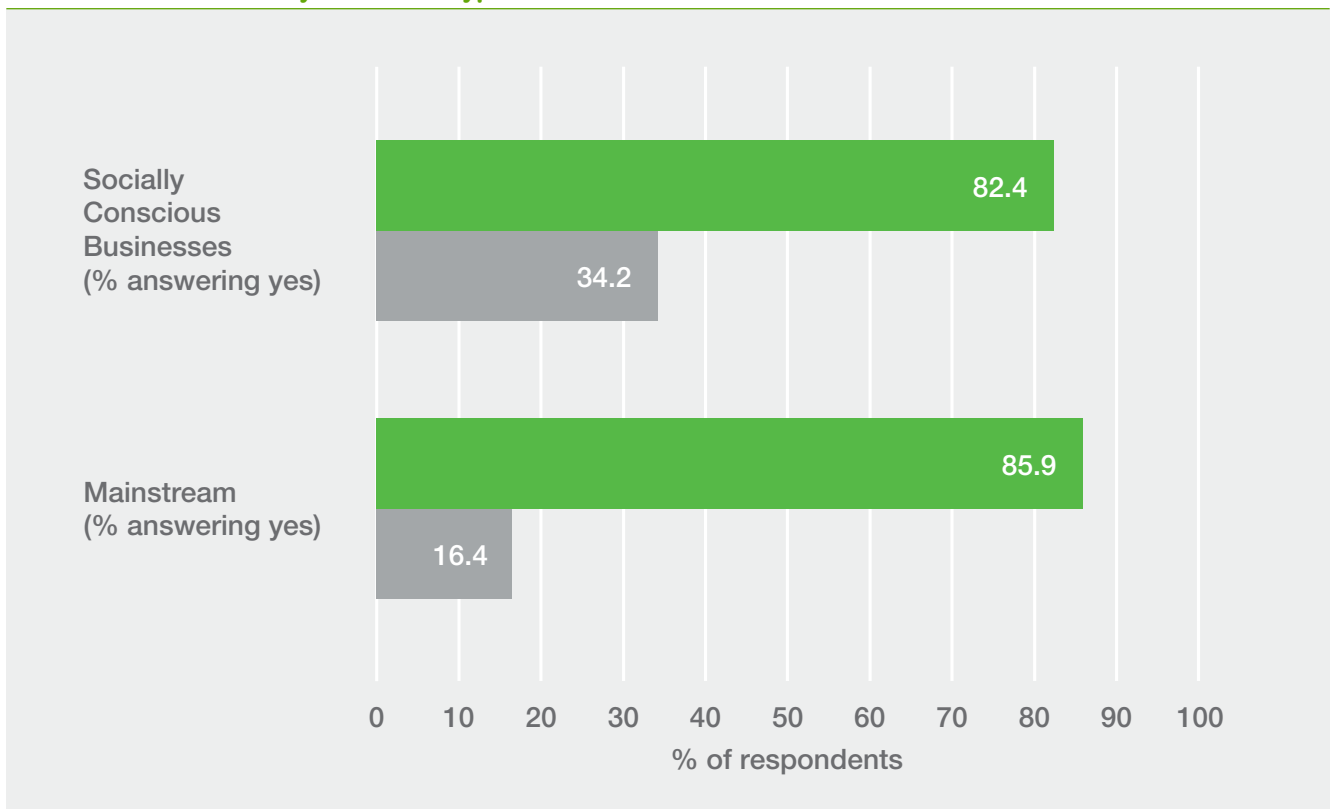
But more innovative across the board



What are Socially Conscious Businesses sources of revenue?

Mainstream and Socially Conscious Businesses are similar in terms of their revenue generation. 82% of Socially Conscious Businesses and 86% of mainstream businesses have revenue from private sources.

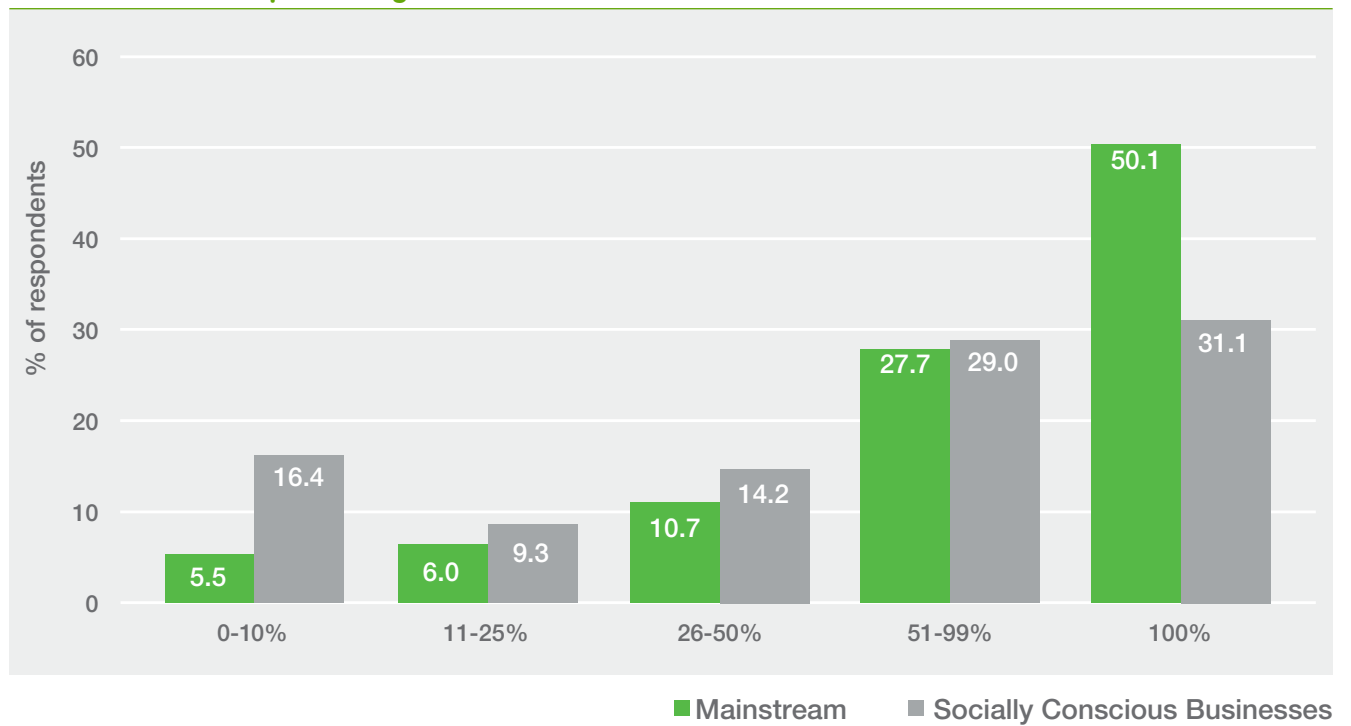
Sources of revenue by business type



- Revenue from sales or charging for services
- More than half of funding comes from public money

60% of Socially Conscious Businesses generate more than 50% of their turnover from revenues.

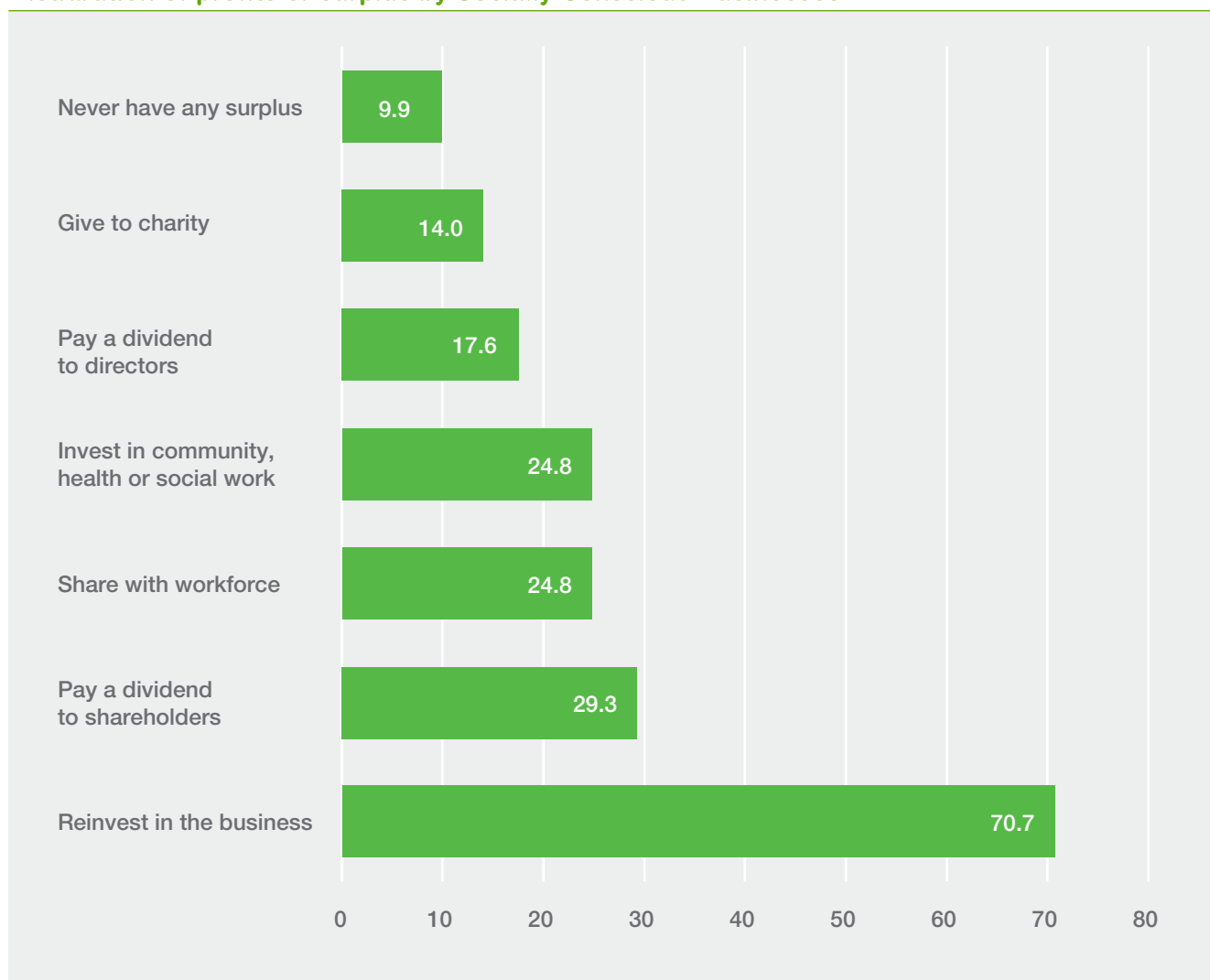
Sales income as a percentage of revenue



Where do Socially Conscious Businesses invest?

Socially Conscious Businesses distribute their profits and surpluses in a variety of ways. Most commonly, Socially Conscious Businesses reinvest their surplus to achieve their social goals. Only 10% never have a surplus to redistribute.

Distribution of profits or surplus by Socially Conscious Businesses

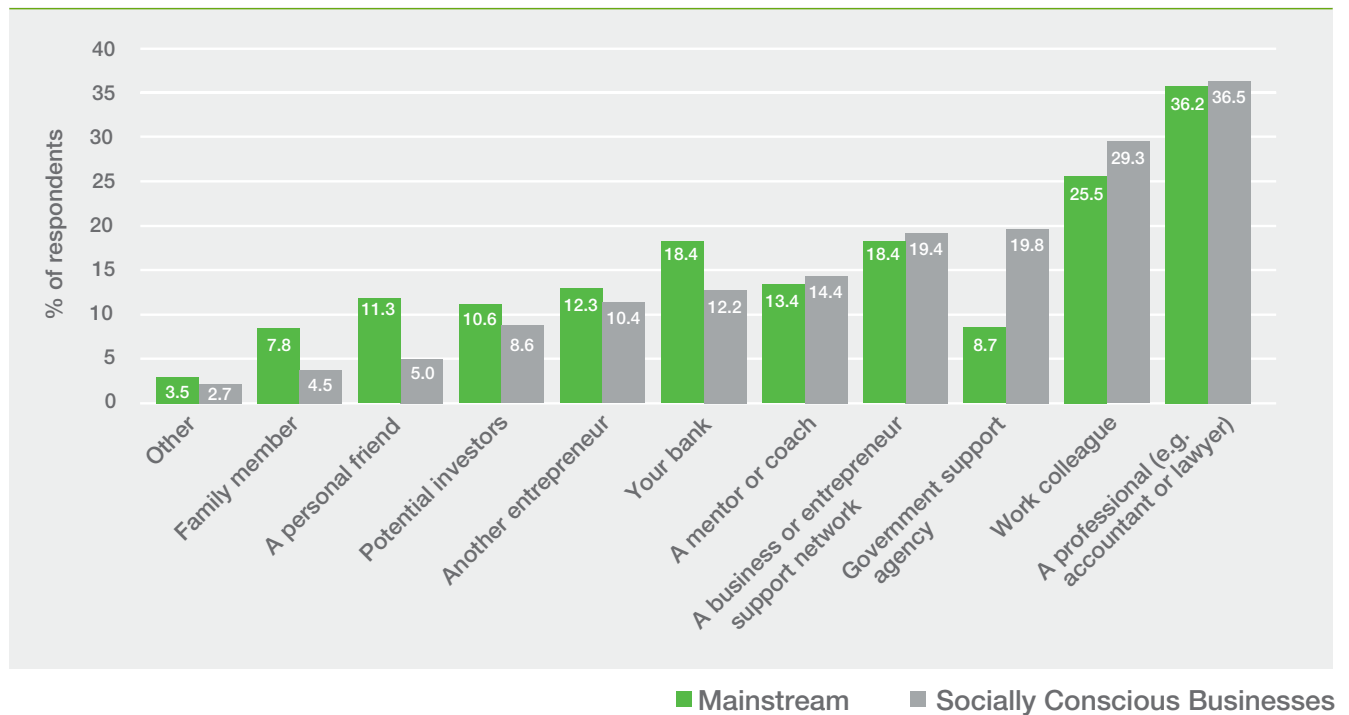


What are the needs of Socially Conscious Businesses?

There are differences in the types of business support used by mainstream businesses and Socially Conscious Businesses.

Socially Conscious Businesses are more likely to access legal or accounting advice, while mainstream businesses are more likely to access support from banks.

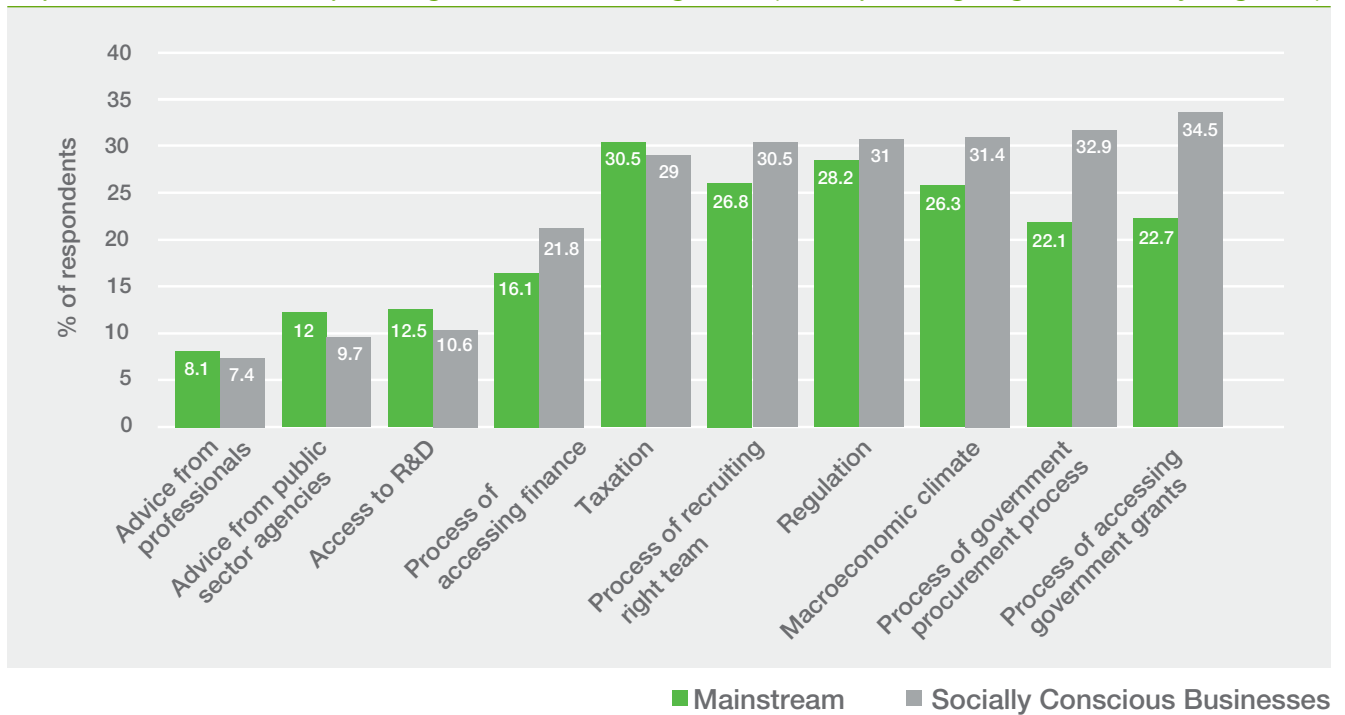
Sources of advice



What are the effects on growth of external support

Broader operating conditions such as the regulatory environment, tax, and the macroeconomic climate are more likely to negatively impact Socially Conscious Businesses.

Impact of the external operating environment on growth (% responding negative or very negative)



Key Findings



22%

of UK businesses have a social conscience. This equates to 1.2million businesses



66%

of UK businesses are socially aware, this equates to 3.6million businesses



44%

of Socially Conscious Businesses are for profit businesses



Socially Conscious Businesses

are nearly twice as likely as mainstream businesses to be looking for finance

With 22% of UK businesses classed as ‘Socially Conscious’ and 66% being socially aware, the market is large. Yet Socially Conscious Businesses are not being effectively catered for by mainstream financial institutions.

Socially Conscious Businesses are creating jobs, addressing education, health and welfare issues, as well as environmental issues. They have the potential to ‘step-up’ and address the biggest social and economic challenges that UK society is currently facing. However, to do this some of the obstacles for growth need to be addressed.

Socially Aware Businesses are more likely to be looking for finance than their mainstream counterparts. Typically, they are looking for finance to grow,

or provide working capital to the business and, like mainstream businesses, they are most likely to be looking for loans and overdrafts in order to do so. However, they are less likely to go to a bank for advice or support and more likely to go to a lawyer, or accountant or government agency, as they report more negative experiences with accessing the “system” in terms of recruitment, finance, procurement and grants.

This is resulting in businesses with social motivations not fully realising their potential.

As an ethical bank that works exclusively with organisations and businesses seeking a positive social impact, Unity Trust Bank brings over 30 years of experience of straightforward banking solutions, helping our customers prosper.

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