



Context

In 2002, the UK Govt published an 'official' definition of social enterprise (SE) which was also adopted in Scotland. The ensuing 10 years has seen a dramatic rise in the popularity of SE - but the government definition was never invested with sufficient authority to be effective. Its meaning became increasingly diluted.

In response the Scottish SE community has set down the values and behaviours by which we recognise each other. We refer to this document as a voluntary code of practice – or simply the Code. The Code recognises five Basic Criteria for social enterprise - and in a short Appendix identifies some less 'defined' Values/Behaviours/Influences familiar to our movement.

The Criteria

There are five essential elements of a social enterprise.

- 1 A Social Enterprise (SE) is a business trading in the marketplace – selling goods and services – but whose primary objective is to achieve social and/or environmental benefit.
 - 2 Regardless of its legal form, the constitution of a SE will include the requirement that profits are reinvested in the business or in the beneficiary community – and not distributed to owners/shareholders/investors. *(see footnote)
 - 3 The constitution will always require that on dissolution, the assets of the SE are reinvested in another organisation with similar aims and objectives.
- Taken together Criteria 2 and 3 are referred to as the 'asset lock' – the defining characteristic of a SE – which distinguishes it from the private sector.
- 4 SEs are different from those charities and voluntary organisations which do not aspire to financial independence through trading.
 - 5 SEs are distinct from the public sector and cannot be the subsidiary of a public body.

* This Code does not exclude that certain types of social enterprise could be 'honourable exemptions' to the zero dividend norm. But this number is very small.

Appendix

Social Enterprise is a relatively recent term – but our practice emerges from values developed throughout the history of our social economy. The term recognises that if social projects are organised as sustainable businesses – they can achieve financial independence – from both the state and philanthropy.

A core principle is that economic activity should work for the common good – rather than the unlimited private gain of a few. This locates some SEs within the wider objective of changing the way society operates. As the social enterprise sector continues to evolve, identified below are some of the Values/Behaviours/Influences familiar to the movement.

Values/Behaviours

Value based: SEs are businesses founded on core values – that social fairness and the protection of the planet should be pre-conditions of all economic activity – with all business practices expected to be honest and fair.

Good Employers: SEs are good employers – who continually strive to offer a dignified workplace experience; aiming to pay a ‘living wage’; and having flatter pay structures than the private sector. SEs do not pay inequitable salaries to senior management; a maximum ratio of 1:5 between lowest and highest is a useful guide.

Democratic: From Co-ops and mutuals’, SEs have learned the benefits of common ownership and democratic governance. This is the primary model of the social economy in continental Europe.

Empowerment: From the Development Trusts and Community Enterprise sectors, SEs have learned about bottom up responses to social problems and how they empower local communities.

Collaboration: Within the common sense of running a competitive business – SEs try to help and support one another - in the spirit of the Open Source IT community. SEs will also, where possible, encourage the practice of intra-trading i.e. procuring local goods and services from within the sector itself.

Influences

Tailored Support: SEs need business support structures embedded in the culture of our own community. Such support should be accessible at all stages – from start-ups through to national and international businesses.

Social Investment: It is not appropriate for SEs to strive to be investment vehicles in the private sector sense. We need investment that prioritises positive social outcomes and our own ‘mutual’ investment funds.

Better Value: SE provides additional impacts all across the economy – delivering public services; greener and more ethical options for consumers; taking ownership of public assets for community benefit etc. The added value of SE should be recognised at all levels of government.

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