

**SocialFirms UK**

In association with:

**SocialFirms Wales**

**Social Firms Scotland**

# In Business For Good - The Social Firm Solution To Employability

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Sally Reynolds, CEO, Social Firms UK  
[sreynolds@socialfirms.org.uk](mailto:sreynolds@socialfirms.org.uk)

Leona McDermid, CEO, Social Firms Scotland  
[leona.mcdermid@socialfirms.org.uk](mailto:leona.mcdermid@socialfirms.org.uk)

San Leonard, Development Officer, Social Firms Wales  
[sanleonard@socialfirmswales.co.uk](mailto:sanleonard@socialfirmswales.co.uk)

# In Business For Good: The Social Firm Solution To Employability

## Positioning Social Firms In Policy

Across the world social enterprise plays a critical role in employment creation for disadvantaged people<sup>1</sup>. Social Firms in particular have been embraced across Europe, America and Australia as a business model that gets results, i.e. moving unemployed disadvantaged people into work.

In the UK, there are 120 businesses trading in the Social Firm sector. To date they have collectively generated more than 1550 jobs, of which 55% are held by disabled people alone. The average level of income from the sale of commercial products or services across the sector is 65%.<sup>2</sup> These statistics reflect the intrinsic values held by Social Firms of Enterprise, Employment and Empowerment.

Social Firms UK was set up in 1999 to grow the number of Social Firms and increase employment opportunities for disadvantaged people. It works with Social Firms Wales and Social Firms Scotland to achieve this task.

As an employment and business model, we know that Social Firms work. Progress, however, has been slow and challenging. If this sector is to truly meet its potential we need:

- **support** supporting order to achieve the creation of enough Social Firms to employ the vast numbers of disadvantaged people currently excluded from the open labour market;
- **recognition** that Social Firms are an innovative business model for creating employment opportunities for disadvantaged people and for this recognition to be embedded across the health, social and economic policy spectrum.

We recognise and welcome the progress being made in growing the social enterprise sector. Social Firms are, however, a distinct form of social enterprise. Their emphasis is on job creation and labour market integration. As businesses, Social Firms come in many different shapes and sizes however all are driven by the need to create jobs for those individuals who are furthest from the labour market.

As a distinct form of social enterprise, Social Firms have specific challenges that need highlighting. By pooling knowledge and experience, this positioning paper sets out specific solutions for growing the Social Firm sector.

## What Is A Social Firm?

**Social Firms** create employment opportunities for disadvantaged people through businesses that are market-led, inclusive, supportive and sustainable.

The businesses generate over 50% of their income through sales of goods and/or services and at least 25% of the workforce are people with a disadvantage in the labour market.

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<sup>1</sup> e.g. disabled people, ex-offenders, ex-substance misusers and homeless people

<sup>2</sup> Social Firm Mapping 2005 available on [www.socialfirms.co.uk](http://www.socialfirms.co.uk)

## Why Support Social Firms?

### Tackling Stigma

Social Firms exist because disadvantaged people who want to work, especially those with mental illness and learning disabilities, are more often than not denied the opportunity to do so in the open labour market. This is due mainly to a combination of stigma, lack of support, lack of confidence and welfare benefits. Discrimination can lead to relapses in mental health problems and can intensify symptoms (Link et al, 1997).<sup>3</sup>

**FACT:** In 2005 60% of employment positions within the Social Firm sector were filled by people with mental health problems, 30% by people with a learning disability and 10% by people with other disadvantages in the labour market. Disclosure of illness is not an issue in Social Firms. Acceptance of a person for their abilities is standard.

### Creating Jobs

The Green Paper on Welfare Reform<sup>4</sup> focussed solely on vacancies within the open labour market. Nowhere was there reference to social enterprise or the employment creation role that Social Firms could play in meeting the target of one million people off incapacity benefits and into employment within 10 years. The Government faces an issue over the sheer number of individuals that need to be absorbed into the labour market. It might be reasonable to suppose that a few thousand might, in the right circumstance and with the right training and support, be taken on to fill existing skill shortages. Absorption of one million people would require major and sustained growth of the whole economy. Social Firms have the ability to offer a sustainable solution to job creation for those furthest from the labour market.

Service providers for disadvantaged people (primarily those with mental health problems and learning disabilities), who have struggled over the years to place all their clients who are capable of work, into paid open labour market employment, are resorting to Social Firm development in order to create the jobs.

**FACT:** Even if there were no support, service providers for disadvantaged people would still need to start enterprises for employment purposes.

**FACT:** Social Firms have consistently demonstrated success in supporting disadvantaged people who are furthest from the labour market into employment.

**FACT:** Social Firms, in a time of recession, would do whatever they could to hold onto their employees.

### Cost Benefits And Added Value

A significant cost/benefit study was produced as part of the 'Invest to Save Budget' (ISB) project 'Employment Creation in Social Enterprises - A Public Authority Perspective, 2001-2003'. The key finding of this research was that real Social Firms

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<sup>3</sup> BG Link, EL Struening, M Rahav, JC Phelan and L Nuttbrock, 'On Stigma and its Consequences, Evidence from a Longitudinal Study of Men with Dual Diagnoses of Mental Illness and Substance Abuse.' *Journal of Health and Social Behaviour*, 38 (1997): 177-190.

<sup>4</sup> A New Deal for Welfare: Empowering People to Work, DWP (Jan 2006)

(in this case that employ long term sick or disabled people previously on benefits, and have a significant trading income to offset costs) are by far the cheapest form of service provision. It also found that small-scale trading that does not generate sufficient income to create proper jobs is a more expensive form of provision than not trading at all.

Financial comparisons do not encompass the social added value created by Social Firms, for example, the ability to say you have a job and are not a user of services; carers whose responsibility reduces as a person's health improves; friends and family who are encouraged to move into employment too; the feeling of being able to buy your own house; a sense of purpose; increased levels of education and skills; feeling that you matter; having expendable income; developing friendships etc. Social Firms offer a unique solution to enabling social and economic inclusion.

**Social Return on Investment (SROI)**, is a way of reporting on social and environmental value. Developed in the USA, it uses accounting methods for calculating the return from an investment.

SROI research conducted by the New Economics Foundation on two Social Firms in 2005 produced the following results:

- Pack-IT in Cardiff, which has created jobs primarily for people with learning disabilities, has a ratio of 1.9 to 1. Thus, for every £1 invested, social value of £1.90 is created through reduced welfare costs and increased local purchasing;
- MillRace IT in Chelmsford, a Social Firm training and employing people with mental health problems, has an SROI ratio of 7.4:1 i.e., for every £1 invested, £7.40 of social value is created *each year* for society in terms of reduced welfare costs and increased local purchasing.

**FACT:** Social Firms offer significant added value and cost benefits particularly around health and social inclusion.

### Merging Employment And Health

The Department of Health, Department of Work and Pensions and the Health and Safety Executive have recently produced a report entitled 'Is Work Good for Your Health and Well Being?' Not surprisingly, the report has established that work is good for health and well being. Conversely, long-term or prolonged unemployment can adversely affect an individual's physical and mental health (DWP, 2002), including an increased risk of suicide in particular<sup>5</sup>.

The factor which *all* Social Firms report is health improvement amongst those individuals who have moved into work. For instance, initial findings from an SROI study on an established Social Firm in Edinburgh indicate that significant savings to acute mental health services are being made once people take up employment.

**FACT:** A supportive working environment, with the financial gain and social contact expected through work, can bring significant social inclusion and health benefits.

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<sup>5</sup> Lewis, G. and Sloggett, A. 'Suicide, Deprivation and Unemployment: Record Linkage Study'. British Medical Journal, 317, (1998);1283-1286

# Challenges To Developing Social Firms As A Real Solution to Employability

## Profile

Social Firms are a well defined form of social enterprise. These businesses exist to create supportive employment for those people who are effectively excluded from the labour market. However, it still isn't well known or understood.

= **Recognition of Social Firms' potential to create employment needs to be embedded across government policy.**

## Skills

The service provider organisations creating the Social Firms, generally speaking, do not have the appropriate 'skill-set', experience, culture, resources or risk-taking ability to start a business.

= **We can continue to let organisations set these businesses up badly, or intervene now to increase their chances of success and sustainability.**

## Measuring Added Value

Social Firms cost more to set up than a mainstream business because of the additional factors around personnel and supportive workplace costs. However, the long term savings to the State of creating paid employment for disadvantaged people previously in receipt of benefits could make this worthwhile.

= **We need help to evidence, and achieve recognition of, the long term benefits of Social Firms.**

## Achieving Critical Mass

The Social Firm sector is relatively young and has yet to achieve critical mass. This means that Social Firms have yet to evidence their social and economic impact and collectively rely on Social Firms UK to lead on a consistent framework for doing so.

= **Help us grow the numbers of Social Firms to increase the number of people moving into work and to achieve a credible, critical mass for evidencing purposes.**

## Financial Investment In Social Firms

All organisations or individuals wanting to start a Social Firm struggle with where to go for start-up funding. There is no one place to go and groups often have to compromise their business aspirations or even legal structures in order to tailor applications to charitable trusts just to get the money they need.

= **This is currently a shambolic and unsatisfactory way of starting a business.**

It takes time to raise start-up funding and as a result organisations are unable to react quickly to market opportunities leading to momentum and enthusiasm being lost at this crucial early stage.

= **Time is wasted and opportunities are missed.**

## Financial Investment In Disadvantaged People

Currently there is no financial programme that specifically supports people working in Social Firms. As the most cost-effective option demonstrating positive results, it seems ludicrous that the majority of Social Firms still need to find grant funding or struggle to access Workstep and the New Deal programme to subsidise their higher employee support costs. More often than not, what little funding is available is restrictive, time limited and inevitably does not cover the full cost of supporting someone into employment.

|                                                                          |      |
|--------------------------------------------------------------------------|------|
| Annual Cost of keeping someone on benefits <sup>6</sup>                  | £25K |
| Annual Cost of supporting someone into work in a Social Firm             | £6K  |
| Annual Cost of employing someone through Remploy<br>(Sheltered workshop) | £18K |

Remploy's reputation as an expensive institution must not be confused with what Social Firms are trying to do. Social Firms UK sets the minimum disabled workforce requirement as 25% to encourage integration within the firms and leave it to the judgement of the individual managers to achieve a balance between disabled and non-disabled employees that is right for the business. Social Firms are not being set up to depend financially on government in the long term. Remploy's 83 factories were set up on the basis of 1946 market intelligence and have ended up costing the public purse £110m per year because they haven't changed with the times, are intentionally overstaffed and have an unrealistic central recharge cost applied to them. While it costs an average of £18k per year for each Remploy factory disabled employee literally to keep them in employment, the Remploy service to help disabled individuals into open market employment only costs approx. £3.5k as a one-off per person. When probably 80-90% of Remploy factory employees COULD work in the open labour market then the £110m per year is an inefficient use of public money.

= Social Firms currently subsidise the government's targets for moving disadvantaged people into employment.

= Current employment subsidy programmes are exclusive.

= Social Firms are not another Remploy!

## Business Development

Pre-start up, start up and growth support is very difficult to access consistently across the country for Social Firms. It is often limited in its scope and generally, apart from the specialist intermediaries, there is little or no understanding of the needs that arise from combining business and social aims.

In the crucial first year of trading the organisations are inevitably making the cultural shift from project to business. Our experience tells us that someone needs to hold parent organisations accountable in this crucial first year for operations in starting up the Social Firm. Business mentoring can be crucial for the Social Firm manager who inevitably has to invest a lot more than the contracted hours to get the business up and running. However, there is no initiative to link funding to business mentoring and milestones achieved.

**= Start up funding + business mentoring + Social Firms UK as essential combination.**

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<sup>6</sup> This amount was supplied by the DWP who were asked this question in 2003.

## **Viable Business Ideas**

Social Firms are a unique type of social enterprise in that their social mission does not dictate the type of business they can be unlike organisations that are socially driven for example to create affordable childcare or divert from landfill. Most Social Firms have chosen to develop small retail or service based businesses that are relatively simple to operate. However, this results in businesses that have very low profit margins and weakens their ability to be sustainable if they are to continue creating jobs for people with higher employment support needs. Business ideas are required that have the scope to enable Social Firms to scale to a size where they generate sufficient revenue to cover both direct and indirect business costs, as well as the incremental costs that are a function of the social mission.

## **Welfare Reform**

In relation to moving into employment, the current Welfare system appears to fail those furthest from the labour market if the rate of economic inactivity is anything to go by. The employment-related support services are also patchy and inadequate, resulting in significant numbers of people are being denied their right to work.

= Any reform of the financial system that currently restricts movement from economic inactivity to employment must be investigated in parallel with the reshaping of support services.

## In Business For Good: A Vision For Social Firms

Our vision for the future of Social Firms is that:

- Social Firms will be widely recognised as an innovative business model that combines enterprise, employment and empowerment.
- Social Firms will support large numbers of disadvantaged people excluded from the open labour market into work in sustainable businesses.

### Achieving The Solution

Building on our experience and on the lessons being learned from around the world<sup>7</sup>, it needs to be recognised that there are two paths open to developing the Social Firm sector from the position it is in at present. Both of these offer a solution to moving disadvantaged people furthest from the labour market into employment:

- **Develop new Social Firm business models** that can scale to a size where they generate sufficient revenue to cover both direct and indirect business costs, as well as the incremental costs that are a function of the social mission.
- **Develop stable, ongoing funding sources** to subsidise the economic shortfall of current Social Firms due to the higher support needs of their target group and the scale of the businesses. By covering 65 - 95% of their total costs with earned income, Social Firms are among the most efficient employability solution for disadvantaged people.

Based on this, the most significant steps that Government could take to secure the sustainable growth of Social Firms are:

1. Invest in job creation alongside the work being done in the open labour market. Enable Social Firms UK and its sister networks to administer a 'Social Firm Investment Fund' of at least £3m, linking business support and mentoring to finance (as has been proved a successful approach by the Prince's Trust);
2. Consider a pilot initiative based on Workstep specifically for Social Firms;
3. Abolish the £20 disregard on people's earnings if they are in receipt of benefits to enable more people to engage in paid employment on a supported permitted basis up to 16 hours per week, or at above minimum wage levels;
4. Pilot a tax credit starter scheme to enable people to overcome existing financial disincentives to paid employment, particularly in setting up social enterprises;

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<sup>7</sup> Schorr, Jim (July 2006) *Social Enterprise 2.0 Moving towards a sustainable model*, Stanford Social Innovation Review – Juma Ventures operate several social enterprises that create employment for young people who are disadvantaged around San Francisco.

5. Carry out thorough research into the impact of Social Firms to enable a robust and convincing evidence base to be built up;
6. Operate pilot schemes to extend the ways in which Social Firms can be started e.g. business acquisition and extension of the franchising and replication work started by Social Firms UK in 2005;
7. Lay down a challenge to successful entrepreneurs to start a Social Firm.

With investment, a radical overhaul of the existing welfare system and a co-ordinated, holistic support approach between agencies, Social Firms can offer a sustainable solution to job creation for those furthest from the labour market.

**Get engaged, instigate massive social change and join in our work!**

Social Firms UK: [www.socialfirms.co.uk](http://www.socialfirms.co.uk)  
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