



**Transition Group Meeting Four
23 September 2022**

**Paper One
SES Membership and Governance:
An Options Appraisal**

Introduction

At the August Transition Group (TG) meeting some time was devoted to the issue of defining membership. This was in order to ensure that, as far as possible, the social enterprise movement remained a 'broad-church' but could, at the same time, avoid the dangers of being diluted by allowing those businesses whose primary purpose is *private* profit into the aisles.

The TG does not object to the idea of private profit, but wants to safeguard the social enterprise brand by separating out *social* profit as the main characteristic of its members.

The central questions are whether this can be done in a way that leads to as few 'borderline' cases as possible and to agree a *mechanism* for resolving such disputes as do arise (because they will).

This latter point is of fundamental importance since it is impossible to predict how the debate about what is, or what is not, a social enterprise will evolve over the next 10 years and beyond. Someone looking back over 10 or 20 years will note how we have moved from a relatively simple typology (private sector is about profit maximisation, public sector is about 'free' service delivery, third sector is about social value) to an eco-system system that is much more complex (e.g. B Corps, ALMOs). We would not have predicted much of this at the time.

The TG asked for a short paper on this topic to help clarify and appraise some of the options that might inform their recommendations.

Background

As we have noted, the world of social enterprise has evolved and continues to evolve. Some of this is driven by changes within the movement, for example, how do we reward social entrepreneurs who have a personal stake in their enterprise, or individual investors who want to support social enterprises but also to get a modest return on their money? Credit Unions, for example, pay a dividend to members which is (arguably) private profit, even where it is a small amount and represents a small proportion of overall income.

The other driver has been in the change, growth and diversification of funding streams that social enterprises can tap into. As government and EU funds have reduced or disappeared, banks, the lottery, trusts and individual philanthropists have offered access to financial support, mainly through loans or grants. This is likely to continue and there will be further experimentation, as in the case of social investment bonds, where payment was linked to defined social impacts that (in theory) saved the public sector money around something like re-offending.

What principles, if any, should guide the intermediary in accepting or rejecting organisations who accept new types of funding? At the moment, it is acceptable in terms of the voluntary code for a social enterprise to *borrow* from a commercial bank and thus distribute part of its profits to private individuals (shareholders in banks) but

not to pay a *dividend* to an individual investor. Is this consistent, sensible and proportionate? As we have noted, there will be borderline cases which will need arbitration. Is the SES Board adjudicating an acceptable mechanism here?

Principles

In terms of membership, the SES bid to the SG focussed, not on a definition, but on the *characteristics* of social enterprise, drawn from those articulated by the Social Enterprise World Forum (SEWF).

Social enterprise is a *mission driven movement* underpinned by a business model which has a number of characteristics. Using the standards outlined by the SEWF, SES understands a social enterprise to be driven by six principal *characteristics*:

- Mission driven;
- Surplus is invested in the mission;
- Ownership is tied to the mission;
- Trading generated income;
- Transparency and ethical behaviour; and
- A lock on assets to ensure any residual assets on dissolution are used to further the organisation's mission.

SES sees this as a *practical, working definition* which reflects the broad consensus within social enterprises and potential social enterprises.

In keeping with these characteristics, SES currently require organisations agree to the following *criteria*:

- We are a trading business – selling goods and services – but whose primary objective is to achieve social and/or environmental benefit;
- The majority of our profits are reinvested in the business or in the beneficiary community;
- Our constitution requires that on dissolution, our assets are reinvested in another organisation with similar aims and objectives;
- We are constituted and managed in an accountable and transparent way and;
- We are distinct from the public sector and are not a subsidiary of a public body.

Are these characteristics and criteria sufficient to guide the intermediary on who should be accepted into full membership?

The TG had recommended that all organisations who sign up to the Voluntary Code can automatically be social enterprise members - any others can go to a panel (see below).

This leaves the issue of other types of membership. For example, SES may want to encourage *associate membership*, and *corporate membership*. By definition, associate and corporate members would not have voting rights to the SES Board, but would be able to participate in discussions on the future of social enterprise and might be co-opted to the Board.

Who this should be open to could include individual organisations and businesses who support the aims of social enterprise, trusts, enterprise agencies, think tanks and academic institutions along with other intermediaries whose membership may contain a number of social enterprises (SFHA, ABCUL, SCVO, SURF, FSB, Co-operatives Scotland, BEMIS and so on). The TG seemed to take the view that associate members should be a valuable part of the movement, but not intrinsic to its democratic structures.

There also seemed to be support for the view that the members of other intermediaries (e.g. SFHA, ABCUL, SURF) could have 'passported' membership or associate membership. For example, if SFHA joined, all housing associations would become associate members, but those housing associations which have established social enterprises which meet SEWF criteria/characteristics would be eligible for full membership. However, in opening up this more widely, this will have financial implications of SES as there is a potential loss of income. A further option would encourage affiliate membership under this category with a nominal membership fee, as well as encouraging full membership. It is important that the TG take a view on both membership structure and entitlement to services.

Finally, we have already alluded to the issue of private gain and noted the anomaly around interest on loans going to bank shareholders. A suggestion here (and this may be developed by Hilder and Halliday) is to allow organisations which pay individual dividends to be considered as social enterprises, subject to a payment cap (e.g. a 2% return) or to a de minimus provision (e.g. a social enterprise has a single private investor who has invested £10,000 pounds).

Interpretation of Principles

The last issue illustrates that there will inevitably be 'borderline' cases of what is, or is not a social enterprise. Refining criteria and characteristics will have its limitations as interpretation will always be required.

If there will be cases and issues which are not clear cut around compliance or type of membership (and there will be) then there needs to be a decision-making process for membership which is proportionate, quick, fair and transparent.

As we have noted, the TG seemed to be content with the proposal that this should be the responsibility of the SES Board which would consider individual cases on the basis of alignment with the characteristics and criteria outlined earlier. Decisions, and the reasoning would be made public in order to stress transparency as a value. This would also be the case if social enterprise status was to be removed if, for example, a social enterprise changed its rules or M&A in a way that was felt to no longer conform with the SEWF characteristics.

Options and Conclusions

Membership

There will be different types of membership:

- Social Enterprise members who have signed up to the voluntary code and meet its provisions or those who have signed up to the SEWF criteria and meet them;
- Start-up members who meet most of the SEWF criteria and aspire to be social enterprises – an enterprise can have Start-up status for 2 years while they find their feet. After two years they either become Social Enterprise members or Associate members;
- Associate / Corporate members who support the aims of SES but who are not themselves social enterprises;
- Intermediary members who serve other constituencies and support the aims of SES without being social enterprises themselves;
- Passported members who are members of accepted intermediaries (e.g. housing associations, members of ABCUL, SURF) and are not social enterprises.

Different members will have different voting rights and pay different fees. These will be determined by the SES Board.

Determination of which category of membership is appropriate will be made by the SES Board.

Governance

The SES Board will consist of an agreed number of elected and co-opted members. Elected members will always outnumber co-opted members.

Elected membership will only be open to full members. Only full members will be eligible to vote in any membership election.

Co-opted members may be drawn from other categories of membership. The SES Board will decide on appropriate co-options. Co-opted members will have full voting rights at Board meetings.

Current Articles allow for 14 directors from the SES membership of which only one is allowed to be co-opted unless there are vacancies at which point up to four can be co-opted.

Alistair Grimes, 5th September 2022.