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SMEs as Social Enterprises: Regional Disparities, Access to Finance, Strategic Intentions, and the COVID-19 Pandemic

By *José M. Liñares-Zegarra and John O.S. Wilson*

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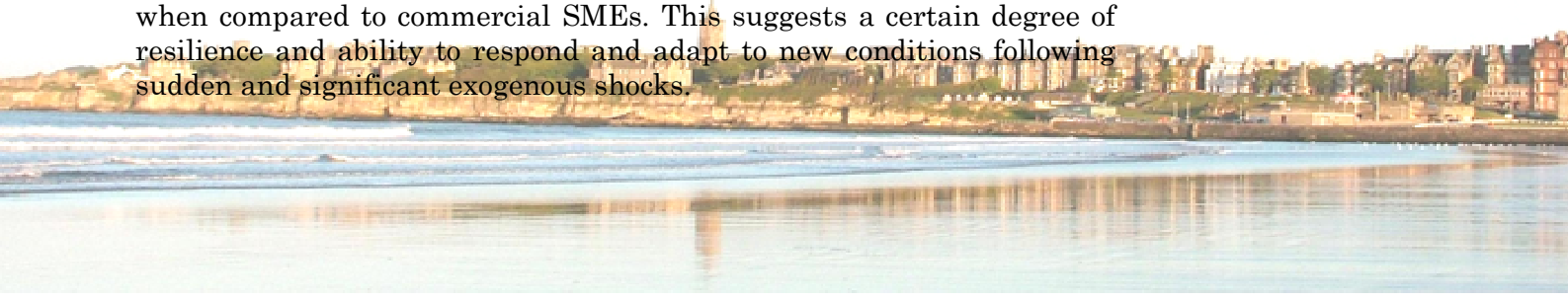

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SMEs as Social Enterprises: Regional Disparities, Access to Finance, Strategic Intentions, and the COVID-19 Pandemic

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Key words: COVID-19; Small and medium sized enterprises; Social enterprises; Social and Environmental Goals.

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Non-technical Summary [1]

Social enterprises are unique organizations pursing *economic, social and environmental goals.* Their respective commercial activities intersect with the significant social and environmental challenges facing society today. This paper uses the 2016 – 2020 Longitudinal Small Business Survey as a main data source, given that it offers a unique and detailed classification of SMEs based on their financial, social and environmental goals, and consequently allows for a clear identification of social enterprises in the context of the UK small business population.

This paper presents new evidence regarding the key characteristics of SMEs that operate as social enterprises, allowing also for systematic comparisons with commercial SMEs in terms of social orientation, geographic prevalence, access to finance, and future strategic plans following the COVID-19 pandemic.

Section 1 introduces the key aspects of the paper and structure. Following this, Section 2 offers a discussion of the recent developments in the UK SME market with a special focus on the role of social enterprises and relevant literature in this area. Section 3 describes the Longitudinal Small Business Survey in detail and the methodology used to identify social enterprises. Although this paper focuses on social enterprises, we acknowledge the existence of diverse organizational forms within the UK ecosystem, including, traditional non-profit SMEs and socially-oriented SMEs which are closely related to social enterprises. Therefore, we also provide comparisons to commercially-oriented SMEs. Detailed descriptive statistics and empirical models used in the paper are also presented in this Section.

Section 4 presents the key results of the study, which illustrate the importance of financial and social/environmental goals for the whole UK SME population, but also in terms of specific characteristics of social enterprises with respect to business size, location, industry, their

[1] In this paper we use the ONS Business Population Estimates to estimate the number of social enterprises. In 2017, there were 5,687,230 SMEs (0-249 employees) operating in the UK. In 2019, the total number of SMEs was 5,860,085 (0-249 employees).

financial performance, and major perceived obstacles to success. An extensive descriptive and econometric analysis leads to the following insights:

- Using the representative sampling of the LSBS and extrapolating to the UK small business population in 2019, around 2.9% of SMEs (approximately 170,000 SMEs) consider social or environmental goals as their only concern. 9.3% of SMEs (approximately 544,000 SMEs) consider these goals as their primary concern. 26.7% (approximately 1.5 million SMEs) consider them to be equal to financial or other goals, while 38% (approximately 2.2 million SMEs) consider them to be secondary to financial or other goals.
- In 2019, 8.2% of SMEs (approximately 480,000 UK SMEs) met the LSBS definition of a social enterprise. This is slightly higher than the reported figure of 8% (approximately 455,000 UK SMEs) for 2017.
- Around 71.5% of social enterprises are formed by firms with no-employees, followed by micro firms (22.1%), small (5.5%) and medium-sized firm (0.9%).
- England has the higher proportion of social enterprises (89.3%), followed by Scotland (4.8%), Northern Ireland (3.3%) and Wales (2.5%).
- The majority of social enterprises operate in the education, health and social work, arts and entertainment, and other services sectors (Sector classification - PQRS).
- A high proportion of social enterprises generated a profit/surplus over the last year.
- The proportion of social enterprises in 2019 indicating that the following factors are major obstacles to business success are: obtaining finance (23.4%); taxation (33.4%); staff and recruitment (31.7%); regulations/red tape (32.4%); availability/cost of suitable premises (18.2%); competition in the market (35.3%); late customer payments (22.6%); and the UK exit from the EU (17.1%).

Following this, the paper focusses on identifying the most influential factors behind different types of SMEs, comprising commercial SMES, traditional non-profit, social enterprises and socially-oriented SMEs. The following findings emerged specifically for social enterprises:

- Social enterprises are more likely to have growth ambitions.
- Social enterprises are less likely to be located in non-urban areas.
- Female- and minority ethnic-led SMEs are more likely to be social enterprises.

In terms of regional and industry prevalence:

- The North East of England, Northern Ireland, Wales, Yorkshire & Humber, and Scotland have a higher probability of hosting social enterprises compared to London.
- Within England (and relative to London as a reference category) and based on Local Enterprise Partnerships (LEPs); the Tees Valley, Worcestershire, Heart of the Southwest, York and North Yorkshire, Gloucestershire and Coventry and Warwickshire are more likely to have social enterprises.
- Social enterprises are more likely than commercial SMEs to be operating in social and service sectors compared to the production and construction sector.

In terms of access to finance, our main results for social enterprises suggest:

- Social enterprises are less likely to use bank overdrafts, equity finance, leasing and hire purchase, loans from a bank, building society or other financial institution and loans from peer-to-peer platforms compared to commercial SMEs.
- Social enterprises are more likely to use government or local authority grants as source of funding compared to commercial SMEs.
- Relative to commercial SMEs, social enterprises are less likely to apply for funding from commercial banks. However, social enterprises are more successful in securing funding via loans and credit cards compared to commercial SMEs.

Finally, in terms of strategic future intentions in the context of the COVID-19 pandemic, our results suggest that:

- Disruptions brought about by the COVID-19 pandemic and resultant government restrictions on trading are not perceived as a major obstacle to business success for social enterprises compared to commercial SMEs.
- Operations of social enterprises were increased during the lockdown restrictions compared to commercial SMEs.
- In terms of future plans, social enterprises' future plans to increase skills of the workforce and potential capital investments have not been affected by the pandemic when compared to commercial SMEs. This suggests preliminary evidence of a degree of business resilience and ability to respond and adapt to new conditions following sudden and significant exogenous shocks.

This paper informs key stakeholders, government bodies and third sector on recent developments of social enterprises in the UK, and thus provides a basis for future in-depth discussions regarding specific policies to support the viability of these organizations and their actual and potential contribution to the society.

Table of Contents

Figures

Tables

1. Introduction

Social enterprises (as distinct from charities, traditional non-profits or commercial businesses) have become an important part of the entrepreneurial ecosystem as more businesses become involved in pursuing social or environmental goals, while generating profits in order to remain financially viable. In this study, we examine the recent developments and financing challenges facing UK social enterprises. We also examine the future strategic intentions of social enterprises following the onset of the COVID-19 pandemic.

Social enterprises have a unique organizational form and purpose as defined by the OECD (1999) as: '*…any private activity conducted in the public interest, organised with an entrepreneurial strategy, whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals, and which has the capacity for bringing innovative solutions to the problems of social exclusion and unemployment*.'

The social enterprise sector represents around 3% of UK GDP, and is one of the fastest-growing forms of business with over 100,000 organizations contributing £60 billion to the economy and employing over two million individuals (Social Enterprise UK, 2018). In recent years, social enterprises have attracted the interest of academics and policymakers given the intersection of their respective commercial activities with the ongoing significant social and environmental challenges facing society today (Haugh et al., 2022; Hota et al., 2020; Robinson, 2019; Saebi et al., 2019; Wilson & Post, 2013; Wry & York, 2017).

In the UK, social enterprises are a core part of the wider SME population (businesses with less than 250 employees), conducting a variety of commercial activities across economic sectors and contributing to job creation (Haugh, et al., 2022). Given the general importance of SMEs and specific importance of social enterprises for the UK economy, there are strong economic and social development grounds for undertaking research on this important cohort of organizations (Di Domenico et al., 2010; Doherty et al., 2014; Lee & Cowling, 2013).

The overarching aim of the present study is to assemble new evidence regarding the key characteristics of social enterprises (and other SMEs) in terms of social orientation, and more specifically their geographical presence and outreach, access to finance, and future strategic plans following the onset of the COVID-19 pandemic.

To address these objectives, we rely on the 2016-2020 Longitudinal Small Business Survey (LSBS) commissioned and published by the Department of Business, Energy and Industrial Strategy (Department for Business Energy and Industrial Strategy, 2022). The LSBS is a large-scale cross-sectional and longitudinal telephone survey of owners/proprietors, managing directors or other senior directors in UK-based of SMEs. We utilise specific questions included in the survey to identify four types of SMEs, comprising: (i) traditional non-profit SMEs (mostly registered charities), (ii) social enterprises, (iii) socially-orientated SMEs and (iv) conventional SMEs. Classification of SMEs into one of the aforementioned categories is achieved via responses to multiple questions in the LSBS related to: the share of income from trading/commercial activities; rules or restrictions on the use of surpluses/profits to further social/environmental goals; the type of social or environmental goals and how they compare to financial goals; and charitable status and legal form.

The main advantage of using the LSBS as an information source is that the sample of SMEs is representative of the population of 5.5 million UK SMEs and follows a consistent classification methodology of firms based on their social and environmental goals. Our descriptive and econometric analysis allows us to observe empirical regularities and draw sensible inferences regarding the prevalence of social enterprises, and how these organizations compare with other types of organizations based on social or environmental goals.

Despite forming an important part of the SME ecosystem, the current knowledge base regarding social enterprises and their societal impact is limited (Belz & Binder, 2017; York et al., 2016). Social enterprises are involved in complex relationships with multiple stakeholders emanating from diverse backgrounds (Austin et al., 2006; Lumpkin & Bacq, 2019). At an

aggregate level, social enterprises augment and complement existing for-profit commercial and public sector service provision by engaging in commercial activities with associated social or environmental goals that aim to contribute to tackling age and health-related problems, economic and social exclusion, and environmental issues (Fowler et al., 2019; Murillo & Lozano, 2006; Spence & Lozano, 2000).

To date, there is a paucity of evidence, regarding the extent to which certain firm-level characteristics (such as minority ethnic group-led businesses, female-led businesses, family businesses) are related with engagement in activities with a social and environmental impact. This is surprising given that prior evidence suggests that social enterprises are committed to integrating environmental policies and pursuing net-zero ambitions (Folmer & Rebmann, 2021; Kesidou & Ri, 2021). The present study goes some way toward filling this evidence gap by providing new evidence on the spatial distribution, sectoral specialisation, finance needs (Lyon & Owen, 2019), and more recently the impact of the COVID-19 pandemic on the behaviour and future plans of social enterprises.

Our investigation proceeds in four stages. Based on a descriptive analysis of the LSBS survey, Stage 1 investigates the underlying business factors driving the decision of SMEs in general and social enterprises in particular to engage in social/environmental activities. In Stage 2, we utilise a wide range of techniques (probit and multinomial probit models) to conduct a formal econometric investigation of the influential factors driving engagement with social/environmental activities. Candidate variables include firm size, firm age (start-ups compared to established SMEs), firm characteristics (such as minority ethnic group-led businesses, female-led business, family business), industry, location among others. This allows us to identify any geographical and industry disparities between social enterprises and conventional SMEs. In stage 3, we use econometric techniques (such as probit, multinomial probit and Heckman selection models) to investigate the demand for finance at social enterprises. Based on the LSBS, we examine how social enterprise status impacts on current use and demand for

various forms of finance, including credit cards, loans, government funding, etc. This sheds light on the extent to which social enterprises have access to forms of funding, which are appropriate to the pursuit of social and environmental objectives. Stage 4 uses econometric techniques (probit and multinomial probit models) to investigate the impact of the recent COVID-19 pandemic on the future intentions and plans of social enterprises relative to conventional SMEs.

By way of preview, our main results suggest the following. With respect to the underlying factors behind the adoption of specific organizational forms we find that SMEs that are smaller; exhibit grow ambitions; are located in non-urban areas; female-led; minority ethnic-led are more likely to take the form of social enterprises. Moreover, by location and relative to London, the North East of England, Northern Ireland, Wales, Yorkshire & Humber, and Scotland have a higher probability of hosting social enterprises. With regard to finance, social enterprises are less likely to use bank overdrafts, loans from mainstream financial institutions (banks, building societies) and peer-to-peer platforms, equity finance, factoring and discounting relative to commercial SMEs, but more likely to rely on grant funding provided by government and local authorities. Finally, our investigation of the impact of the COVID-19 pandemic on the future intentions and plans of social enterprises suggests that relative to commercial SMEs, social enterprises' plans to increase the skills of the workforce and carry out capital investments were unaffected compared to commercial SMEs. However, social enterprises' future plans to introduce new working practices have been affected as a result of the COVID-19 pandemic compared to commercial SMEs counterparts.

Overall, these findings have important implications for current and future policy toward social enterprises, in the context of the COVID-19 pandemic (Bacq & Lumpkin, 2021) and the wider UK government levelling up agenda aimed at reducing spatial economic, social and health inequalities (Harrari & Ward, 2022; UK Government, 2022).

The rest of this study is structured as follows. Section 2 provides a background discussion on social enterprises in the UK. Section 3 describes the data set used and the research

methodology. In section 4, we present the results of our empirical analysis. Section 5 presents the main conclusions of the study.

2. Background

Social enterprises are for the most part small and medium-sized businesses engaged in the provision of goods and services with a wider social or environmental purpose. As such, social enterprises play a vital role in stimulating entrepreneurial activity, increasing employment, building social capital, investing in disadvantaged areas, tackling social and financial exclusion, and addressing environmental and social challenges.

Social enterprises differ from traditional for-profit organizations, which utilise capital and labour inputs to produce goods and services with a primary objective of maximising profits. In contrast, social enterprises use labour and capital inputs to engage in entrepreneurial activity and produce goods and services as a means of achieving social or environmental objectives and tackling problems related to poverty, health and educational inequalities and environmental damage (Zahra et al., 2009).

Prior research uses the motivation of the business founder at the time of start-up to classify an organization as a social enterprise. For example, Renko (2013) uses the US Panel Study of Entrepreneurial Dynamics II to identify whether (or not) founders are commercially-oriented, based upon responses to open questions regarding organizational goals such as: "*Help others; help the community*"; or "*Aid in the economy; economic development; economy*." Other academic studies focus on either organizational goal (building upon questionnaires used in research on corporate social responsibility activities) or founder/CEO identity in line with the view of the entrepreneur or CEO as a key source of values for the enterprise (Sieger et al., 2016; Stevens et al., 2015).

Overall, social enterprises are a distinctive organizational form, which combines business activities with the pursuit of certain social and environmental goals. Typologies and definitions of social enterprises are numerous and varied. Extensive early discussions and taxonomies of

social enterprises can be found in Austin, et al. (2006) and Alter (2007). Later useful discussions regarding definitions and typologies of social enterprises include Bull (2007), Spear et al. (2009), Zahra, et al. (2009), Martin and Thompson (2010), Dacin et al. (2010), Teasdale (2012), Doherty, et al. (2014), Eldar (2017), Defourny and Nyssens (2017). OECD (2015) and Rawhouser et al. (2019) provide a detailed discussion of social impact performance measurement of social enterprises, while Saebi, et al. (2019) provide a more general overview of the salient literature.

Social enterprises have formed an important part of the UK government policy agenda over the past 20 years. Teasdale (2012) provides an early discussion of the development of social enterprises in the UK. In 2001, a Social Enterprise Unit was established (within the Department for Trade and Industry), which produced a strategy to support social enterprise growth. Later reports charted the design and progress of various initiatives (Bank of England, 2003; Department of Trade and Industry, 2002, 2003). In 2006, responsibility for the oversight of social enterprises was assigned to the Office of the Third Sector. A 2007 UK Treasury Review of the third sector (which encompassed voluntary and community organizations, cooperatives and mutuals and social enterprises), set out a vision for government mechanisms to support the social enterprise sector including access to appropriate forms of financial support (HM Treasury, 2007). In 2010, the Office for Civil Society was established to oversee and support social enterprise. This coincided with a new coalition government, which saw social enterprises as playing a vital role in the so-called Big Society. Big Society Capital was established (using proceeds from dormant bank accounts) as a social investment institution providing finance to financial intermediaries, which provided funding to social enterprises (UK Cabinet Office, 2010). Other funding initiatives included the development of Social Impact Bonds. In 2016, the Office for Civil Society was moved to the Department for Digital, Culture Media and Sport.

The scale and scope of social enterprises has increased in recent years often in response to tackling gaps left in the market provision of many goods and services following the global financial crisis of 2007-2009, and subsequent government-imposed austerity programmes. As an

organizational form, social enterprises have emerged as the demarcations between the private, public, and non-profit sectors have eroded to become less distinct (Doherty, et al., 2014). Social enterprises are generally small and medium-sized enterprises, albeit there are some notable exceptions to this (Borzaga et al., 2020). Moreover, social enterprises can adopt one of several organizational forms including mutuals, cooperatives, limited liability partnerships, companies limited by guarantee with charitable status, and more recently (in the UK) so-called community interest companies (BIS, 2011; Lyon & Owen, 2019). Provision for the establishment of community interest companies (CIC) was provided under the terms of the Companies (Audit, Investigations and Community Enterprise) Act, 2004. CICs are limited liability companies with a mission to conduct business for wider community benefit (Haugh, et al., 2022). To gain approval to establish a CIC, an organization must demonstrate that the proposed activities (community interest test) and accumulated assets (asset lock) are used for community benefit. CICs are required to produce an annual community interest company report containing information regarding activities. Establishment approval and subsequent monitoring and regulation of CICs is carried out by the Office of the Regulator of Community Interest Companies. In August 2021, there were approximately 25,000 CICs registered in the UK (Social Enterprise UK, 2021). Overall, successive UK governments have undertaken a variety of measures to support the development and sustainability of social enterprises.[2]

3. Data and Methodology

In this section we provide a detailed discussion of the data set and methodology used in the present study. Section 3.1 provides a discussion of the key characteristics of the LSBS. In section 3.2, we discuss the definition and classification of social enterprises under the LSBS as

[2] Social Enterprise UK (2017) suggests that social enterprises focus on: serving a specific community; supporting vulnerable individuals; improving health and well-being; creating employment opportunities for the disadvantaged; tackling financial and social exclusion; addressing environmental issues; and supporting charities.

organizations that: have: identifiable social/environmental goals; generate income chiefly from trading activities; and use surplus/profit chiefly to further social/environmental goals. Section 3.3 utilises the LSBS to explore the key demographic and economic characteristics of SMEs, including information regarding business social/environmental orientation. In section 3.4, we provide details regarding the econometric models used in the present study. Specifically, a multinomial probit (MNP) regression is used to investigate the relationships between business characteristics and SME social and environmental engagement via one of four organizational forms (commercial SMEs; traditional non-profit SMEs; social enterprises; socially-oriented SMEs). This model is also used to estimate how these organizational forms adapted to the lockdown restrictions imposed by the UK government following the onset and spread of the COVID 19 pandemic. We also outline the details of a probit model and a probit model with sample selection, which is used to investigate drivers and outcomes associated with applications for external financing.

3.1. Data

For the empirical analysis conducted in the present study, we utilise the UK Longitudinal Small Business Survey (LSBS). Commissioned by the Department for Business, Innovation and Skills (BEIS), the Longitudinal Small Business Survey (LSBS) is a large-scale telephone survey of owner/proprietors, Managing Directors or other senior directors in UK-based of Small and Medium-sized Enterprises (SMEs). The database includes a cross-sectional and panel data file for respondents from Year One (2015), Year Two (2016), Year Three (2017), Year Four (2018), Year Five (2019) and Year Six (2020). The number of observations equals 35,336 cases across the six years, with: 15,502 in 2015; 9,248 in 2016; 6,619 in 2017; 15,105 in 2018; 11,002 in 2019; and 7,636 in 2020. The design of the LSBS allows to exploit the longitudinal element of the survey and observe patterns of behaviour for social enterprises and other specific sub-groups of the SME population across UK regions and sectors.

3.2 LSBS classification of social enterprises

Estimates of social enterprises in the UK have been based largely on results from the Small Business Survey (SBS), which was replaced by the UK Longitudinal Small Business Survey (LSBS) in 2015 (Department for Business Energy and Industrial Strategy, 2022). The most common definition of social enterprise used by government reports is: "*A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners*." (Department of Trade and Industry, 2002).

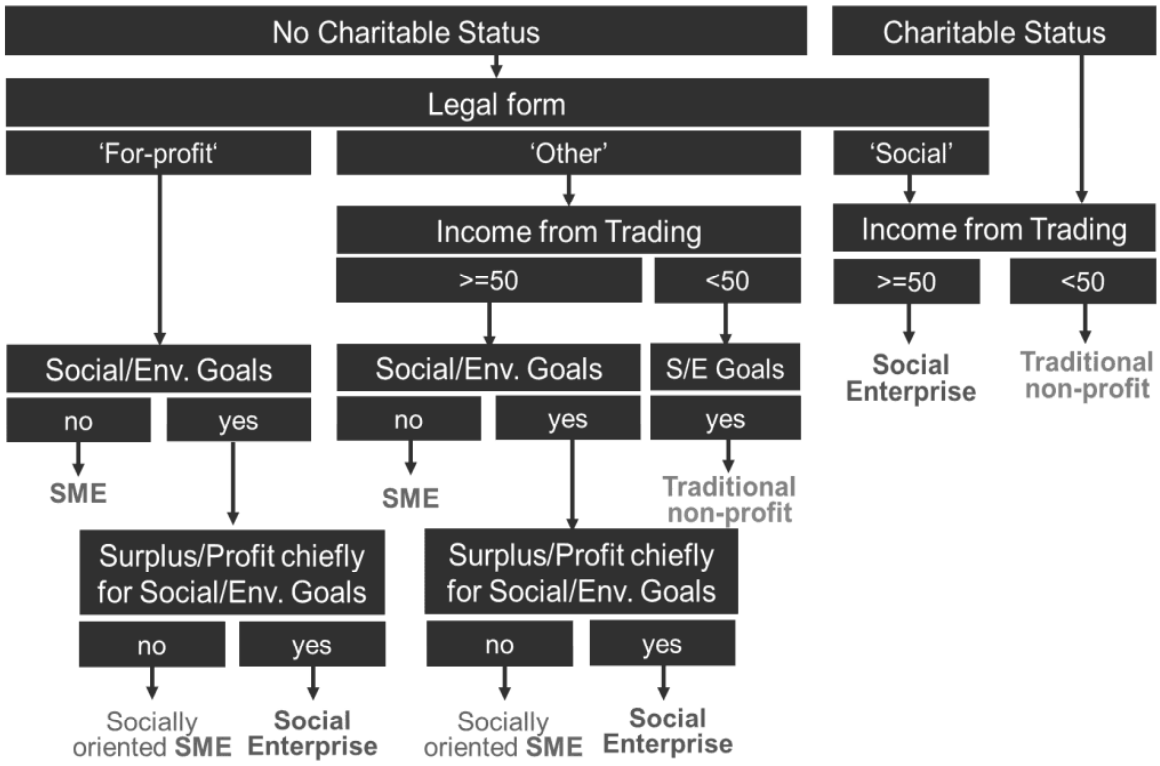
The 2017 LSBS introduced a new module to identify businesses as social enterprises following a framework developed in partnership between the Department for Business Energy and Industrial Strategy and the Department for Digital, Culture, Media and Sport (DCMS).[3] Specific questions to identify social enterprises are included in the Survey every other year, so they were also included in the 2019 wave of the LSBS survey, but not in the 2020 wave. The LSBS defines four types of organizations based on social and environmental goals, comprising: social enterprises; traditional non-profit enterprises; socially-orientated SMEs; and commercial SMEs.

The identification of social enterprises is based on four key characteristics, comprising: income generated from trading; charitable status & legal form; use of surpluses/profits; and organizational goals (social/environmental/financial). Based on the LSBS classification, *social enterprises* are classified as enterprises that have identifiable social/environmental goals; generate income chiefly from trading activities (i.e., engage in entrepreneurial activity); and use surplus/profit chiefly to further social/environmental goals. Social enterprises also include organizations that pursue social goals and generate more than 50% of income from trading

[3] The Department for Digital, Culture, Media and Sport (DCMS) published the 2017 Social Enterprise Market Trends, which provides further information about social enterprises that were identified in the 2017 LSBS survey (UK Cabinet Office, 2013). The report is available at: https://www.gov.uk/government/publications/social-enterprise-market-trends-2017

activities. *Socially-oriented SMEs* are enterprises that have social/environmental goals and generate income chiefly from trading activities, but do not use their surplus/profit to further those social/environmental goals. *Traditional non-profits* are organizations that pursue social goals but generate less than 50% of income from trading activities.[4] *Commercial SMEs* have clear commercial and financial goals. This classification allows us to carry out systematic comparisons between different kinds of social enterprises and commercial SMEs.

Figure 1: Decision tree to identify social enterprises



Source: Longitudinal Small Business Survey Year 3 (2017): Technical Report. Note: 'For-profit' legal forms include sole proprietorship/trader, private limited company (by shares), public limited company, private unlimited company, foreign company. 'Other' legal forms include partnerships, limited liability partnerships, private company (limited by guarantee), co-operative, 'other', do not know and refused answers. 'Social' legal forms include community interest company (limited by guarantee or shares), friendly society, industrial and provident society, trust, unincorporated association, community benefit society, charitable un/incorporated organization. 'Env.' - Environmental. S/E – social or environmental.

[4] Some (but not all) social enterprises have charitable status. The distinguishing feature of a social enterprise is the proportion of turnover derived from trading being above 50%. Therefore, for this study, the term 'traditional non-profit' is used to indicate a charity that earns under 50% of its revenue from commercial activity.

3.3 Descriptive statistics: SME characteristics and organisational forms

The LSBS encompasses detailed information on the characteristics of SMEs, ranging from basic demographic data to various economic variables, including information regarding business social/environmental orientation. A detailed definition of all the variables used in the empirical analysis is presented in Table 1. The key dependent variable used in the analysis is categorical in nature and measures whether SMEs in the sample adopt 0one of the four different organizational forms: commercial SMEs (which will be used as a benchmark in our analysis), traditional non-profit SME, social enterprise, and socially-oriented SME.

Table 1: Variable definition

Variable	Definition	LSBS code
Social Enterprise		SOCENT
SME (base category)	See Figure 1.	
Traditional non-profit		
Social Enterprise		
Socially-orientated SME		
Aims to grow	Aim to grow sales over the next 3 years.	R1
Size		A2SPSS1
Zero employees (base category)	Zero employee business had no employees on their payroll (excluding owners and partners) at the time of the interview.	
Micro	1-9 employees.	
Small	10-49 employees.	
Medium	50-249 employees.	
Business age	Age of the firm.	A6SUM and A6, missing values for 2016 are completed with values from 2015
0 – 5 years (base category)		
6 – 10 years		
11 – 20 years		
20+ years		
Turnover change	Turnover in the past 12 months, compared with the previous 12 months.	P2
Decreased (base category)		
Stayed roughly the same		

Increased Profit	Firm generates a profit or surplus after considering all sources of income in the last financial year.	P12
Urban area	Broad urban/rural categorisation from postcode.	URBRUR2
Female-led	Business is women-led.	WLED
Minority ethnic-led	Business is MEG-led.	MLED
Family-owned	Business is a family-owned business (i.e., one which is majority-owned by members of the same family).	A12
Business plan	The business has a formal written business plan.	F5
Partnership		
Region	Region where the firm has its headquarters.	NATION
England (base category)		
Scotland		
Wales		
Northern Ireland		
Sector	Industry Sector	SECTOR
Manufacturing sector (base category)	Production and construction (SIC 2007: ABCDEF).	
Transportation and retail services	Transport, retail, and food service / accommodation (SIC 2007: GHI).	
Business services	Business services (SIC 2007: JKLMN).	
Other services	Other services (SIC 2007: PQRS).	

Notes: This Table shows variable names and definitions of our dependent and explanatory variables. All variables were gathered from the Longitudinal Small Business Survey, 2015-2020.

Our estimable models defined below includes several control variables related to the demographic and managerial characteristics of the SMEs in our sample. Table 2 presents summary information. Commercial SMEs represent 70% of the business population in the UK, followed by socially-oriented SMEs (18%), social enterprises (8.1%) and traditional non-profits (3.5%). 54% of SMEs are growth-oriented, and therefore aim to grow sales over the next three years. Firm size is measured by the number of employees reported by the company to be currently on the payroll, excluding owners and partners, across all sites of the firm. The majority of SMEs belong to the category of zero employees (75.8%) followed by micro (19.8%), small (3.6%) and medium (0.6%) sized SMEs. To control for the age a set of binary variables covering from start-ups (0-5 years) to mature SMEs (20+ years) are included. The distribution across age

categories is relatively homogenous, although the majority of SMEs are classified in the 20+ years category (37.7%).

69.5% of all SMEs in the sample are in urban areas and 28.2% stated that, turnover had decreased compared to the previous 12 months. 78.9% of the SMEs generated a profit in the last financial year. Majority-women led businesses (controlled by a single woman or having a management team composed of a majority of women) represent 20.1% of our sample. 4.7% of our sample is defined as Minority ethnic-led. 86.6% of SMEs in our sample are family-owned business and 29.4% holds a business plan. In terms of geographical distribution, most of the SMEs are located in England (88.2%) followed by Scotland (5.9%), Wales (3.6%) and Northern Ireland (2.7%). The sample distribution by industry shows that the majority of firms operate in the Business services sector (33.2%). Table 3 shows the correlations between the explanatory variables to assess multicollinearity. The highest correlation is 0.34 (between size and business plan dummy). Hence, multicollinearity does not appear to present a critical concern for our analysis.

Table 2: Summary Statistics

	Mean	**Std. Dev.**	**N**
SOCIAL ENTERPRISES			
SME (base category)	0.701759	0.457499	17502
Traditional non-profit	0.035564	0.185205	17502
Social Enterprise	0.081105	0.273004	17502
Socially-orientated SME	0.181573	0.385503	17502
CONTROL VARIABLES			
Entrepreneur orientation			
Aims to grow	0.542956	0.498156	49455
Size			
Zero employees (base category)	0.758614	0.427928	49455
Micro (1-9)	0.198509	0.398881	49455
Small (10-49)	0.036769	0.188195	49455
Medium (50-249)	0.006109	0.077922	49455

Business age			
0 – 5 years (base category)	0.1649	0.371094	49284
6 – 10 years	0.184639	0.388008	49284
11 – 20 years	0.272923	0.445466	49284
20+ years	0.377539	0.484776	49284
Turnover change			
Decreased (base category)	0.282584	0.45026	47238
Stayed the same	0.453483	0.497837	47238
Increased	0.263933	0.440768	47238
Profitability			
Profit	0.789566	0.407621	46561
Business characteristics			
Urban area	0.695135	0.460355	48907
Female led	0.201981	0.401482	46251
Minority ethnic-led	0.047963	0.213689	45012
Family owned	0.866461	0.34016	49240
Business plan	0.29434	0.45575	47839
Region			
England (base category)	0.882083	0.322513	49455
Scotland	0.059124	0.235859	49455
Wales	0.036024	0.186352	49455
Northern Ireland	0.022769	0.149166	49455
Sector			
Manufacturing sector (base category)	0.255044	0.43589	49455
Transportation and retail services	0.188871	0.39141	49455
Business services	0.332848	0.471238	49455
Other services	0.223237	0.41642	49455

This table reports the summary statistics using data from the Longitudinal Small Business Survey, 2016-2020. Cross sectional survey weights applied to represent the population of SMEs in the UK. Respondents who answer ''I do not know'' or refused to answer are not included in the analyses. Variable definitions are reported in Table 1.

Table 3: Correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1) Social Enterprise	1.000												
(2) Aim to grow	0.038*	1.000											
(3) Firm size	0.073*	0.265*	1.000										
(4) Firm Age	0.002	-0.077*	0.200*	1.000									
(5) Turnover change	0.015	0.136*	0.144*	-0.078*	1.000								
(6) Profit	-0.063*	0.010	0.050*	0.023*	0.220*	1.000							
(7) Urban	-0.006	0.057*	0.088*	-0.036*	-0.009	-0.025*	1.000						
(8) Women-led	0.036*	-0.027*	-0.025*	-0.049*	-0.019*	-0.042*	0.007	1.000					
(9) MEG-led	0.034*	0.031*	0.012	-0.071*	-0.014*	-0.030*	0.098*	-0.004	1.000				
(10) Family business	-0.088*	-0.094*	-0.292*	-0.087*	-0.071*	0.070*	-0.130*	0.057*	-0.004	1.000			
(11) Business plan	0.124*	0.208*	0.341*	-0.007	0.103*	-0.033*	0.065*	0.014*	0.027*	-0.225*	1.000		
(12) Region	0.015	0.002	-0.007	-0.035*	0.008	0.003	-0.108*	-0.011	-0.055*	0.029*	-0.008	1.000	
(13) Broad Sector	0.097*	-0.030*	-0.010	-0.044*	-0.004	-0.067*	0.149*	0.174*	0.053*	-0.195*	0.120*	-0.065*	1.000

Notes: This table report the correlation matrix between all variables used in this study. *** p<0.01, ** p<0.05, * p<0.1

3.4 Empirical methodology

The present study utilises the most recent five waves (2016-2020) of the LSBS. The first year of the survey (2015) is intentionally excluded from the sample due to changes in the questionnaire after 2015, which do not allow us to draw comparisons over time. The LSBS survey allows us to exploit the longitudinal element of the survey and thus deal with endogeneity concerns by using lagged variables. To provide empirical evidence on social enterprises we rely on three empirical approaches:

3.4.1 Multinomial Probit Model (MNP)

We use a multinomial probit (MNP) regression to investigate the effect of business characteristics on SME social and environmental engagement as reflected in one of the four different organizational forms, comprising: commercial SMEs (which will be used as a benchmark in our analysis); traditional non-profit SME; social enterprise; and socially-oriented SME. The model is also used to estimate how these organizational forms have adapted their business during the lockdown restrictions imposed by the UK government following the onset and spread of the COVID 19 pandemic. The MNP model is used with discrete dependent variables that take on more than two outcomes that do not have a natural ordering (Cameron & Trivedi, 2005).

We can assume SME *i*'s utility for choosing organizational form *j*, U_{ij} $(i = 1, \dots, n;\ j = 1, \dots, n)$ is a function of firm-level characteristics and a stochastic error. The utility of choosing alternative *j* is therefore modelled as:

$$U_{ij} = x'_{ij}\beta + \varepsilon_{ij} \quad (1)$$

where x_{ij} is a vector of covariates and the errors are assumed to be normally distributed, with $\varepsilon \sim N(0, \Sigma)$ where $\varepsilon = (\varepsilon_{i1}, \varepsilon_{i2}, \varepsilon_{i3})$. The probability that organizational form *j* is chosen is

$$p_{ij} = \Pr(y_i = j) = \Pr\left\{\varepsilon_{ik} - \varepsilon_{ij} \leq \left(x_{ij} - x_{ik}\right)'\beta\right\}, \qquad for\ all\ k \tag{2}$$

where y_i is a random variable that indicates the choice made by SME *i.* The MNP model is an extension of the binary probit model that allows the coefficients of the explanatory variables to vary across the choices and allow us to assess whether specific characteristics are associated with higher probabilities of an organization being classified within alternative *j*.

All results associated with these models are presented in terms of average marginal effects (AMEs), given that we are not interested in the coefficients of the multinomial model per se, but in the change in the probability associated to changes in business characteristics and/or specific organizational forms. Standard errors are clustered at regional level to allow for individual correlations within the same geographic area.

3.4.2 Probit Model

Probit models are used to investigate the determinants of the use of (i) different financing sources of SMEs, and the (ii) impact of COVID-19 on business operations (e.g., major obstacle to business success, access to government funding) and future plans.

In this case, the dependent variable is equal to one if the SME *i* is using a specific source of finance or exhibit a specific consequence derived from the COVID-19 pandemic, and zero otherwise.

$$\Pr(Finance\_Source_i = 1) = \Phi(X_i\beta + v_i) \tag{3}$$

v_i are i.i.d., $N(0, \sigma_v^2)$, and Φ is the standard normal cumulative distribution function. We include a wide range of independent variables, which are expected to affect the decision to use various sources of finance. These include SME organizational form, size, age, various firm-level characteristics, industry and regional fixed effects. In addition, our empirical approach (where appropriate) uses lagged independent variables for growth ambition, changes in turnover,

profitability, and management characteristics (female-led and minority ethnic-led SMEs) to mitigate endogeneity concerns arising from reverse causality. All results associated with these models are presented in terms of average marginal effects (AME) and errors are clustered at regional level to allow for individual correlations within the same geographical area.

3.4.3 Heckman Probit Model (HPM)

To investigate the drivers of funding applications and their outcomes, we use a probit model with sample selection (Van de Ven & Van Praag, 1981). This model assumes that there is an underlying relationship (latent equation) $y_j^* = X_j\beta + \mu_{1j}$ such that we observe only the binary outcome (outcome equation: successful finance application) $y_j^{probit} = (y_j^* > 0)$. The dependent variable, however, is not always observed. Rather, the dependent variable for observation j is observed if (selection equation: apply for finance) $y_j^{select} = (Z_j\gamma + \mu_{2j} > 0)$ where $\mu_1 \sim N(0,1)$; $\mu_2 \sim N(0,1)$; $corr(\mu_1, \mu_2) = \rho$ (rho).

When $\rho = 0$, there is no evidence of selection bias; and thus, the outcome and selection equations are independent, making estimation of the selection model unnecessary. However, since the model is estimated by maximum likelihood (ML), ρ is not directly estimated. Instead, the Heckprobit routine directly estimates a nonlinear transformation of ρ (athrho) defined as: $athrho = \frac{1}{2}\ln(\frac{1+\rho}{1-\rho})$. A significant athrho indicates the presence of selection bias in the model.

All results associated with these models are presented in terms of average marginal effects (AME) and errors are clustered at regional level to allow for individual correlations within the same geographic area.

4. Results and discussion

In this section, we present the main results derived from the analysis of the LSBS. We start by describing the importance of pursuing specific financial and non-financial goals considering the

entire UK SME population and analysing key characteristics of the SME ecosystem based on different organizational forms and their associated social and environmental goals. Next, we present the empirical results associated with the key factors driving SME engagement in social and environmental activities; access to finance; and consequences of the COVID-19 pandemic on their future intentions.

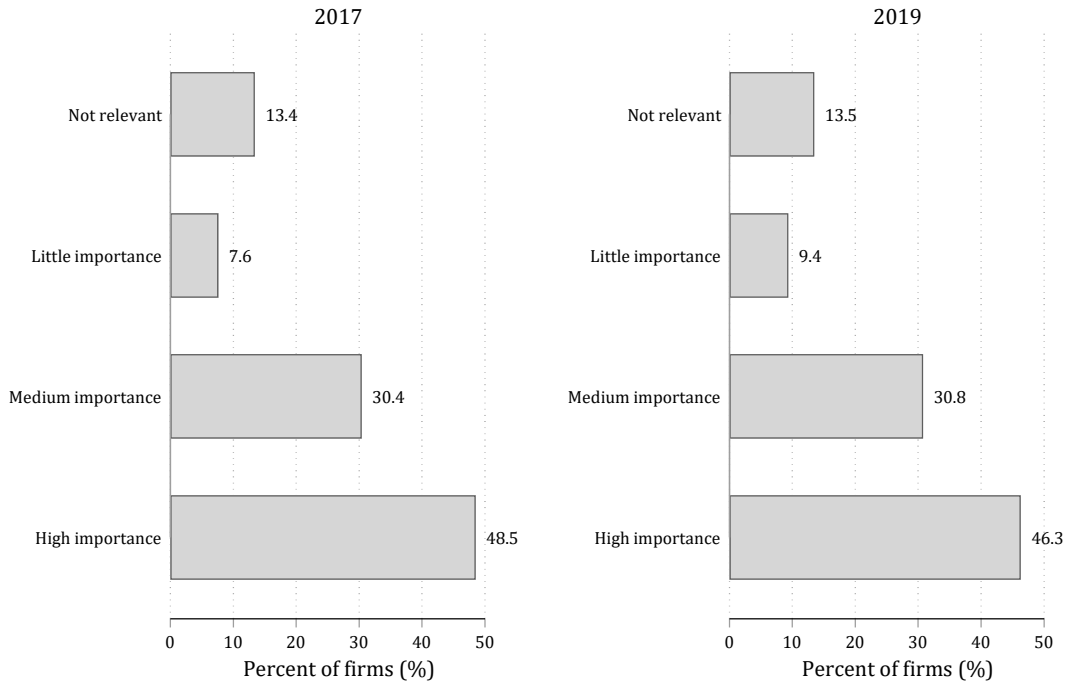
4.1 Importance of financial and social goals for UK SMEs

Questions related to social enterprises and social or environmental goals in the LSBS were first available in 2017 and repeated again in the 2019 survey. As such there are no direct comparisons with 2018.[5] We provide insights into the characteristics of the UK SMEs in terms of their financial and non-financial objectives along with a systematic comparison of social enterprises with mainstream commercial SMEs. In this section, we describe the business goals and social involvement considering the general population of SMEs (i.e., without considering different typologies of social enterprises). Financial goals are relevant for all SMEs (including social enterprises), given that financial performance is a key factor in ensuring viability.

Figure 2 shows the importance of financial goals for all SMEs independently of organizational form. As it might be expected, figures for 2019 suggest that 46.3% of UK SMEs consider that financial goals (such as turnover or profit) are very important. Around 40% of UK SMEs consider financial objectives to be of medium or little importance, while around 13% consider that financial goals are irrelevant.

[5] Questions are not asked on alternate years to keep the respondent burden to a minimum.

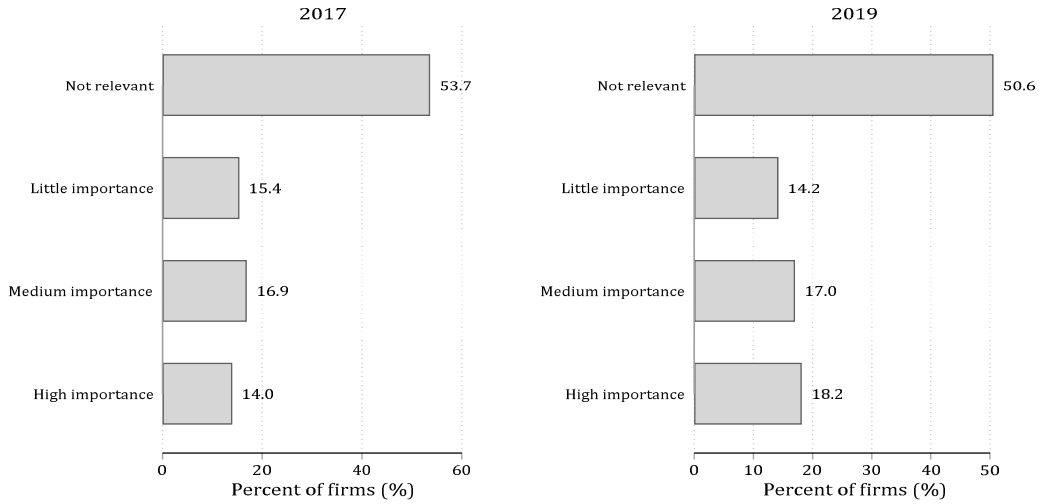
Figure 2: Level of importance of financial goals for UK SMEs



Source: Longitudinal Small Business Survey (LSBS), question code: D1A. This Figure shows the percentage of SMEs that consider financial goals as an important business goal. Cross-sectional survey weights have been applied.

Engagement of SMEs in social activities is diverse and includes tackling problems such as health and ageing, combatting economic and/or social exclusion, working to enhance civic and community engagement and offering solutions to environmental problems such as climate change or food waste. Figure 3 suggests that in 2019, almost 50% of UK SMEs consider offering solutions to problems of health or ageing as an important business goal, albeit there is variation in the degree of engagement across SMEs. More specifically, 18.2% of UK SMEs consider offering solutions to problems of health or ageing as an important business goal, while 17% consider it of medium importance. Since 2017, an increase of 4% of SMEs state that offering solutions to problems of health or ageing is highly important.

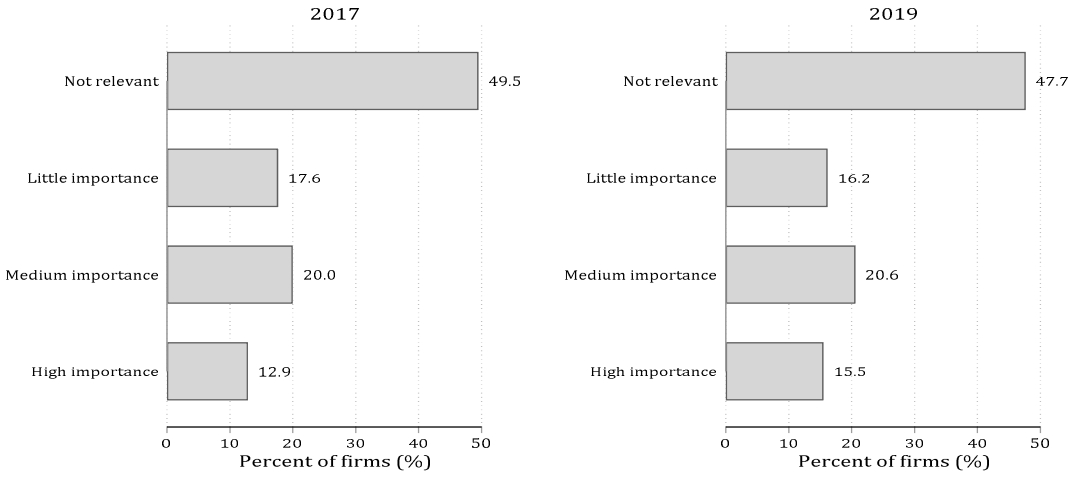
Figure 3: Level of importance of offering solutions to problems of health or ageing for UK SMEs



Source: Longitudinal Small Business Survey (LSBS), question code: D1B. This Figure shows the percentage of SMEs that consider social goals as an important business goal. Cross-sectional survey weights have been applied.

In terms of social engagement (via supporting vulnerable or disadvantaged people), Figure 4 suggests that addressing economic or social exclusion was of high importance as a business goal for 15.5% of SMEs in 2019. This represents an increase of 2.6% relative to the 12.9% of UK SMEs observed in 2017.

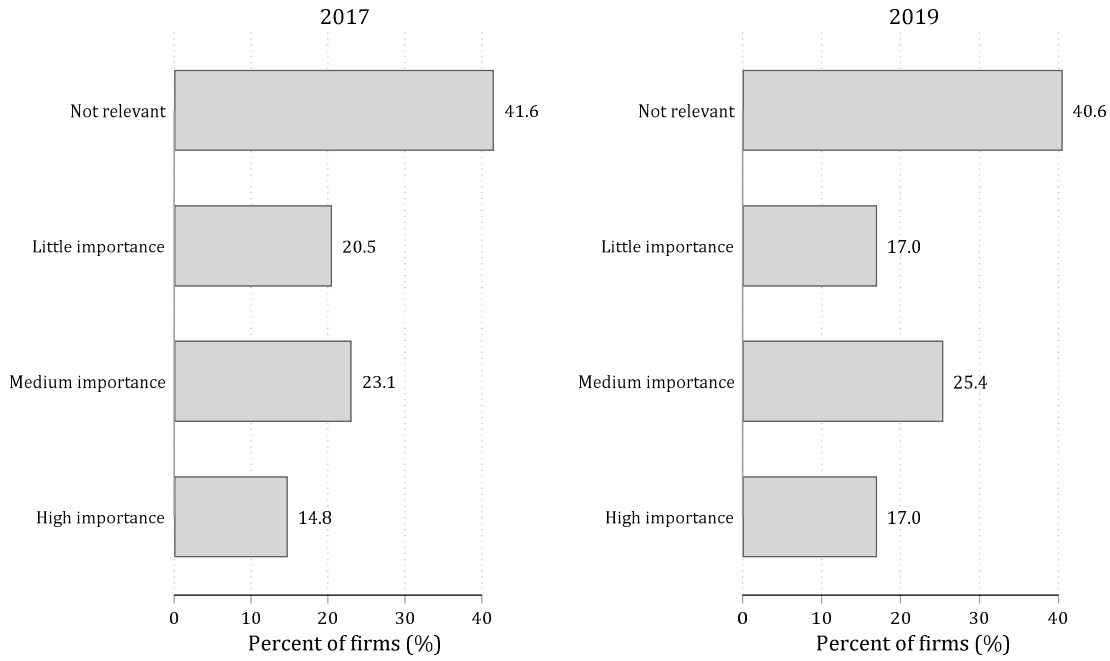
Figure 4: Level of importance of fighting economic or social exclusion for UK SMEs



Source: Longitudinal Small Business Survey (LSBS), question code: D1C. This Figure shows the percentage of SMEs that consider social goals as an important business goal. Cross-sectional survey weights have been applied.

Working to enhance civic and community engagement is another important activity, where SMEs can contribute at local level. Figure 5 suggests that almost 60% of UK SMEs consider this of some importance for their businesses. Compared to 2017, the proportion of SMEs considering that working to enhance civic and community engagement is of medium or high importance for them has increased by 2.3% and 2.2% respectively.

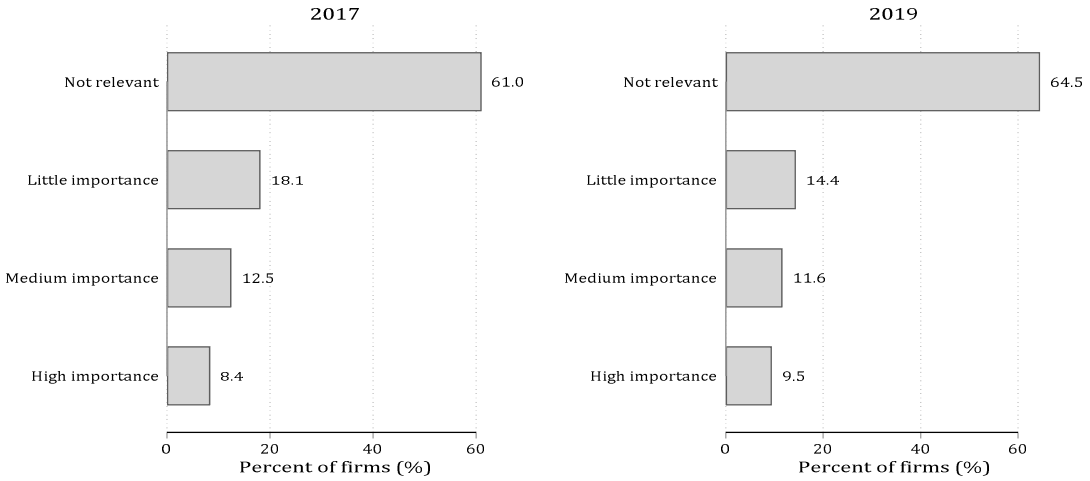
Figure 5: Level of importance of working to enhance civic and community engagement for UK SMES



Source: Longitudinal Small Business Survey (LSBS), question code: D1D. This Figure shows the percentage of SMEs that consider social goals as an important business goal. Cross-sectional survey weights have been applied.

SMEs can also engage in activities to supporting customers. Interestingly, serving members or organizations was deemed the least important of all goals, with 64% of all SMEs stating that this is not relevant (see Figure 6). This suggests that the scope of engagement in social activities does not appear to be restricted to specific members or require membership to specific clubs (mutual, social or sports club), but rather has a wider focus on the local communities where they operate.

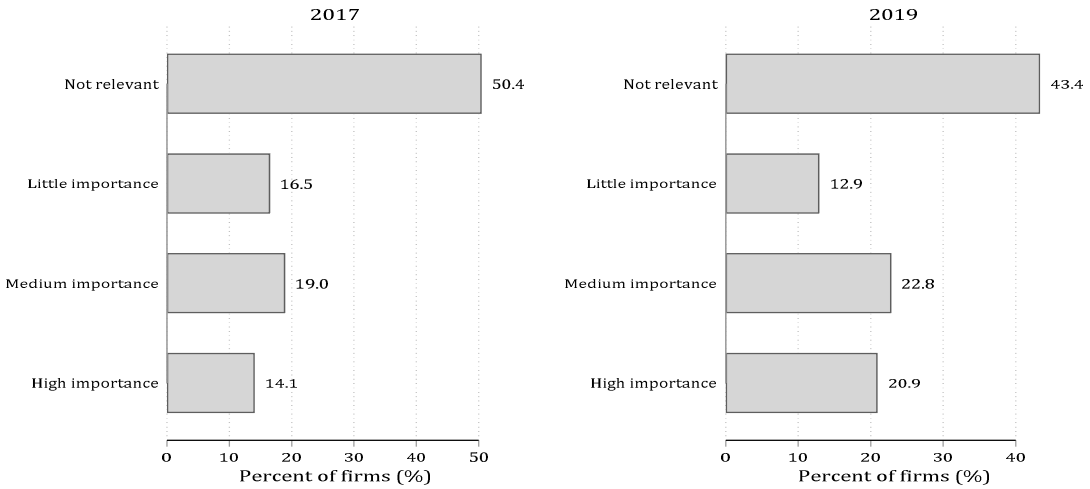
Figure 6: Level of importance of serving the members of their organization for UK SMEs



Source: Longitudinal Small Business Survey (LSBS), question code: D1E. This Figure shows the percentage of SMEs that consider social goals as an important business goal. Cross-sectional survey weights have been applied.

The role of firms in tackling environmental challenges has attracted considerable attention in recent years. Figure 7 shows the importance of UK SMEs in offering solutions to environmental problems (such as climate change or food waste). The data presented suggests that offering solutions to environmental problems was reported as being of high importance by around a fifth of all SMEs (20.9%). This represents a substantial increase compared to the 14.1% reported in 2017.

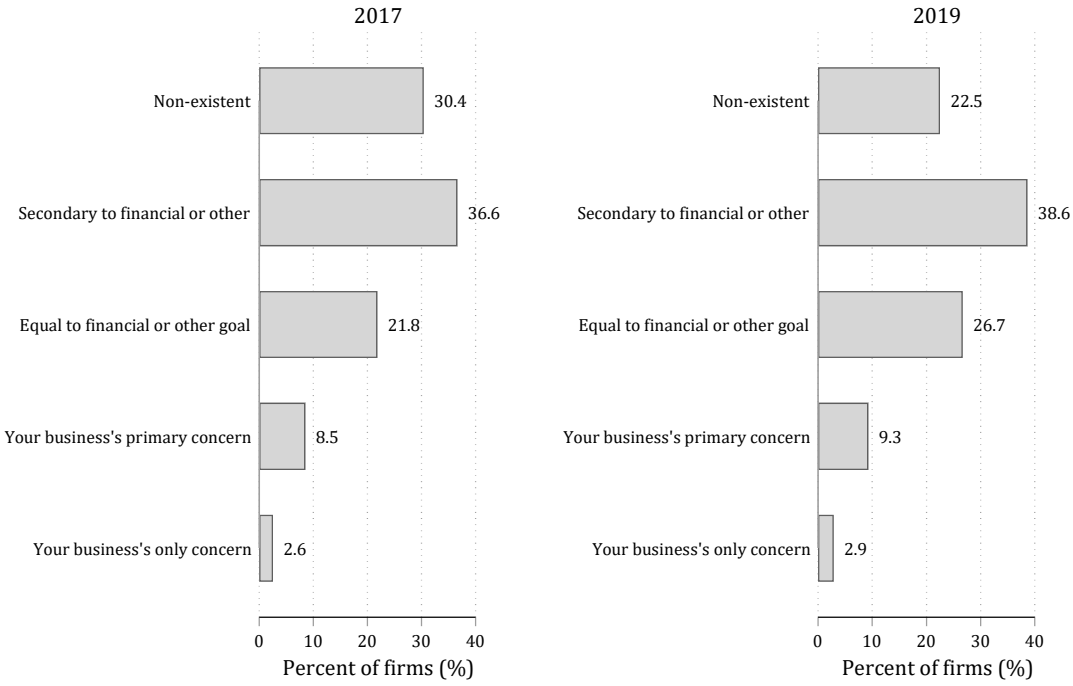
Figure 7: Level of importance of offering solutions to environmental problems for UK SMEs



Source: Longitudinal Small Business Survey (LSBS), question code: D1F. This Figure shows the percentage of SMEs that consider social goals as an important business goal. Cross-sectional survey weights have been applied.

Finally, we consider how SME's social/environmental goals co-exist with financial goals. The data presented in Figure 8 suggests that around 2.9% of SMEs considered social or environmental goals as their only concern. 9.3% of SMEs considered these goals as their primary concern. 26.7% considered them to be equal to financial or other goals, while 38% considered them to be secondary to financial or other goals. Small variations are observed compared to corresponding figures for 2017.

Figure 8: Whether social and environmental goals are main concern for the business



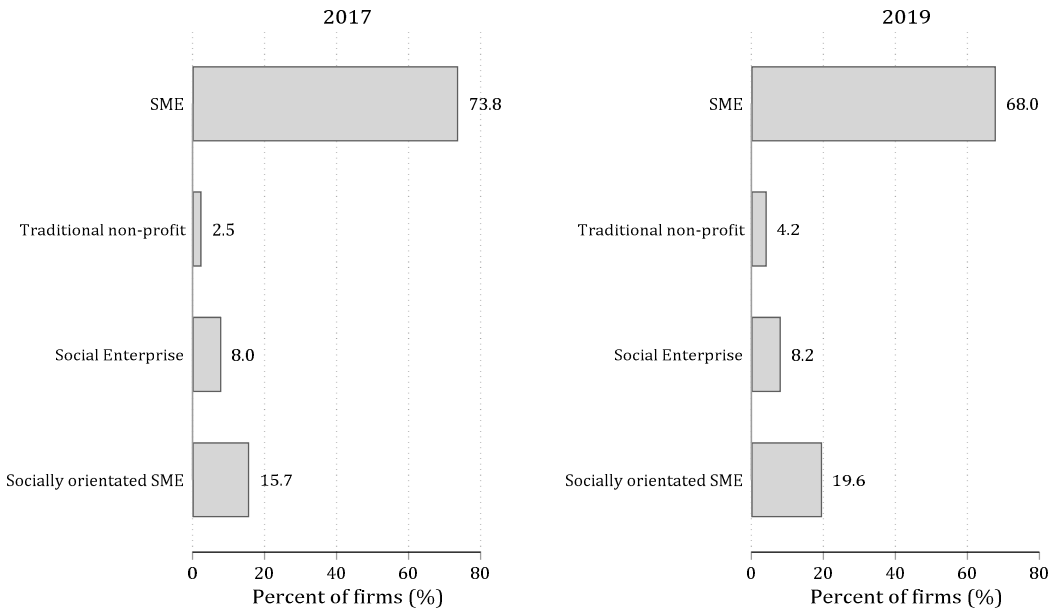
Source: Longitudinal Small Business Survey (LSBS), question code: D3. This Figure shows the percentage of SMEs that consider social goals as an important business goal. Cross-sectional survey weights have been applied.

4.2 Social enterprises in the UK SME market: key characteristics

Social enterprises are part of the UK SME ecosystem. Identifying social enterprises as distinct from mainstream SMEs is challenging (Teasdale et al. 2012). In the present study, we follow the LSBS classification to map differences between different types of social enterprises by size, industry, and geographic region, and their commercially-oriented SME counterparts.

Figure 9 shows the proportion of UK SMEs that are classified in one of the following categories: social enterprises; traditional non-profit enterprises; socially-oriented SMEs; and commercial SMEs. The data presented suggests that in 2019, 8.2% of SMEs met the LSBS definition of a social enterprise. This is slightly higher than the reported figure of 8% for 2017. 19.6% of SMEs were socially-oriented SMEs, and 4.2% were traditional non-profit organizations, which represents a slightly increase with respect to their 2017 figures.

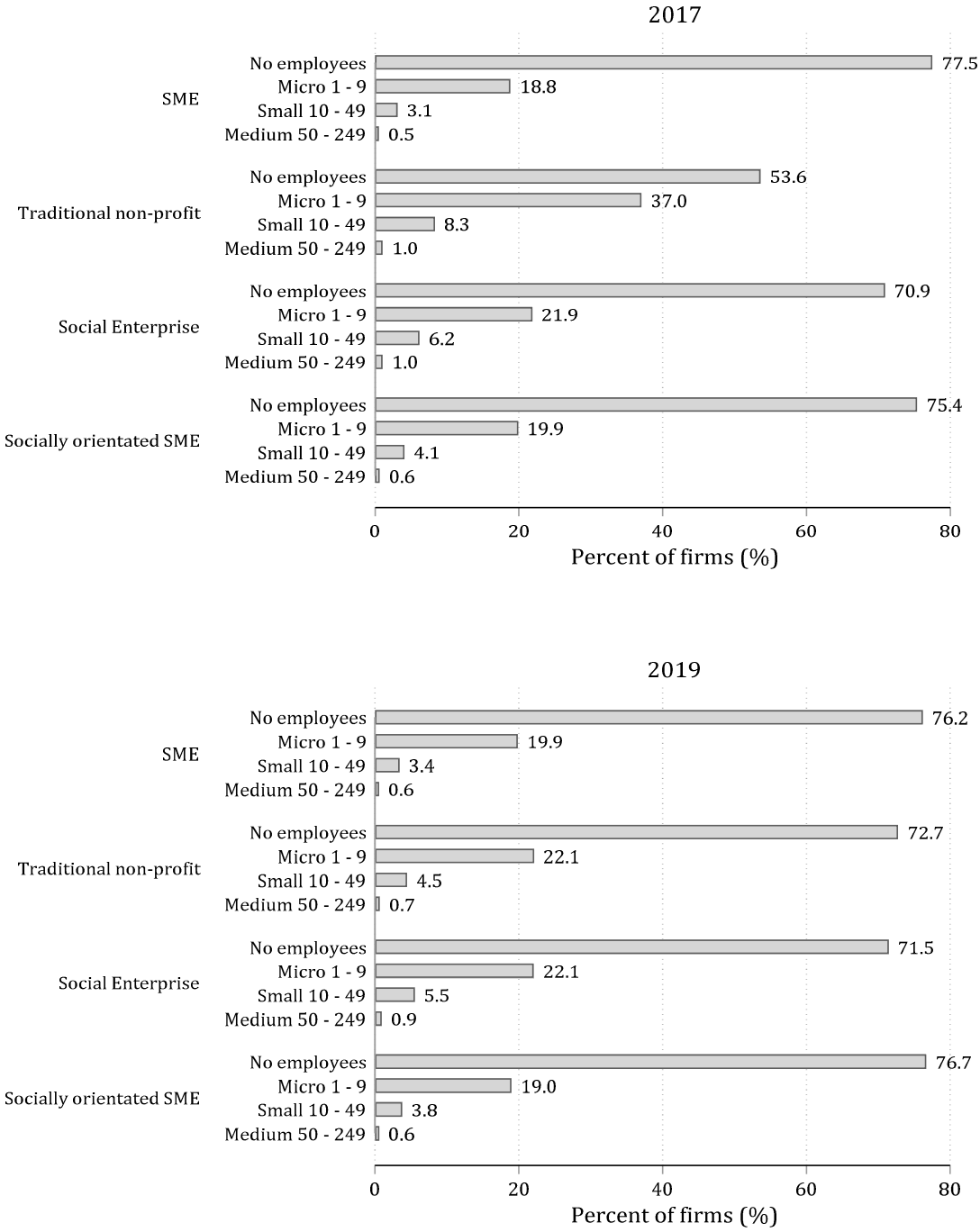
Figure 9: UK SME ecosystem based on firm's social/environmental and financial orientations



Source: Longitudinal Small Business Survey (LSBS), question code: SOCENT. This Figure shows the percentage of SMEs which are classified into 4 categories based on firm's social/environmental and financial orientations. Cross-sectional survey weights have been applied.

The distribution of SMEs across organizational form varies across the firm size distribution. Figure 10 shows that zero-employee SMEs are the most important category across organizational forms. Around 71.5% of social enterprises are formed by firms with no-employees, followed by micro firms (22.1%), small (5.5%) and medium-sized firm (0.9%). A similar distribution is observed across commercial SMEs, traditional non-profit and socially-oriented SMEs. There is also small variation in the distribution of firms compared to the 2017 figures.

Figure 10: Distribution of UK SME population by organizational form and size

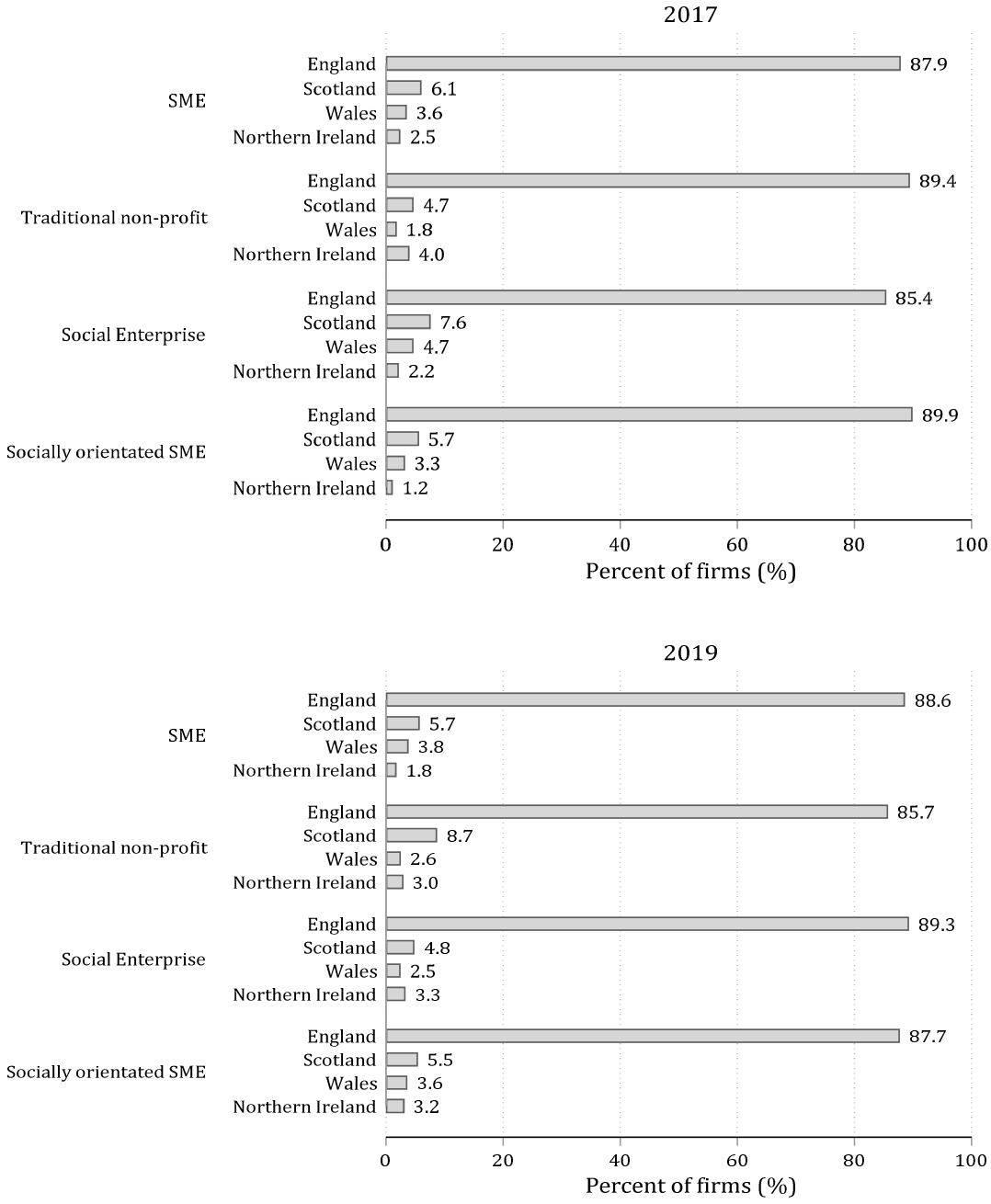


Source: Longitudinal Small Business Survey (LSBS), question code: SOCENT and A2SPSS1. This Figure shows the percentage of SMEs based on size and organization form. Cross-sectional survey weights have been applied.

Figures 11 shows differences in organizational forms by social orientation across broad UK regions. The data presented suggests that England has the higher proportion of social enterprises, followed by Scotland, Wales and Northern Ireland. There was only minor variation

in these figures over time. Across regions in 2019, 89.3% of social enterprises were located in England, while the remainder were regionally distributed across Scotland (4.8%), Wales (2.5%), and Northern Ireland (3.3%).

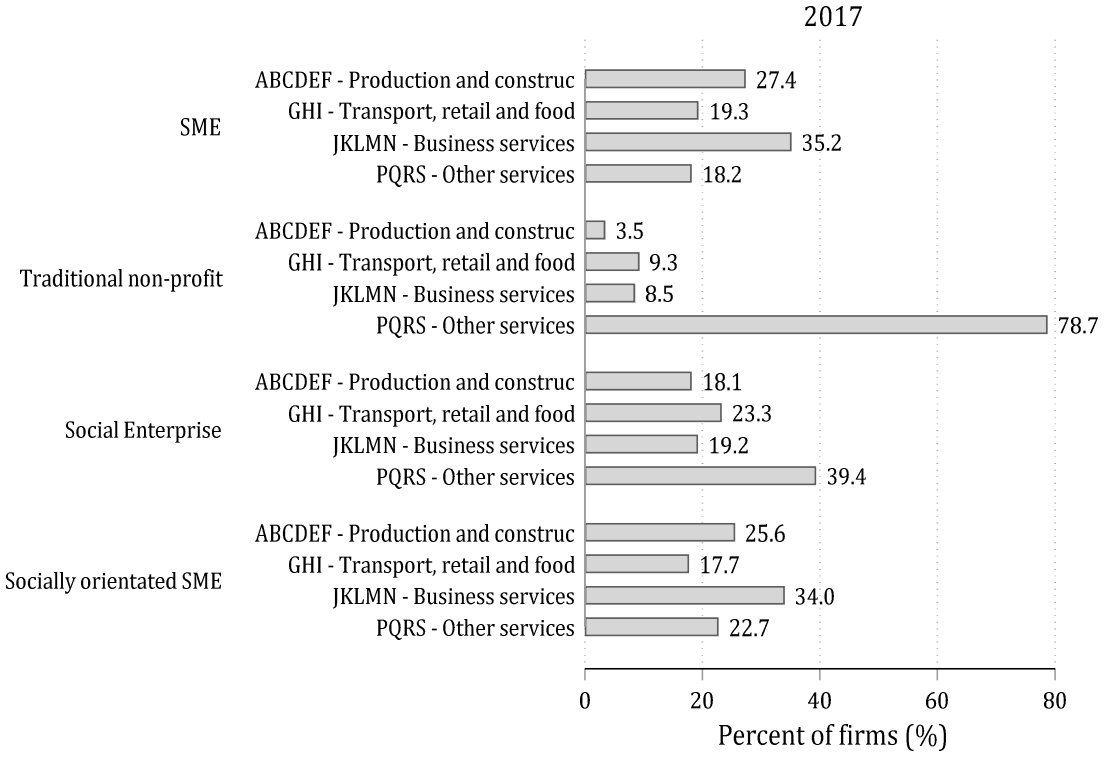
Figure 11: Distribution of UK SME population by organizational form and region

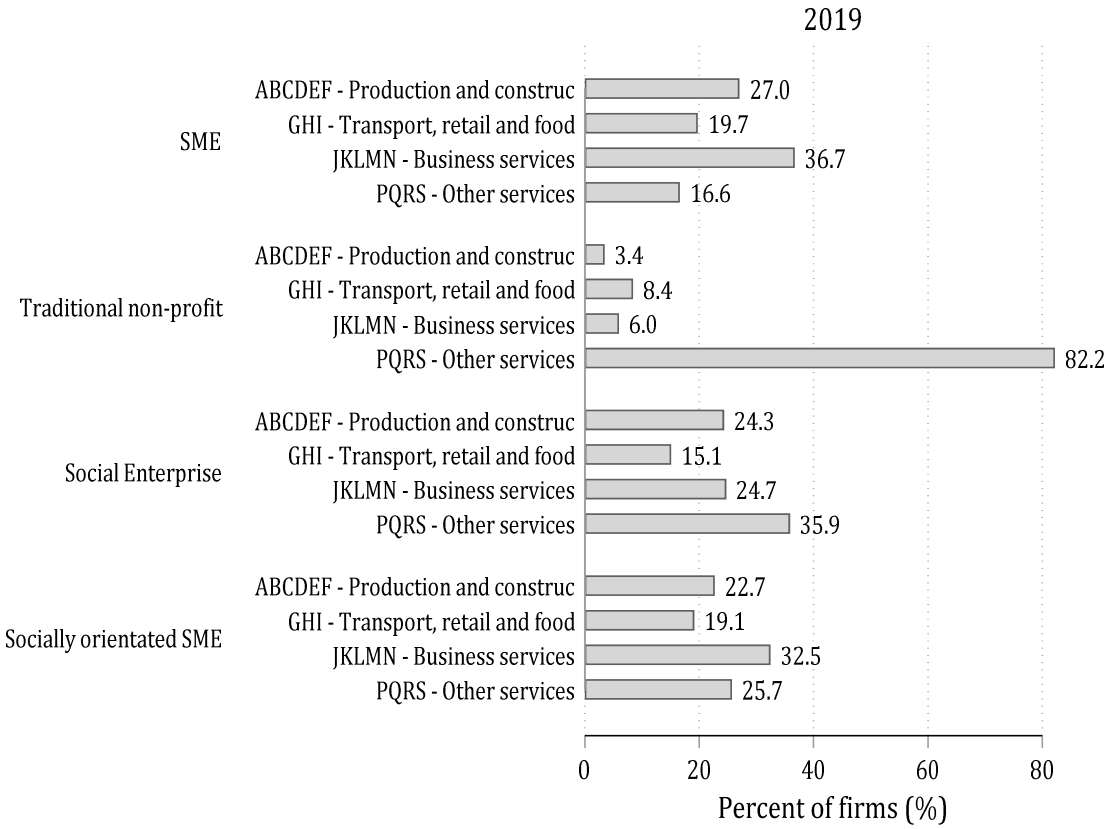


Source: Longitudinal Small Business Survey (LSBS), question code: SOCENT and NATION. This Figure shows the percentage of SMEs that consider social goals as an important business goal. Cross-sectional survey weights have been applied.

Figure 12 shows distribution of SMEs by social orientation and economic sector. The data presented suggests that commercial SMEs, social enterprises and socially-oriented SMEs tend to be present to a similar extent across all regions. This contrasts with 82.2% of traditional non-profit SMEs in 2019 that are concentrated in the education, health and social work, arts and entertainment, and other services sectors. The majority of social enterprises are also classified as operating in the PQRS sector (35.9%), followed by JKLMN sector (24.7%) and the ABCDEF sector (24.3%) and in 2019.

Figure 12: Distribution of UK SME population by organizational form and industry

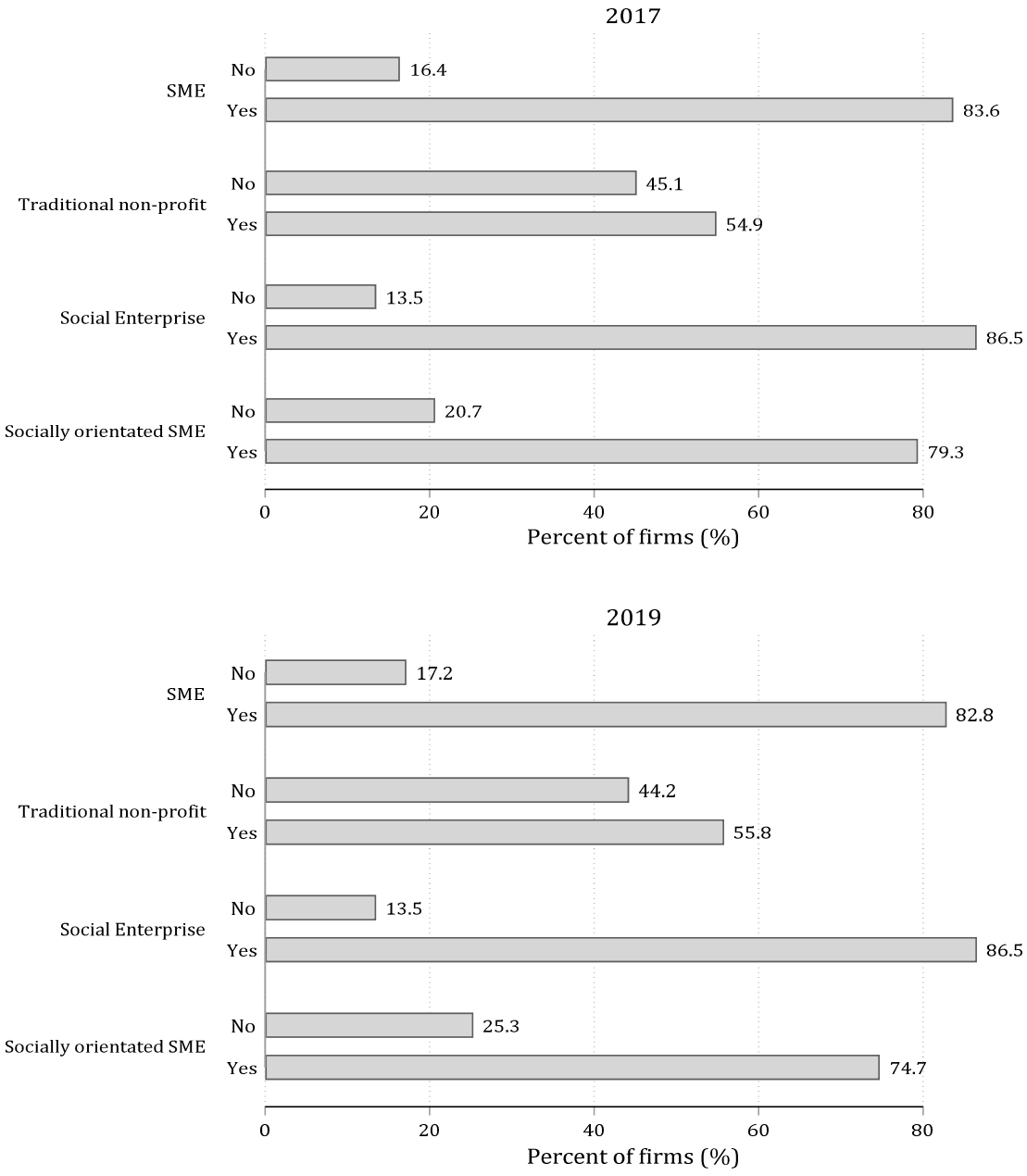




Source: Longitudinal Small Business Survey (LSBS), question code: SOCENT and SECTOR. This Figure shows the percentage of SMEs based on organizational form and industry. Cross-sectional survey weights have been applied.

Reporting positive profitability is a business requirement for SMEs independent of their organizational form. Figure 13 shows that a high proportion of social enterprises generate a profit/surplus over the last year (86.5%). The corresponding figures for traditional non-profit and socially-oriented SMEs were 55.8% and 74.7% respectively. 44.2% of traditional non-profit SMEs did not make a profit or surplus in 2019, Overall, between 2017 and 2019, the proportion of profitable social enterprises remained stable (and there was an increase in the proportion of traditional non-profit and socially-oriented SMEs).

Figure 13: Proportion UK SMEs that had made a profit / surplus over the last year by organizational form

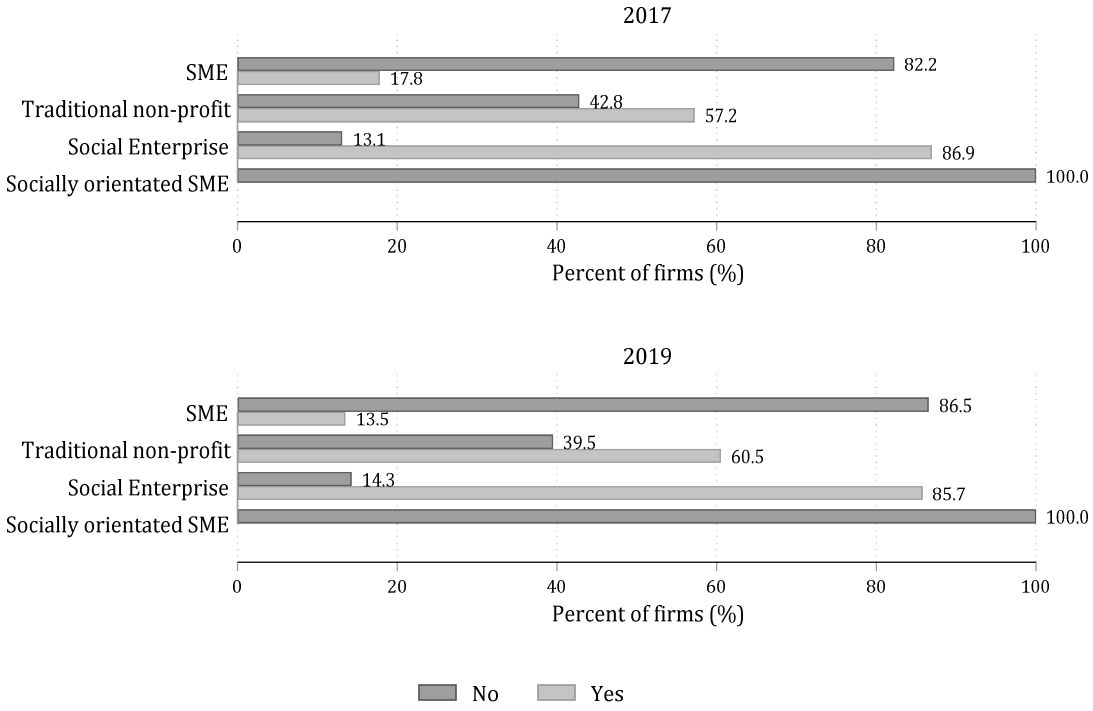


Source: Longitudinal Small Business Survey (LSBS), question code: SOCENT and P12. This Figure shows the percentage of SMEs that consider social goals as an important business goal. Cross-sectional survey weights have been applied.

Commercially-oriented SMEs can allocate part of their profits to achieve specific social and environmental goals. Figure 14 shows the proportion of SMEs that responded positively to the following survey question: "*Did you use at least half your profit in the last year to further your social/environmental goals?*". We observe that in 2019, 85.7% of social enterprises used at least

half of their profit/surplus to pursue social/environmental goals in 2019. This contrasts markedly with the 13.5% of commercial SMEs that declared to have used at least half your profit in the last year to further your social/environmental goals.

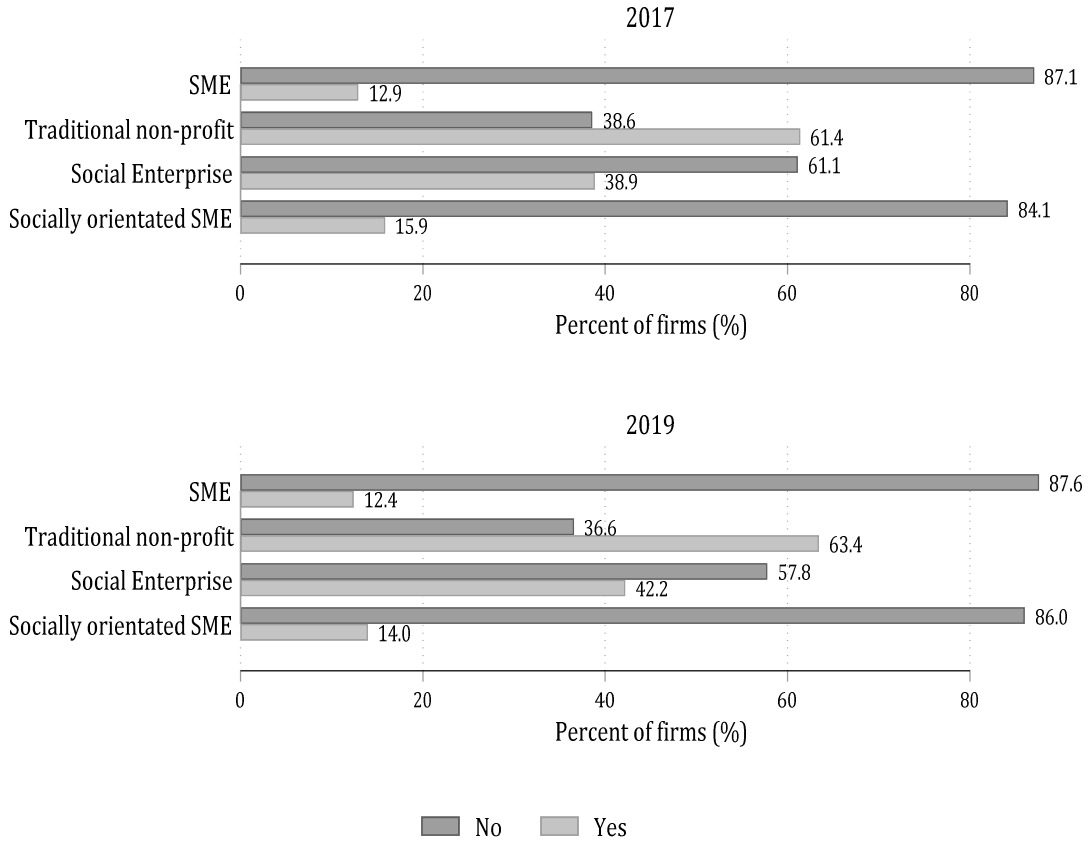
Figure 14: Did you use at least half your profit in the last year to further your social/environmental goals?



Source: Longitudinal Small Business Survey (LSBS), question code: SOCENT and D11A. This Figure shows the percentage of SMEs that used (or not) at least half your profit in the last year to further your social/environmental goals. Cross-sectional survey weights have been applied.

Some firms could have specific principles, commitments, rules or restrictions in place relating how they allocate any profit or surplus, which are independent of organizational form. Interestingly, in 2019, Figure 15 shows that 87.6% of commercial SMEs stated that they do not have these specific principles. 63.4% of traditional non-profit SMEs and 42.2% of social enterprises stated that they have these principles in place. Only 14% of socially-oriented SMEs declared to have these principles in place. This suggests that these firms have more discretion regarding how profits are distributed.

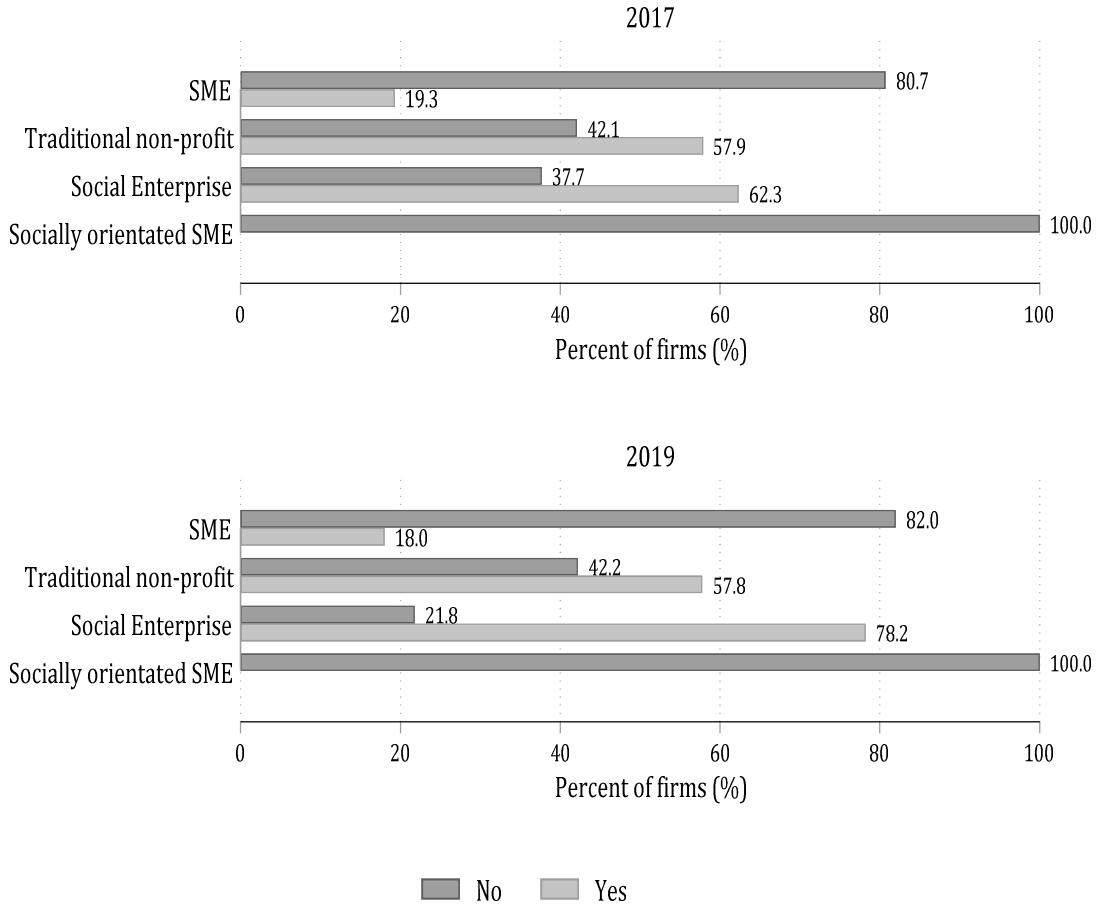
Figure 15: Whether have any principles, commitments, rules or restrictions in place for what they do with profit or surplus?



Source: Longitudinal Small Business Survey (LSBS), question code: SOCENT and D17. This Figure shows the percentage of SMEs that stated whether they have any principles, commitments, rules or restrictions in place for what they do with profit or surplus. Cross-sectional survey weights have been applied.

For firms with specific restrictions related to the allocation of profits, SMEs were asked whether they must use at least half of the profits or surpluses to further social/environmental goals. The data presented in Figure 16 (for 2019) shows that 78.2% of social enterprises said that they must use at least half of the profits or surpluses to further their social/environmental goals. On the other hand, 82% of commercial SMEs declared that they do not have any specific restrictions to have to use at least half of the profits or surpluses to further your social/environmental goals.

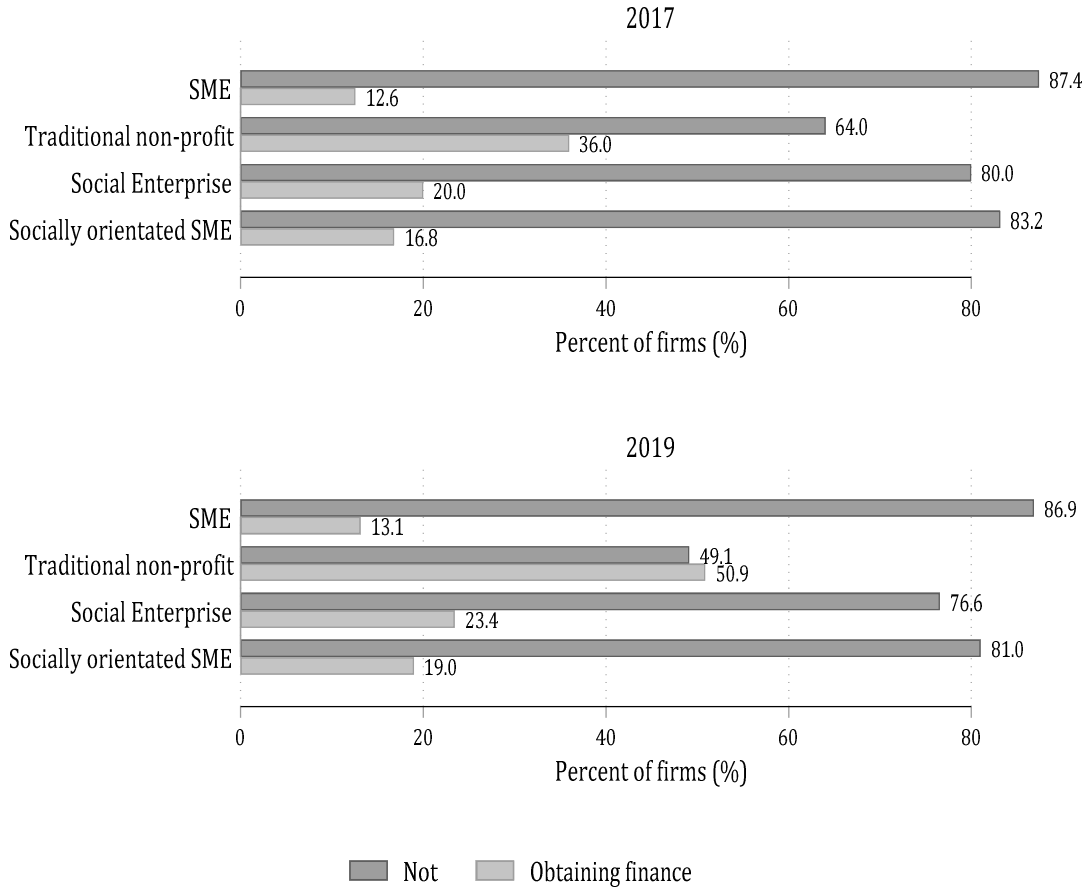
Figure 16: Do these principles, commitments, rules or restrictions say that you have to use at least half of the profits or surpluses to further your social/environmental goals?



Source: Longitudinal Small Business Survey (LSBS), question code: SOCENT and D17A. This Figure shows the percentage of SMEs that have to use at least half of the profits or surpluses to further your social/environmental goals. Cross-sectional survey weights have been applied.

Finally, Figures 17-25 explore the reported major obstacles to business success. With regard to social enterprises, Figure 17 suggests that in 2019, 23.4% of social enterprises reported that obtaining finance was a major obstacle to business success. The proportion of firms is almost double that of the 13.1% of commercial SMEs, which stated that obtaining finance was a major obstacle for business success in 2019.

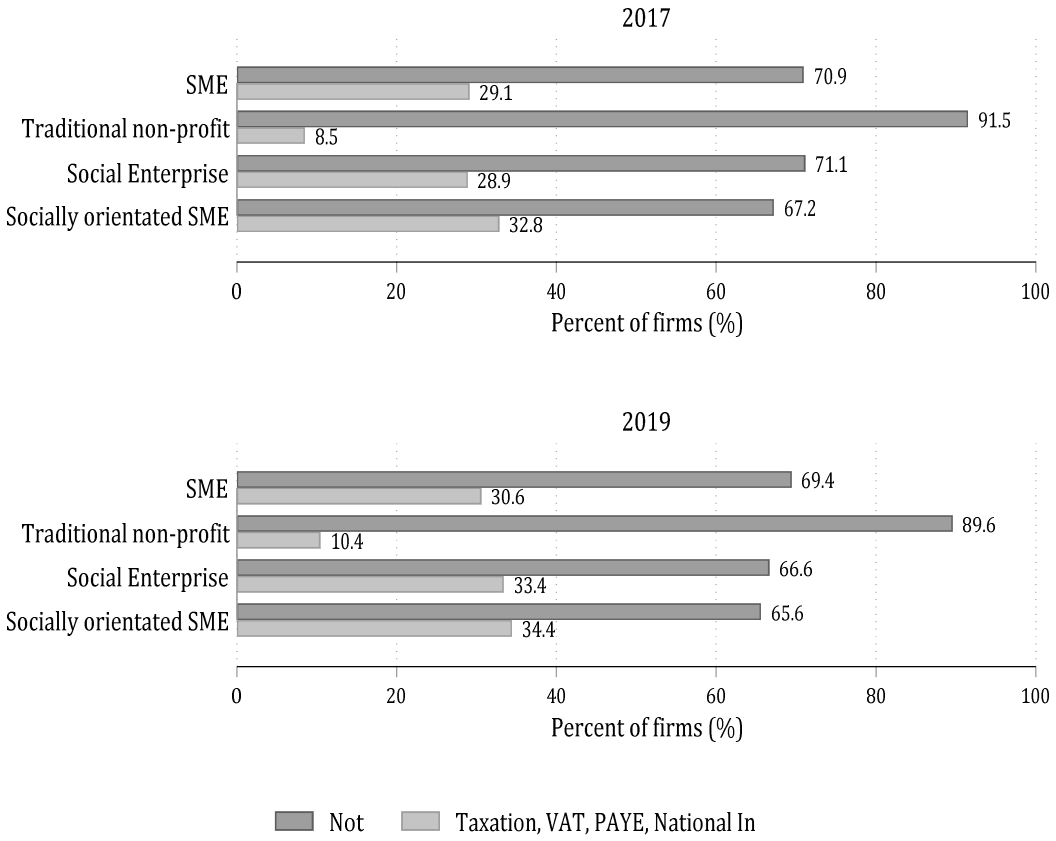
Figure 17: Major obstacles to the success of the business: Obtaining finance



Source: Longitudinal Small Business Survey (LSBS), question code: SOCENT and G2A. This Figure shows the percentage of SMEs that consider obtaining finance a major obstacle for their business. Cross-sectional survey weights have been applied.

Administrative burdens and taxation can also affect the way firms do business. Figure 18 provides insights regarding how SMEs perceive Taxation, Value Added Tax (VAT), Pay as You Earn (PAYE), National Insurance (NI), business rates as an obstacle to business success. The data presented suggests that the proportion of social enterprises that report taxation (including VAT, PAYE, NI and business rates) as a major obstacle to business success is similar to that observed for commercial SMEs, non-profit SMEs and socially-oriented SMEs. Taxation does not appear to be a major obstacle to business success for traditional non-profit firms.

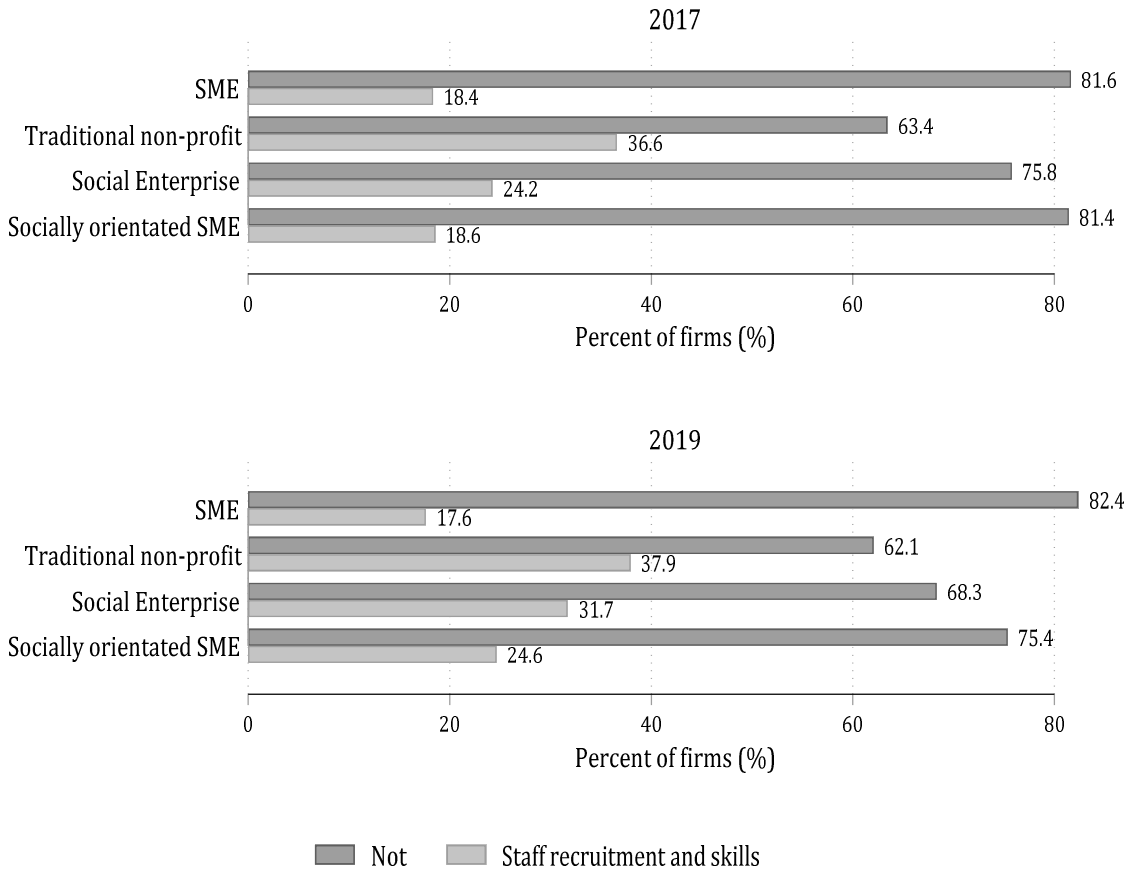
Figure 18: Major obstacles to the success of the business: Taxation, VAT, PAYE, National Insurance, business rates



Source: Longitudinal Small Business Survey (LSBS), question code: SOCENT and G2B. This Figure shows the percentage of SMEs that consider taxation as a major obstacle for their business. Cross-sectional survey weights have been applied.

Figure 19 shows an increase in the proportion of non-commercial SMEs stating that staff recruitment and skills are a major obstacle to business success. Traditional non-profit SMEs are most exposed to this specific obstacle, with 37.9% considering it as a major obstacle to business success. 31.7% of social enterprises and 24.6% of socially-oriented SMEs consider staff recruitment as a major obstacle to business success. The proportion of commercial SMEs reporting staff recruitment and skills as a major obstacle to business success was 17.6% - the lowest proportion across all organizational forms.

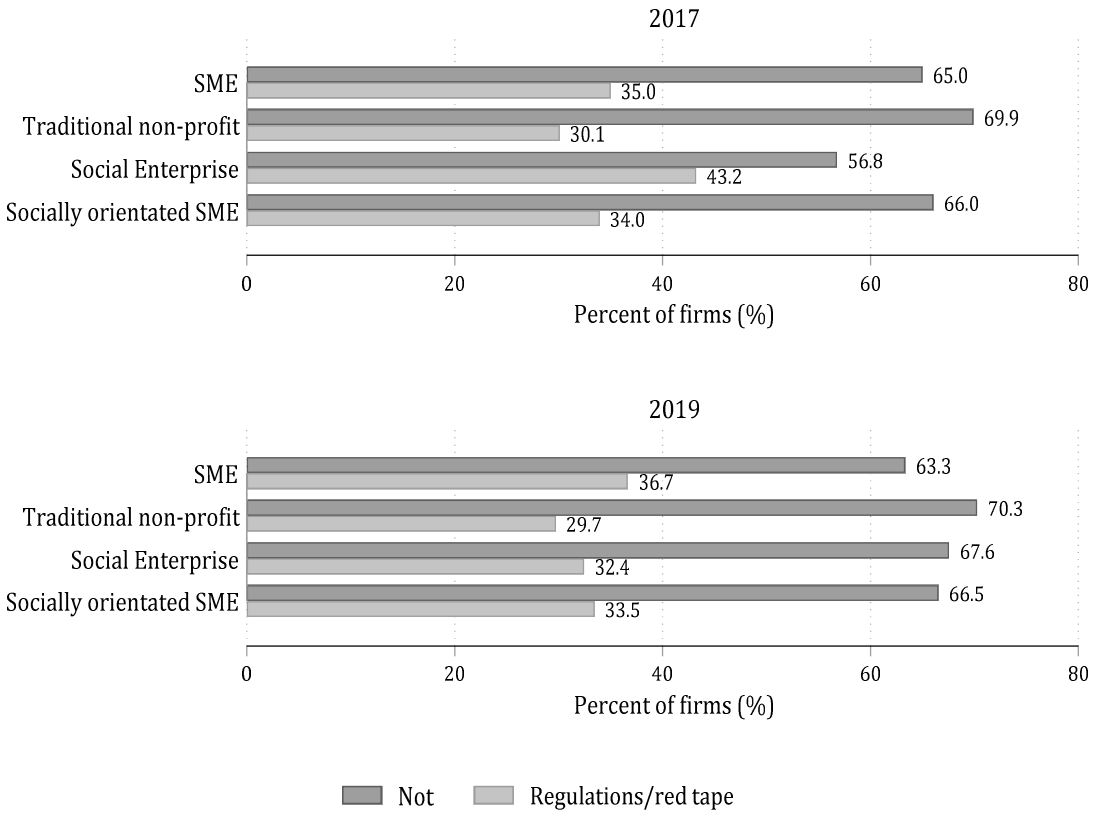
Figure 19: Major obstacles to the success of the business: Staff recruitment and skills



Source: Longitudinal Small Business Survey (LSBS), question code: SOCENT and G2C. This Figure shows the percentage of SMEs that consider staff recruitment and skills as a major business obstacle. Cross-sectional survey weights have been applied.

Figure 20 suggests that regulations and red tape are frequently perceived by SMEs as a source of inefficiency. The data presented suggests that regulations and red tape are major obstacles to business success for over 31% of social enterprises, with minor variation across organizational forms. Interestingly, compared to 2017, a lower proportion of firms consider regulations and red tape as major obstacles to business success, suggesting a decline in overall bureaucratic inefficiency.

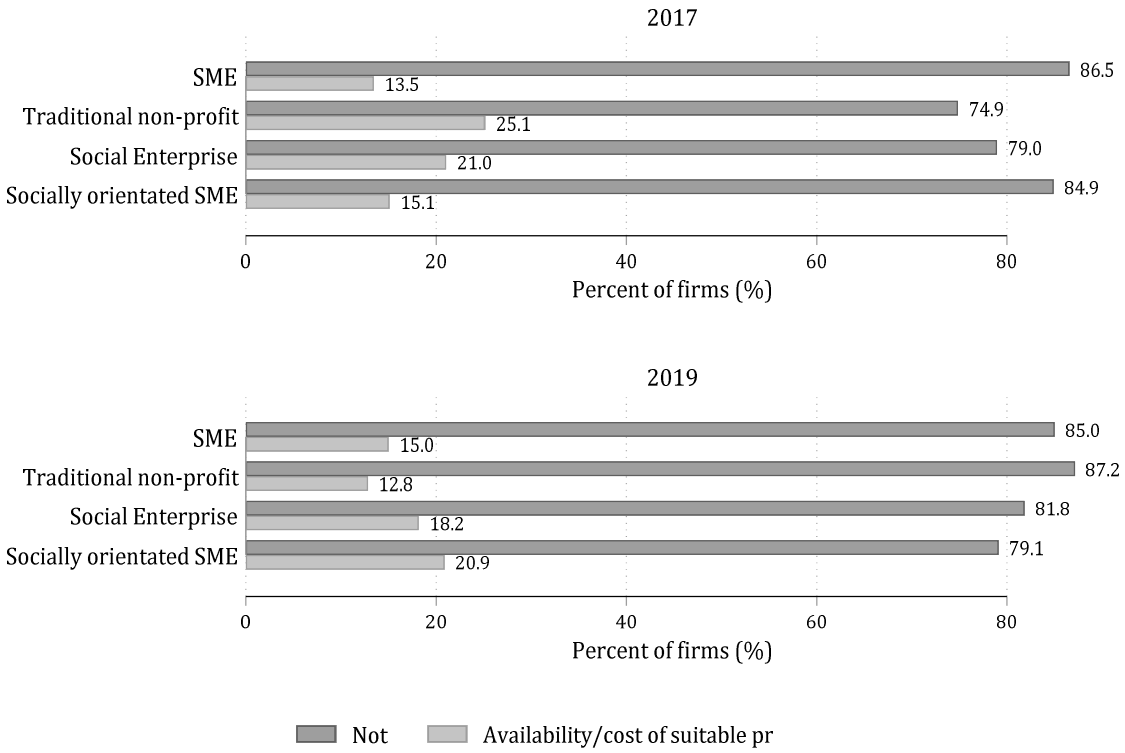
Figure 20: Major obstacles to the success of the business: Regulations/red tape



Source: Longitudinal Small Business Survey (LSBS), question code: SOCENT and G2D. This Figure shows the percentage of SMEs that see regulation and red/tape as a major business obstacle. Cross-sectional survey weights have been applied.

The availability of adequate premises is a key factor to be considered by any company. Figure 21 shows the extent to which SMEs consider the availability and costs of suitable premises as a significant obstacle to business success. The results suggest that in 2019, around 80% of SMEs across different organizational forms did not consider this as a major obstacle to the success of the business (showing also an improvement compared to figures in 2017).

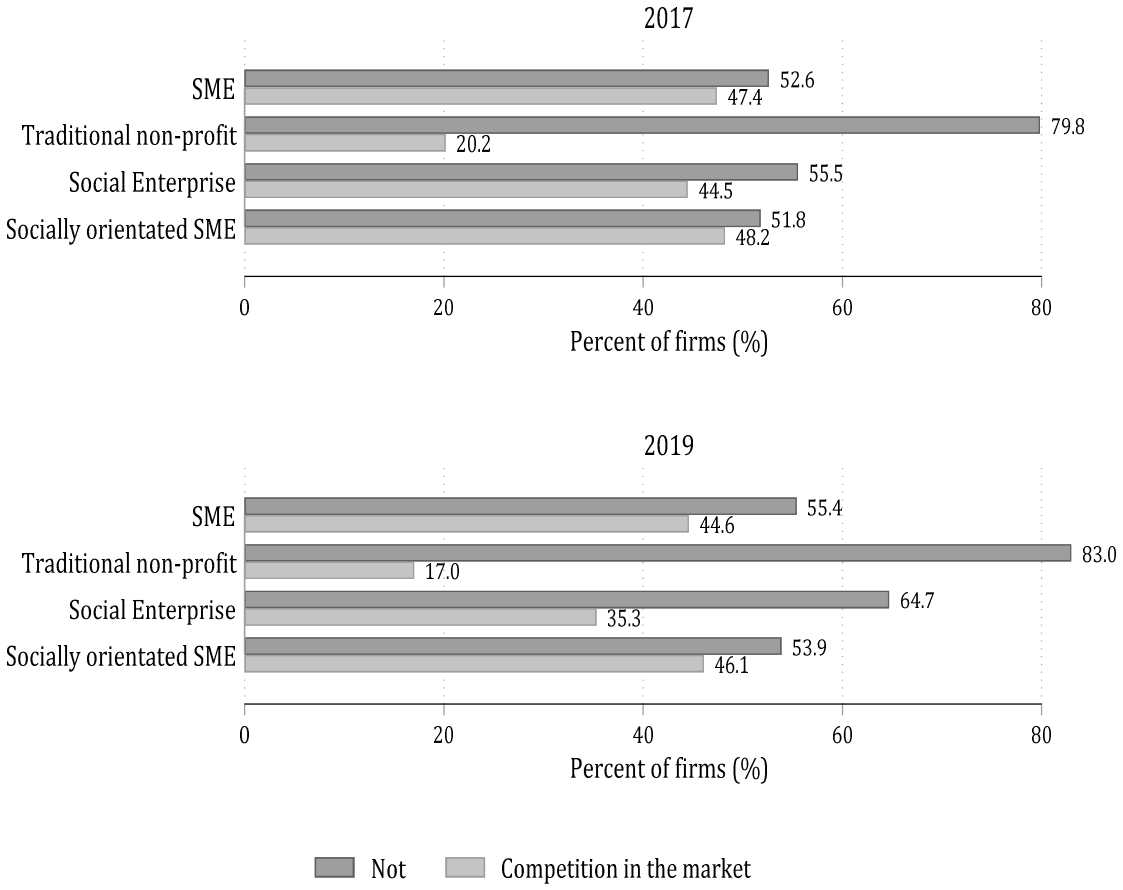
Figure 21: Major obstacles to the success of the business: Availability/cost of suitable premises



Source: Longitudinal Small Business Survey (LSBS), question code: SOCENT and G2E. This Figure shows the percentage of SMEs that Availability/cost of suitable premises are a major obstacle to the success of the business. Cross-sectional survey weights have been applied.

Market competition is crucial in influencing firm-level strategic behaviour and performance (Lipczynski et al., 2017; Lipczynski & Wilson, 2004). Figure 22 provides insights into the extent to which competition is perceived as an obstacle to business success. The data presented suggests that competition is in general perceived as major obstacle to business success for 35.5% of social enterprises. However, this represents a decline from the 44.5% reported in 2017. This implies a lower number of potential competitors in the market for those firms. Interestingly, 83% of traditional non-profit SMEs consider that competition is not a major obstacle to business success, suggesting that these firms are subject to less intense rivalry.

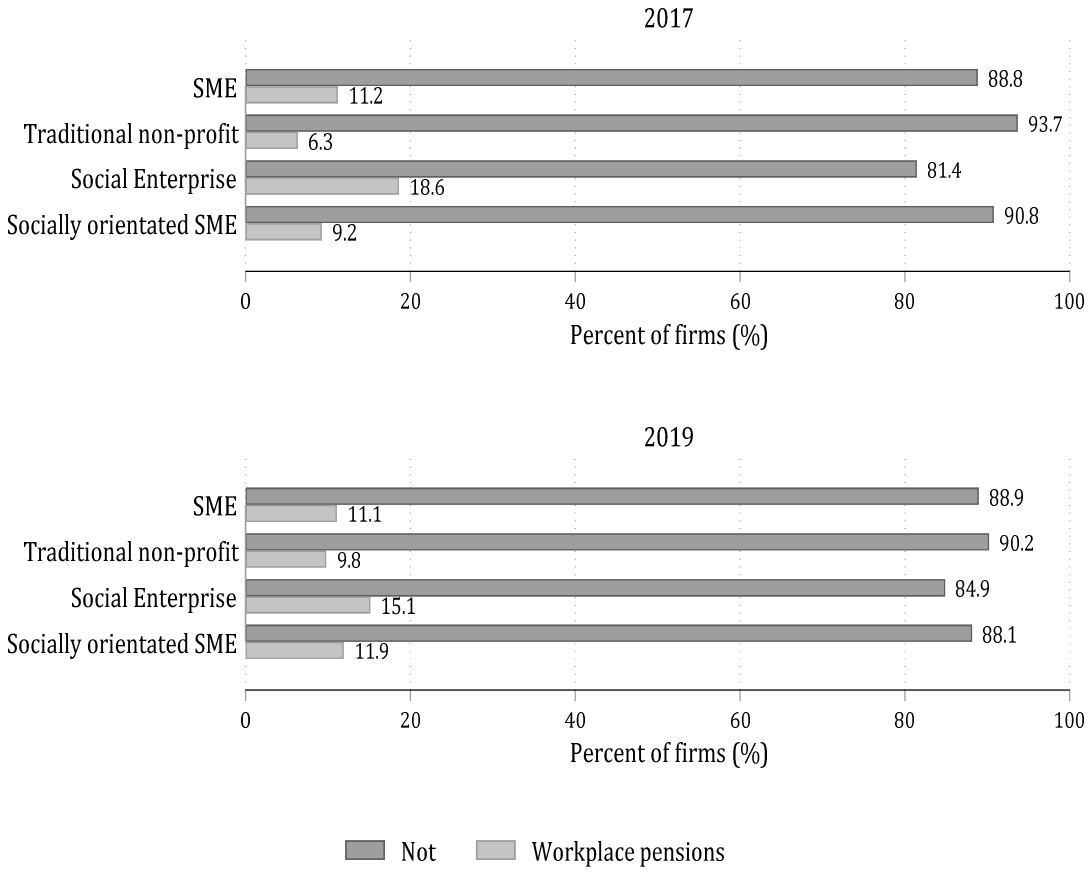
Figure 22: Major obstacles to the success of the business: Competition in the market



Source: Longitudinal Small Business Survey (LSBS), question code: SOCENT and G2F. This Figure shows the percentage of SMEs that consider competition in the market a major obstacle for the business. Cross-sectional survey weights have been applied.

Workplace pensions are usually set up by employers to let employees save money for retirement. If they are offered by SMEs, they are required to make employees part of the pension scheme and make employer contributions. Figure 23 suggests that workplace pensions are only regarded as a major obstacle to business success by 15.1% of social enterprises. This represents a decline on corresponding figures reported in 2017. Similar proportions are observed across different organizational forms. 11.1% of commercial SMEs, 9.8% of traditional non-profit SMEs and 11.9% of socially-oriented SMEs do not regard the provision of workplace pensions as a major obstacle for business success.

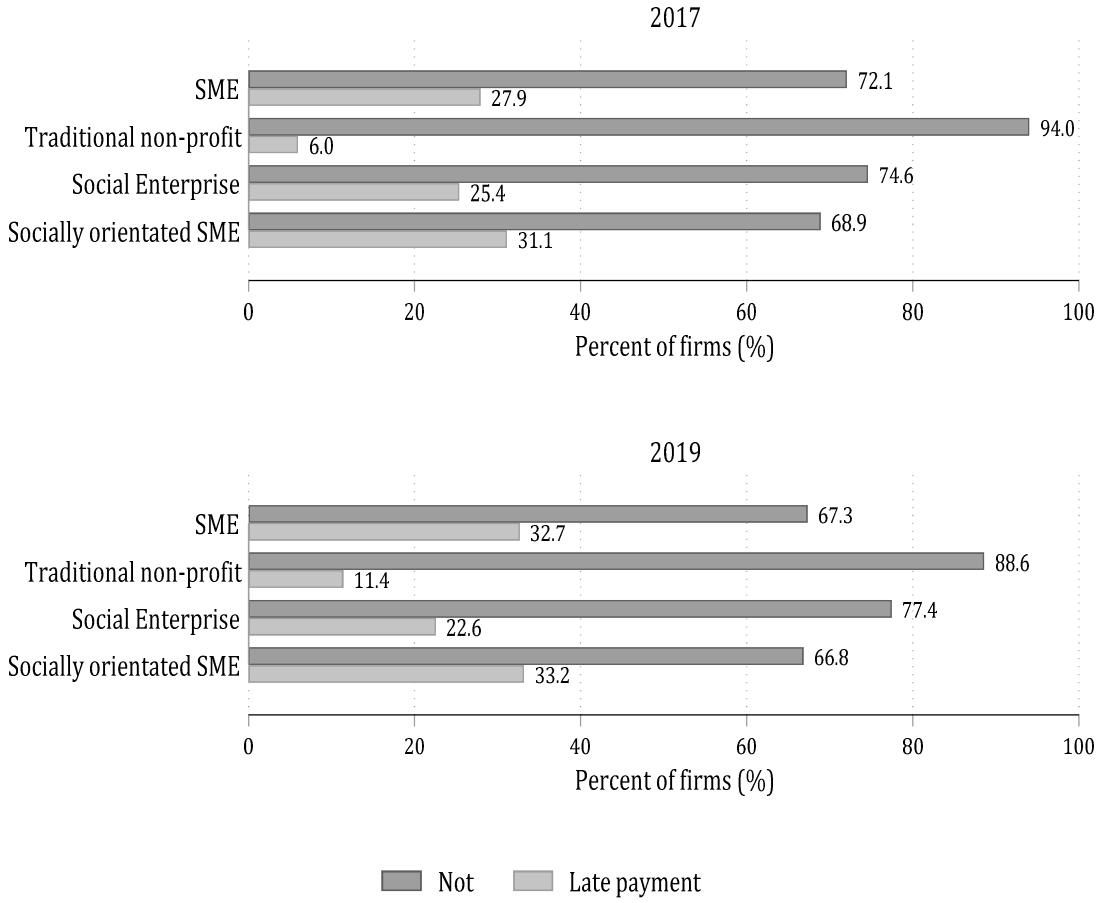
Figure 23: Major obstacles to the success of the business: Workplace pensions



Source: Longitudinal Small Business Survey (LSBS), question code: SOCENT and G2G. This Figure shows the percentage of SMEs that consider workplace pensions as a major business obstacle. Cross-sectional survey weights have been applied.

Late payments can exert a negative impact on SME finances and overall financial viability. By restricting cash flows, SMEs can be put under substantial financial pressure when customer fail to settle outstanding accounts in a timely fashion. Nevertheless, late payments do not appear to represent a major obstacle for business success. Figure 24 suggests that 22.6% of social enterprises and 33.2% of socially-oriented SMEs consider late payments as a major obstacle to business success. This could be related to the fact that SMEs with elevated levels of late payments can rely on bank overdraft facilities to cover short-term cash flow problems. The proportion of commercial SMEs that do not consider late payments as a major obstacle is 67.3% and could also reflect readily accessible overdraft facilities for these types of firms.

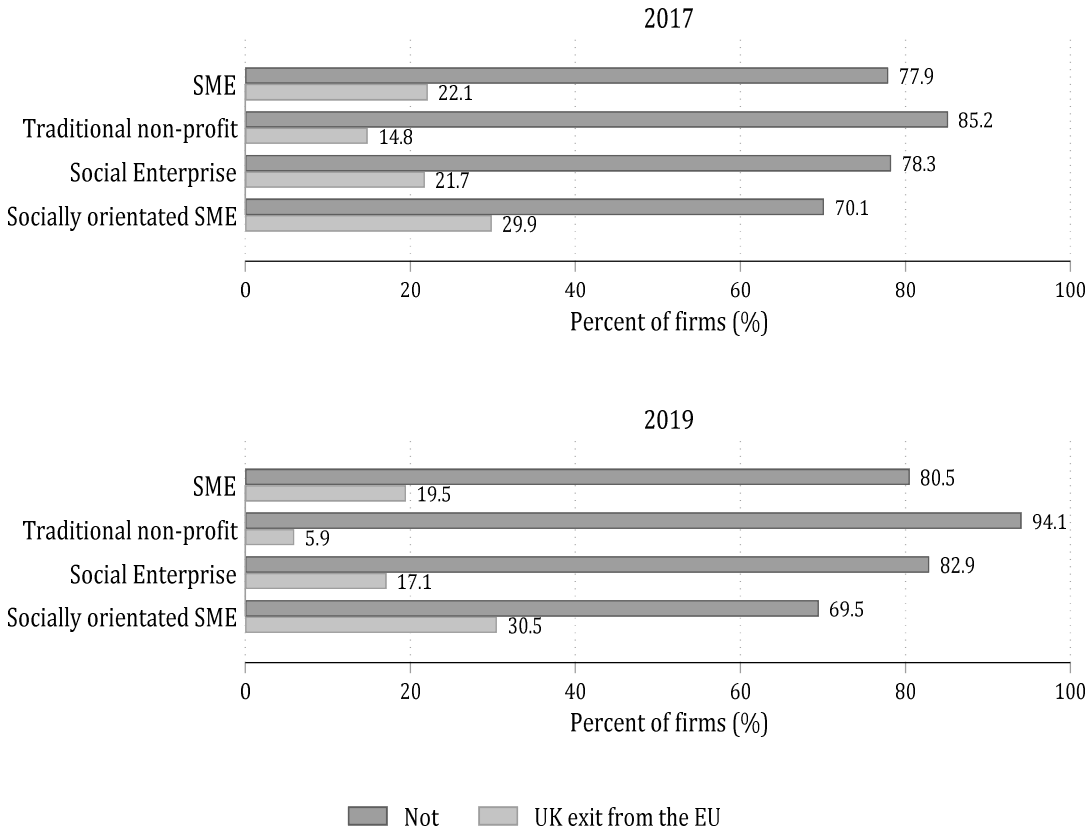
Figure 24: Major obstacles to the success of the business: Late payment



Source: Longitudinal Small Business Survey (LSBS), question code: SOCENT and G2H. This Figure shows the percentage of SMEs that consider late payments as a major obstacle to their business. Cross-sectional survey weights have been applied.

The UK exit from the EU represents a significant challenge for SMEs, given that these firms are disproportionately impacted by uncertainty, and are equipped with fewer resources to absorb and mitigate against sudden exogenous shocks that disrupt supply chains and trading conditions (Brown et al., 2019a). However, since 2017, there has been a decline (Figure 25) in the proportion of SMEs that consider Brexit as a major obstacle to business success. Around 94% of non-profit SMEs do not consider Brexit as a major obstacle to business success. However, 17.1% of social enterprises and 30.5% of socially-oriented SMEs perceived Brexit as a major obstacle for their business. In 2019, the proportion of commercial SMEs considering Brexit as a major obstacle to business success decreased to 19.5% compared to 22.1% observed in 2017.

Figure 25: Major obstacles to the success of the business: UK exit from the EU



Source: Longitudinal Small Business Survey (LSBS), question code: SOCENT and G2I. This Figure shows the percentage of SMEs that consider social goals as an important business goal. Cross-sectional survey weights have been applied.

4.3. Influential driving factors for engagement in social/environmental activities

In this section we present the empirical results of the multinomial probit model used to identify how different business characteristics are associated with specific SME organizational forms. The dependent variable is organizational form defined across four categories - commercial SME, traditional non-profit, social enterprise and socially-oriented SME. In Table 4, we observe that grow ambitions are positively associated with social enterprises.

Table 4: Influential driving factors for social enterprise classification

	SME	Traditional non-profit	Social Enterprise	Socially-orientated SME
Aims to grow $_{t-1}$	-0.008	-0.004***	0.014***	-0.002
	(-1.32)	(-8.75)	(5.63)	(-0.43)
Size: Micro	-0.023*	0.006***	0.005	0.013
	(-1.69)	(8.18)	(0.80)	(1.60)
Size: Small	-0.016***	-0.004***	0.013***	0.006
	(-4.06)	(-2.63)	(5.78)	(1.28)
Size: Medium	-0.002	-0.009***	0.004	0.007
	(-0.14)	(-4.72)	(0.68)	(0.84)
Business age: 6 – 10 years	-0.001	0.012**	-0.007	-0.004
	(-0.21)	(2.14)	(-0.82)	(-0.44)
Business age: 11 – 20 years	0.016	0.017**	-0.017*	-0.016
	(1.49)	(2.45)	(-1.89)	(-1.58)
Business age: 20+ years	-0.003	0.028***	-0.000	-0.025
	(-0.23)	(5.65)	(-0.04)	(-1.57)
Turnover change (stayed the same) $_{t-1}$	-0.004	0.003	0.009*	-0.007
	(-0.47)	(1.60)	(1.69)	(-0.70)
Turnover change (increased) $_{t-1}$	0.006	-0.002	0.008**	-0.012**
	(0.70)	(-0.56)	(2.42)	(-2.04)
Profit $_{t-1}$	0.027***	-0.017***	-0.003	-0.007
	(3.13)	(-16.96)	(-0.55)	(-1.15)
Location $_{t}$: Urban area	0.019***	-0.004	-0.014***	-0.001
	(4.47)	(-0.69)	(-8.30)	(-0.08)
Female led $_{t-1}$	-0.019***	0.007***	0.015***	-0.003
	(-2.97)	(5.66)	(3.03)	(-0.66)
Minority ethnic-led $_{t-1}$	-0.092***	-0.000	0.036***	0.056***
	(-16.06)	(-0.14)	(14.93)	(10.31)
Family owned	0.069***	-0.049***	-0.040***	0.020***
	(11.98)	(-12.29)	(-7.23)	(4.95)
Business plan	-0.091***	0.014***	0.033***	0.044***
	(-26.68)	(10.70)	(27.78)	(11.37)
Regional FEs	YES			
Industry FEs	YES			
Observations	9768			
Log likelihood	-7371.927			
Count R2	0.723			
AIC	14749.853			
BIC	14771.414			

Notes: This table shows average marginal effects from multinomial probit regressions predicting types of SMEs. Z-statistics adjusted for clustering at regional level are reported in parentheses. Significance at the 10%, 5%, and 1% level is showed by *, ** and ***.

As one might expect, size is negatively related to the traditional non-profit organizational form. Business age is not strongly related to social enterprise form, albeit older firms (exceeding 20 years) are more likely to be traditional non-profit compared to recently created firms. Positive changes in turnover are also positively related to social enterprises, but the effect is only marginally significant. As it might be expected, having surpluses and profits are positively related to commercial SMEs, but negatively related to traditional non-profit SMEs. Social enterprises are more likely to be located in non-urban areas, while commercial SMEs are based predominately in urban locations.

In terms of management, we observe that female-led SMEs are more likely to be social enterprises and traditional non-profit, but less likely to be commercial SMEs. Minority ethnic-led SMEs are also associated to social enterprises and socially-oriented SMEs but are less likely to be commercial SMEs. Family-owned firms are found to be positively associated with socially-oriented SMEs and commercial SMEs, but less likely to be adopting a social enterprise or traditional non-profit organizational form. Finally, we observe that business plans are predominant across traditional non-profit, social enterprises, and socially-oriented SMEs but less likely to be linked to commercial SMEs.

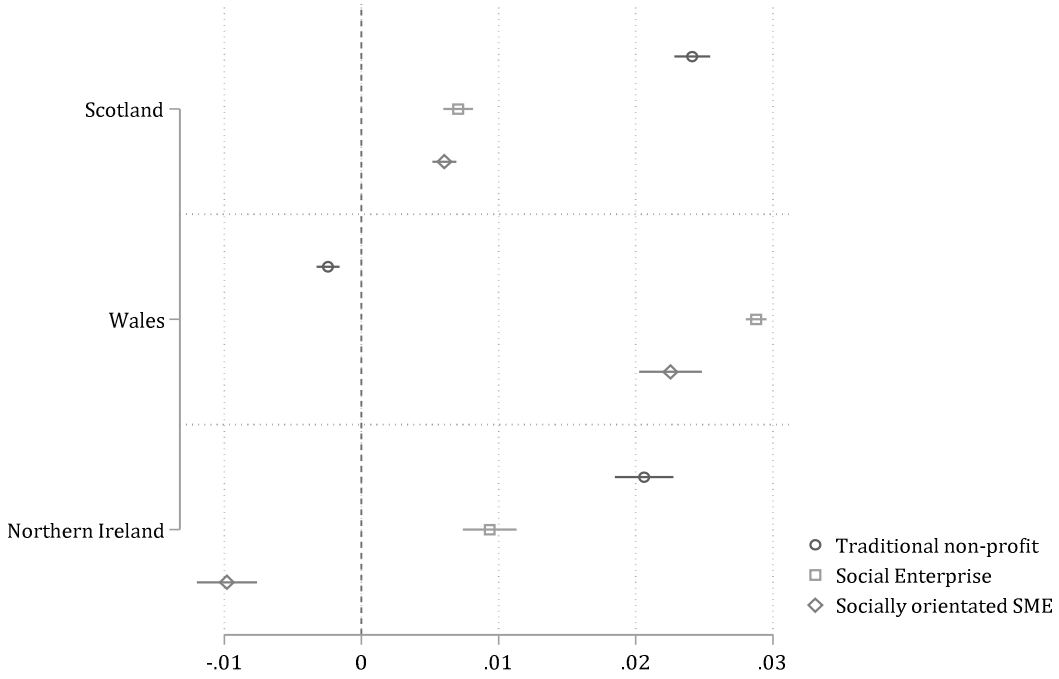
4.4. Regional and industry disparities

In this Section we use a multinomial probit model to investigate disparities in the prevalence of social enterprises across regions and industries. Given the considerable number regional and industry fixed effects required to estimate the models, we use a parsimonious modelling strategy where we only control by size, business age, urban location along with one of our two key variables of interest: regions and industries. We complement the regional analysis by using information on 38 Local Enterprise Partnerships, LEPs across England (which play a vital role in determining local economic priorities and undertaking activities to drive economic growth and

job creation, improve infrastructure and raise workforce skills) linked to the postcode area where the SME is located.

Figure 26 reports the estimated average marginal effects for UK regions estimated using a multinomial probit model as discussed above. Compared to England, social enterprises are more likely to be located in Wales. Traditional non-profit SMEs are more likely to be located in Scotland and Northern Ireland. We also observe that socially-oriented SMEs are more likely to be located in Wales compared to England. These results suggest to some extent some regional differences in the prevalence of various organizational forms of SMEs.

Figure 26: Average Marginal Effects of Location on SME's organizational form

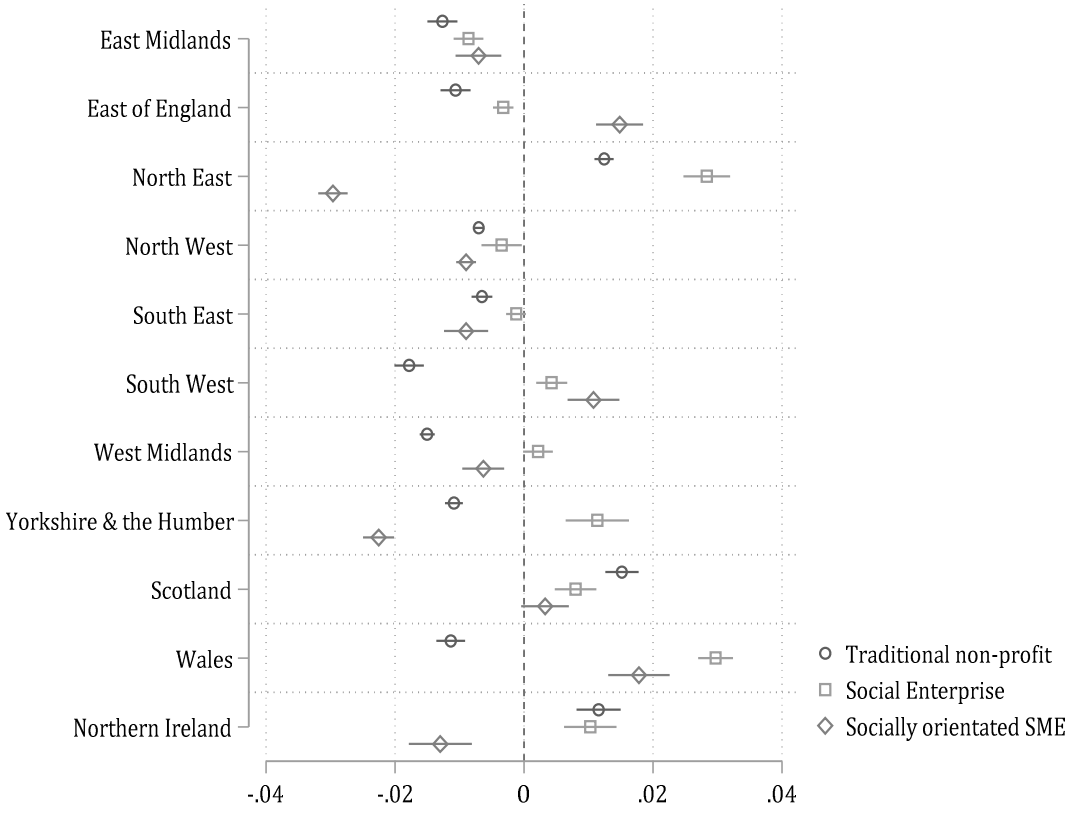


Source: Longitudinal Small Business Survey (LSBS). Estimated average marginal effects from a multinomial probit model. Base category is England. Average marginal effects for commercial SMEs are not included to facilitate interpretation of the results. Standard errors clustered at regional level, Marker symbols are used for point estimates and spikes for 95% confidence intervals.

Using more detailed geographical data, we now use London as a reference category in our analysis. The North East of England and Scotland have a higher probability of having traditional non-profit firms compared to London. The North East of England, Northern Ireland, Wales, Yorkshire & Humber, and Scotland are found to have a higher probability to have social

enterprises compared to London. Finally East of England and Scotland are more likely to have socially-oriented SMEs compared to London.

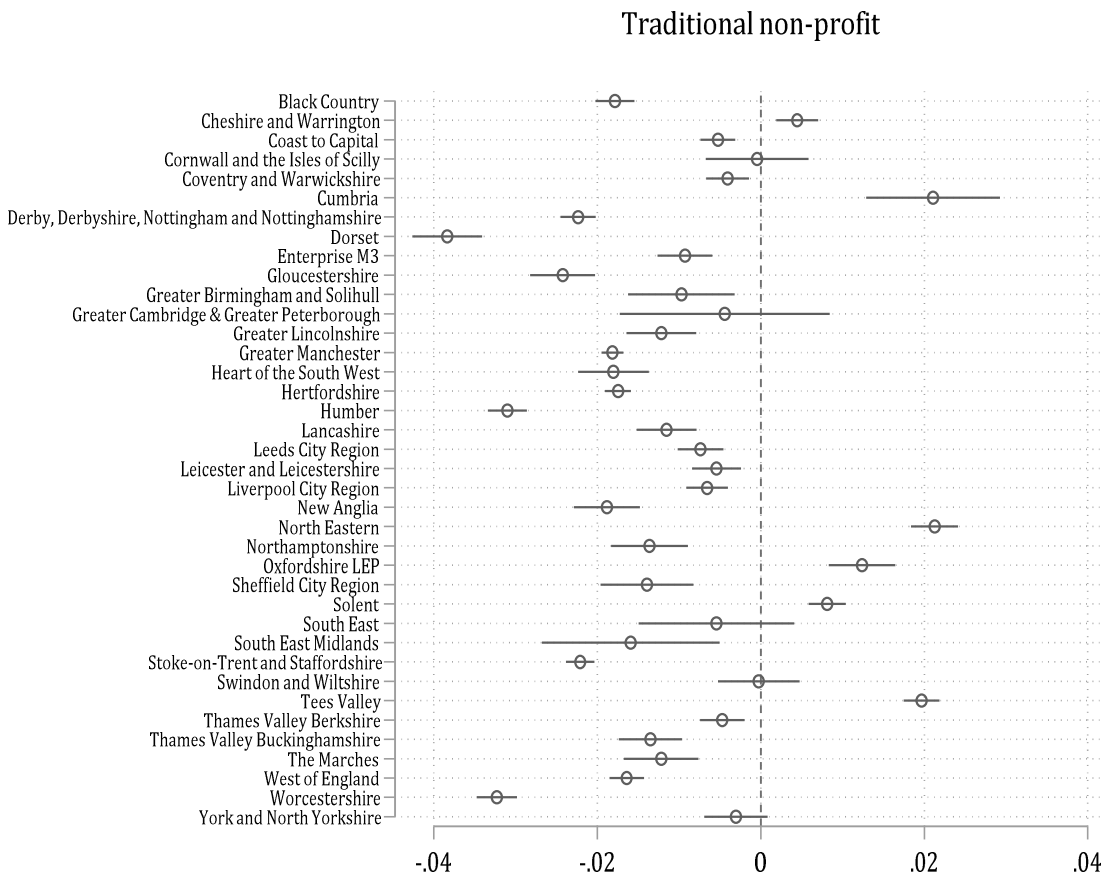
Figure 27: Average Marginal Effects of SME Location on SME's organizational form



Source: Longitudinal Small Business Survey (LSBS). Estimated average marginal effects from a multinomial probit model. Base category is London. Average marginal effects for commercial SMEs are not included to facilitate interpretation of the results. Standard errors clustered at regional level, Marker symbols are used for point estimates and spikes for 95% confidence intervals.

In what follows, our analysis focuses on Local Enterprise Partnerships (LEPs), which excludes Wales, Scotland and Northern Ireland. Using London as a reference category, Figure 28 shows that Cumbria, North-eastern and Tees Valley are the LEPs with a higher probability of having traditional non-profit SMEs compared to London. A similar pattern is observed in Cheshire and Warrington, Oxfordshire and Solent. Interestingly, our analysis also suggests that Dorset and Worcestershire are the LEPs with lowest probability of having non-profit SMEs compared to London.

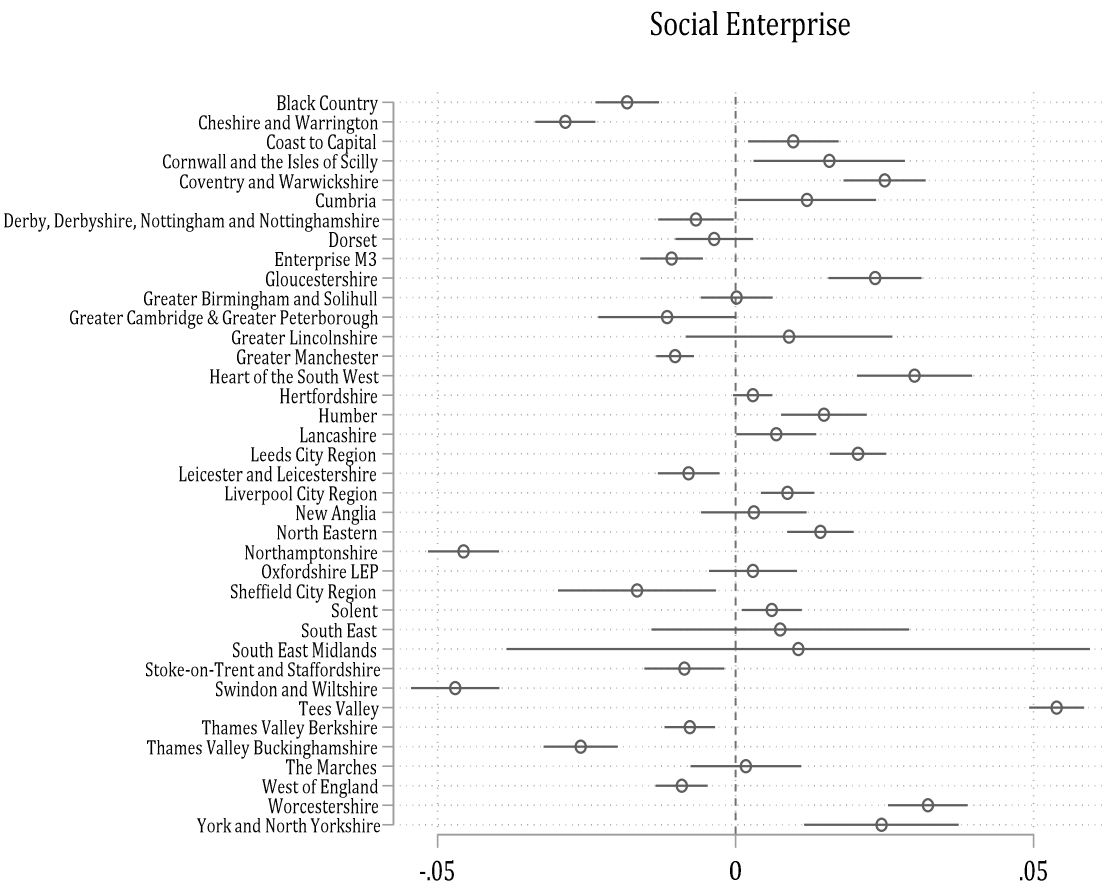
Figure 28: Average Marginal Effects of SME Location (LEPs-level) on SME's organizational form – Traditional non-profit SMEs



Source: Longitudinal Small Business Survey (LSBS). Estimated average marginal effects from a multinomial probit model. Base category is London. Average marginal effects for commercial SMEs are not included to facilitate interpretation of the results. Standard errors clustered at regional level, Marker symbols are used for point estimates and spikes for 95% confidence intervals.

The results for social enterprises are presented in Figure 29. Considering London as a reference category, Figure 29 shows that several LEPs have a positive marginal effect suggesting that social enterprises are more likely to be located in those regions compared to London. The highest effects are in Tees Valley, Worcestershire, Heart of the Southwest, York and North Yorkshire, Gloucestershire and Coventry and Warwickshire. On the other hand, LEPs which are less likely to have social enterprises compared to London are Northamptonshire, Swindon, and Wiltshire.

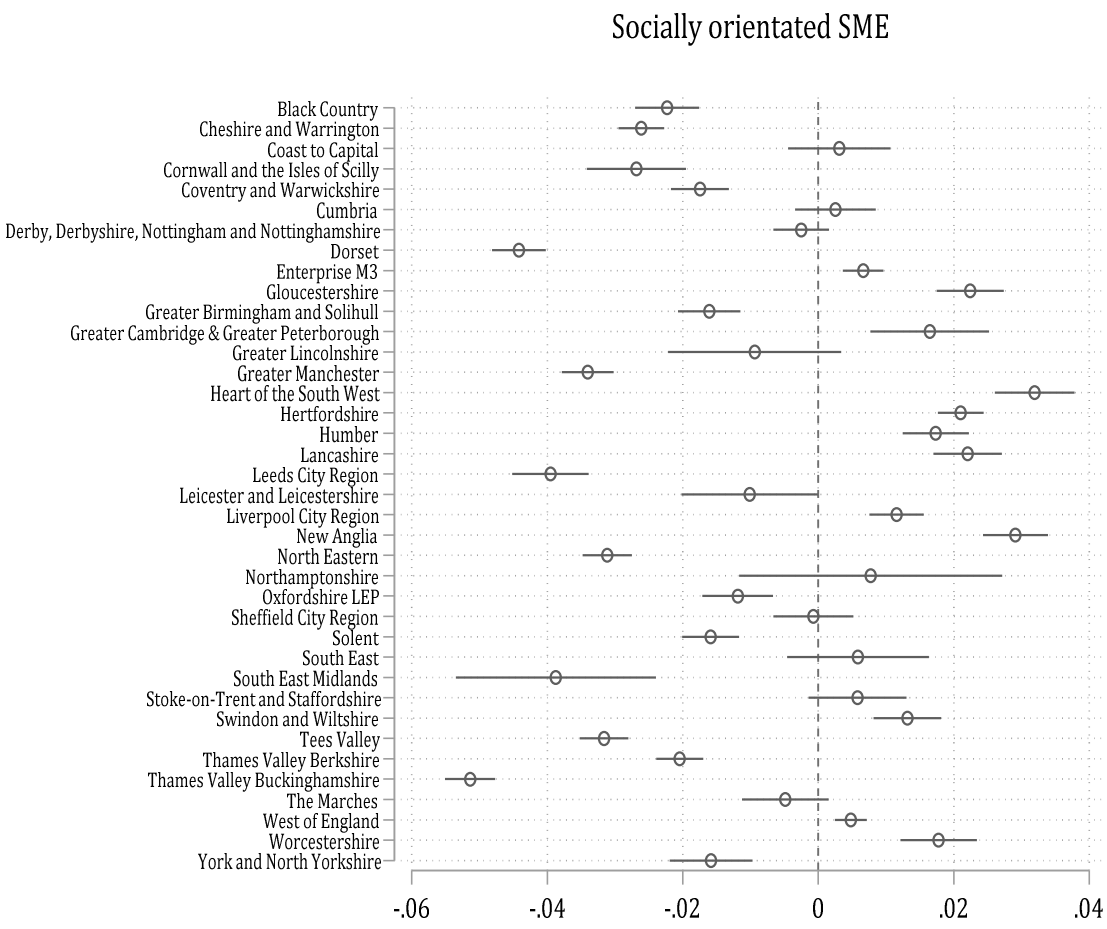
Figure 29: Average Marginal Effects of SME Location (LEPs-level) on SME's organizational form – Social Enterprises



Source: Longitudinal Small Business Survey (LSBS). Estimated average marginal effects from a multinomial probit model. Base category is London. Average marginal effects for commercial SMEs are not included to facilitate interpretation of the results. Standard errors clustered at regional level, Marker symbols are used for point estimates and spikes for 95% confidence intervals.

The results for socially-oriented SMEs are presented in Figure 30. Using London as a reference category, Figure 30 shows that several LEPs have a positive marginal effect, which suggests that socially-oriented SMEs are more likely to be located in those regions compared to London. The highest effects are found in Heart of the Southwest and New Anglia, flowed closely by Lancashire Hertfordshire and Gloucestershire. On the other hand, LEPs which are less likely to have social enterprises compared to London are Dorset and Thames Valley Buckinghamshire.

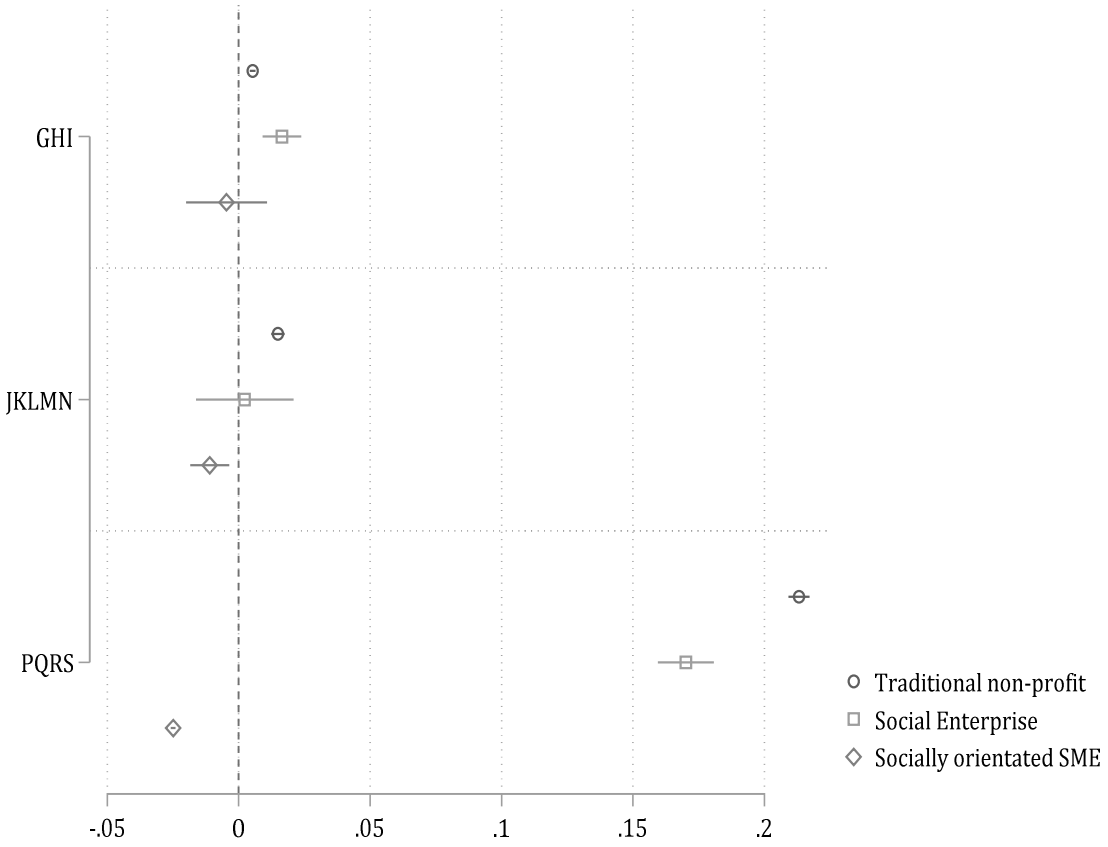
Figure 30: Average Marginal Effects of SME Location (LEPs-level) on SME's organizational form – Socially-oriented SME



Source: Longitudinal Small Business Survey (LSBS). Estimated average marginal effects from a multinomial probit model. Base category is London. Average marginal effects for commercial SMEs are not included to facilitate interpretation of the results. Standard errors clustered at regional level, Marker symbols are used for point estimates and spikes for 95% confidence intervals.

Figure 31 presents our analysis across economic sectors. The base category in our analysis is the production and construction sector (SIC: ABCDEF). The results suggest that sector PQRS which includes Social and other services (education, health, arts etc.) are more likely to have social enterprises and traditional non-profit SMEs compared to sector ABCDEF. We also find that sector PQRS is less likely to have socially-oriented SMEs compared to sector ABCDEF.

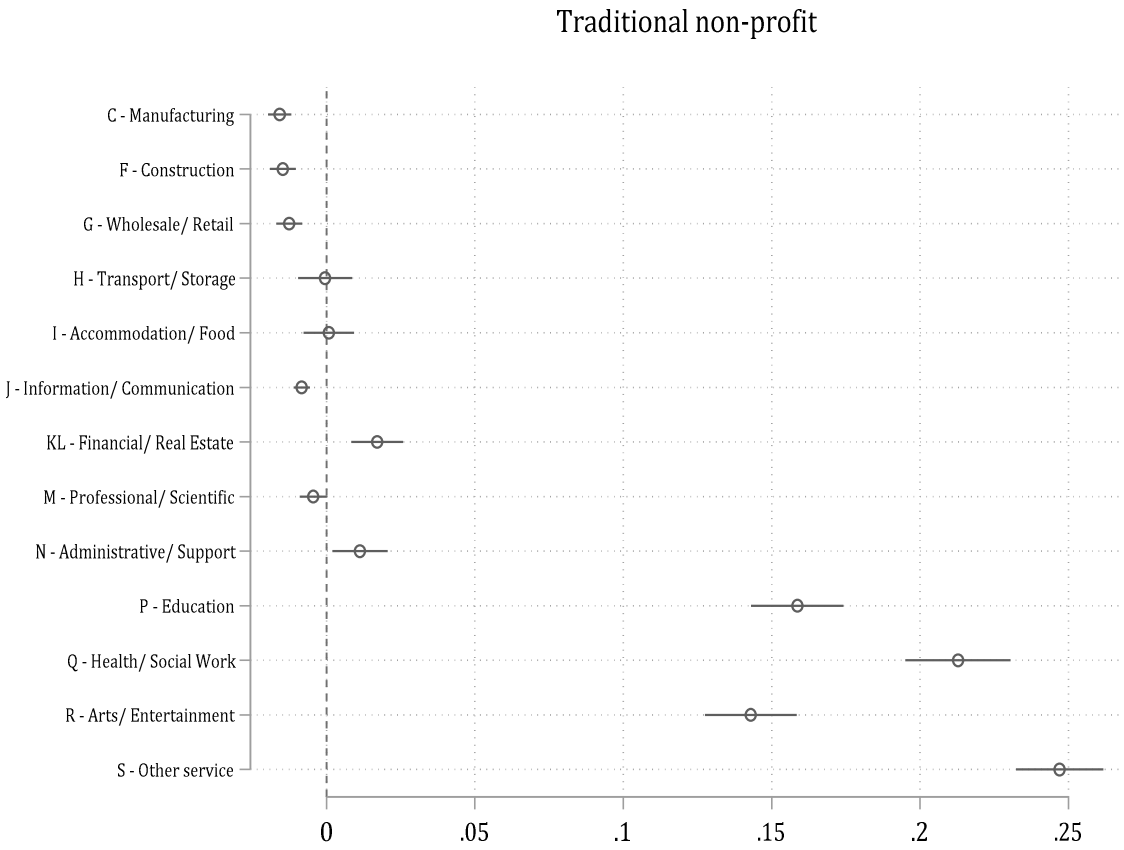
Figure 31: Average Marginal Effects of SME Sector on SME's organizational form



Source: Longitudinal Small Business Survey (LSBS). Estimated average marginal effects from a multinomial probit model. Base category is Production and construction (SIC 2007: ABCDEF). Average marginal effects for commercial SMEs are not included to facilitate interpretation of the results. Standard errors clustered at regional level, Marker symbols are used for point estimates and spikes for 95% confidence intervals.

Figures 32 – 34 examine the sectoral presence of social enterprises by using a more detailed classification of business sectors. Considering Non-Manufacturing Production sector (ABDE – Primary) as a base category, we observe that traditional non-profit SMEs are more likely to belong to sectors P (Education), Q (Health/social work), R (Arts/entertainment), S (other services). The highest marginal effect is in the other services sector (S), while the lowest marginal effect is observed in the manufacturing sector (C).

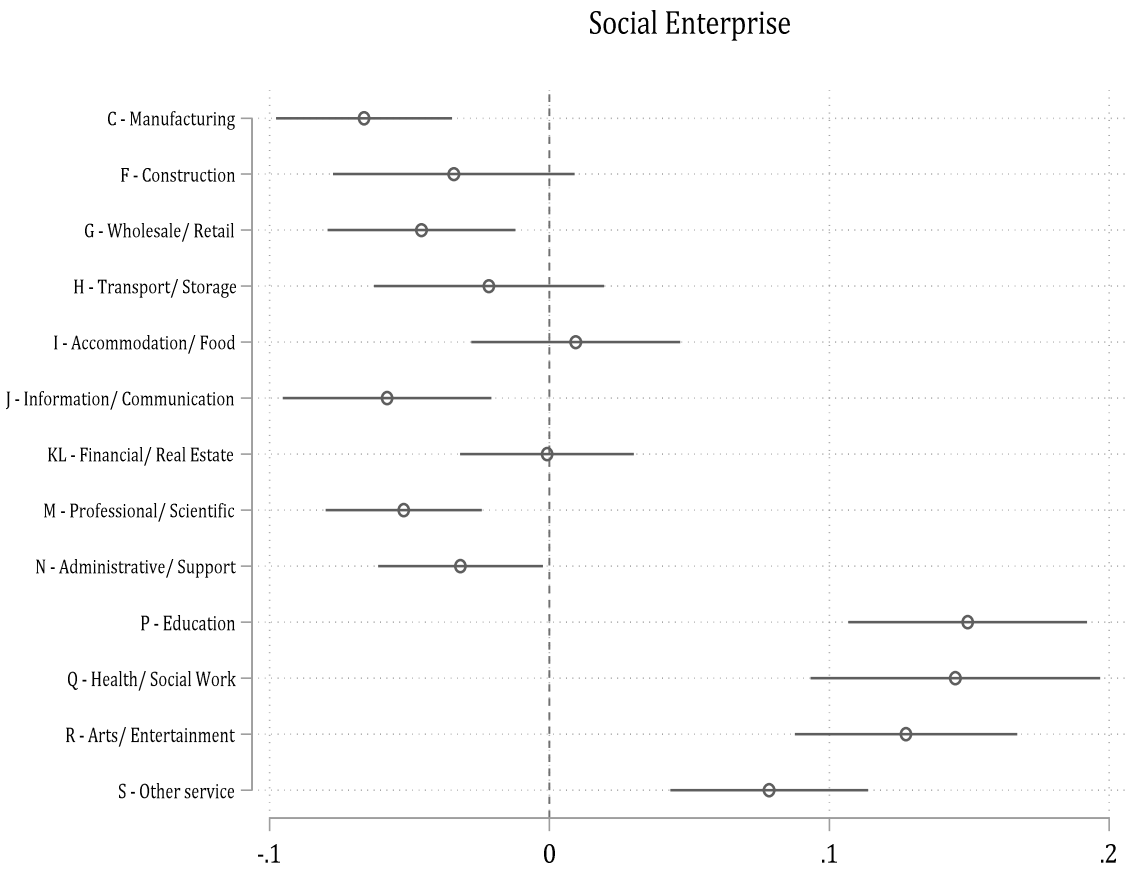
Figure 32: Average Marginal Effects of SME Sector on SME's organizational form – Traditional non-profit SMEs



Source: Longitudinal Small Business Survey (LSBS). Estimated average marginal effects from a multinomial probit model. Base category is ABDE - Primary. Average marginal effects for commercial SMEs are not included to facilitate interpretation of the results. Standard errors clustered at regional level, Marker symbols are used for point estimates and spikes for 95% confidence intervals.

Figure 33 focuses on social enterprises. Considering Non-Manufacturing Production sector (ABDE – Primary) as a base category, we observe that social enterprises are more likely to belong to sectors P (Education) and R (Arts/entertainment), which have the highest estimated marginal effects. Sectors Q (Health/social work) and S (other services) are also more likely to have social enterprises compared with the ABDE – Primary sector, but the estimated marginal effects are lower in size compared to sectors P and R.

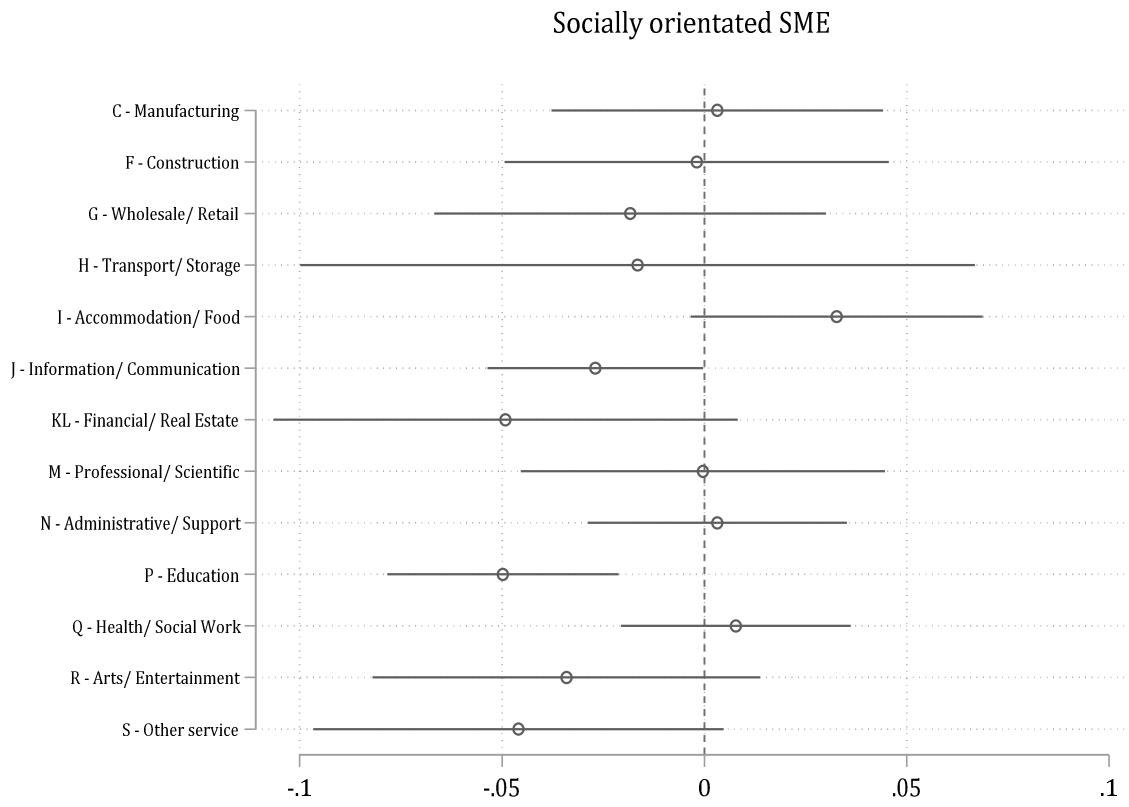
Figure 33: Average Marginal Effects of SME Sector on SME's organizational form – Social Enterprises



Source: Longitudinal Small Business Survey (LSBS). Estimated average marginal effects from a multinomial probit model. Base category is ABDE - Primary. Average marginal effects for commercial SMEs are not included to facilitate interpretation of the results. Standard errors clustered at regional level, Marker symbols are used for point estimates and spikes for 95% confidence intervals.

Figure 34 focuses on socially-oriented SMEs. Considering Non-Manufacturing Production sector (ABDE – Primary) as a base category, we do not observe statistically significant positive marginal effects across sector for socially-oriented firms. The only marginal exception is sector I (accommodation and food), but the estimated marginal effect is statistically significant at the 10% level only. On the other hand, sector P (education) and J (information / communication) have a lower probability to have socially-oriented firms compared to the Non-Manufacturing Production sector (ABDE – Primary).

Figure 34: Average Marginal Effects of SME Sector on SME's organizational form – Socially-oriented SME



Source: Longitudinal Small Business Survey (LSBS). Estimated average marginal effects from a multinomial probit model. Base category is ABDE - Primary. Average marginal effects for commercial SMEs are not included to facilitate interpretation of the results. Standard errors clustered at regional level, Marker symbols are used for point estimates and spikes for 95% confidence intervals.

4.5 Access to finance for social enterprises

In this section we analyse the factors affecting SME use of various forms of finance including bank overdrafts, commercial mortgages, credit cards, equity finance, factoring/invoice discounting, government or local authority grants, leasing or hire purchase, loans from a bank, building society or other financial institution, loans from family/friends, loans from a peer-to-peer platform, and loans from business partner/director/owner (Table 5). We also analyse how decisions to apply for funding and subsequent outcomes are associated with organizational form (Table 6). Commercial SMEs are used as a reference category for the interpretation of the marginal effects reported in Tables 5 and 6.

Table 5: Social enterprises and current use of financing sources (I)

	Bank overdraft	Commercial Mortgage	Credit Cards	Equity Finance	Factoring/Invoice discounting	Government or local authority grants	Leasing or hire purchase
Traditional non-profit	-0.190***	-0.025***	-0.053**	-0.026***	-0.026***	0.159***	-0.021
	(-11.74)	(-8.73)	(-2.19)	(-3.73)	(-2.92)	(6.81)	(-1.18)
Social enterprise	-0.026***	0.002	-0.016	-0.009*	0.002	0.081***	-0.057***
	(-3.62)	(0.60)	(-0.87)	(-1.76)	(0.59)	(9.01)	(-7.89)
Socially-oriented SME	0.001	0.010***	-0.009	-0.010***	-0.020***	0.009**	-0.002
	(0.16)	(2.94)	(-0.79)	(-4.90)	(-6.68)	(2.48)	(-0.35)
Aims to grow $_{t-1}$	0.034***	-0.006	0.063***	0.012***	0.026***	0.019***	0.058***
	(3.36)	(-0.82)	(9.61)	(7.66)	(3.80)	(9.97)	(7.82)
Size: Micro	0.074***	0.035***	0.046***	-0.005	0.029***	0.027***	0.103***
	(8.58)	(6.62)	(15.90)	(-1.42)	(7.79)	(24.29)	(18.08)
Size: Small	0.065***	0.080***	0.121***	0.004	0.074***	0.041***	0.252***
	(11.33)	(6.54)	(26.17)	(1.30)	(13.81)	(6.24)	(58.80)
Size: Medium	0.081***	0.116***	0.188***	0.022***	0.113***	0.039***	0.303***
	(12.34)	(15.24)	(16.99)	(3.51)	(11.78)	(4.19)	(24.37)
Business age: 6 – 10 years	0.026	0.023***	0.068***	-0.013***	0.023**	0.011	0.021***
	(1.45)	(3.21)	(5.65)	(-3.65)	(2.04)	(0.81)	(5.65)
Business age: 11 – 20 years	0.086***	0.046***	0.140***	-0.009***	0.004	0.018*	0.044***
	(5.13)	(5.49)	(6.62)	(-3.03)	(0.34)	(1.82)	(4.77)
Business age: 20+ years	0.099***	0.046***	0.133***	-0.025***	-0.004	0.026***	0.055***
	(6.78)	(7.42)	(22.68)	(-12.20)	(-0.27)	(2.63)	(5.86)
Turnover change (stayed the same) $_{t-1}$	-0.034***	-0.008	-0.015**	0.001	-0.011***	-0.014*	0.012***
	(-4.68)	(-1.54)	(-2.17)	(0.54)	(-4.08)	(-1.88)	(2.69)
Turnover change (increased) $_{t-1}$	-0.014**	0.005	-0.002	0.008**	-0.005	0.004	0.013
	(-2.38)	(0.91)	(-0.09)	(2.34)	(-1.59)	(0.61)	(1.55)
Profit $_{t-1}$	-0.065***	0.008	-0.017***	-0.018***	-0.008**	-0.024***	-0.006
	(-4.48)	(1.05)	(-5.21)	(-4.10)	(-2.56)	(-4.33)	(-0.55)
Location $_{t}$: Urban area	-0.023**	-0.010***	-0.023**	-0.001	0.009**	-0.026***	-0.040***
	(-1.98)	(-3.06)	(-2.44)	(-0.47)	(2.53)	(-9.15)	(-10.02)
Female led $_{t-1}$	-0.033***	-0.002	-0.008	-0.011***	0.002	0.007***	-0.023*
	(-2.68)	(-0.47)	(-1.26)	(-3.07)	(1.49)	(4.82)	(-1.88)
Minority ethnic-led $_{t-1}$	-0.007	0.028***	-0.028	0.009***	-0.002	0.001	-0.022
	(-0.54)	(5.38)	(-1.57)	(4.62)	(-0.90)	(0.05)	(-1.54)
Family owned	0.075***	0.023***	-0.018*	-0.024***	0.009***	-0.020***	-0.001
	(7.04)	(18.85)	(-1.81)	(-10.44)	(3.04)	(-3.43)	(-0.06)
Business plan	0.040***	0.017***	0.033***	0.013***	0.022***	0.033***	0.019***
	(8.80)	(7.82)	(10.23)	(7.56)	(2.97)	(4.07)	(4.46)
Fixed effects							
Regional / Industry FEs	YES	YES	YES	YES	YES	YES	YES
N	-5816.162	-2483.413	-6259.355	-1043.217	-1994.636	-1842.661	-5046.245
Log pseudo-likelihood	0.695	0.921	0.638	0.974	0.940	0.747	
R2	11638.325	4972.825	12524.709	2092.433	3995.272	3691.322	10098.491
AIC	11659.885	4994.386	12546.270	2113.994	4016.833	3712.883	10120.051
BIC	-5816.162	-2483.413	-6259.355	-1043.217	-1994.636	-1842.661	-5046.245

Notes: This table shows average marginal effects from probit regressions. Z-statistics adjusted for clustering at regional level are reported in parentheses. Significance at the 10%, 5%, and 1% level is showed by *, ** and ***.

Table 6: Social enterprises and current use of financing sources (II)

	Loan from a bank, building society or other financial institution	Loan from family/friend	Loan from a peer-to-peer platform	Loan from business partner/director/owner
Traditional non-profit	-0.089***	-0.045***	-0.087***	-0.074***
	(-7.99)	(-13.06)	(-44.40)	(-26.90)
Social enterprise	-0.026**	-0.002	-0.038***	-0.025***
	(-2.08)	(-0.61)	(-7.03)	(-5.34)
Socially-oriented SME	0.022	-0.006	0.001	-0.017***
	(1.54)	(-0.95)	(0.28)	(-22.92)
Aims to grow $_{t-1}$	0.029***	0.027***	0.045***	0.014***
	(6.18)	(8.26)	(8.48)	(4.62)
Size: Micro	0.060***	-0.010**	0.023***	0.021***
	(25.10)	(-1.97)	(4.83)	(5.31)
Size: Small	0.094***	-0.010***	0.028***	0.032***
	(16.21)	(-3.22)	(11.22)	(13.17)
Size: Medium	0.171***	-0.027***	0.036***	0.026***
	(20.69)	(-4.77)	(6.04)	(4.52)
Business age: 6 – 10 years	0.003	-0.000	-0.008	-0.019***
	(0.41)	(-0.04)	(-0.49)	(-4.13)
Business age: 11 – 20 years	0.020*	-0.012***	-0.028***	-0.022**
	(1.75)	(-5.78)	(-3.33)	(-2.44)
Business age: 20+ years	0.023***	-0.026***	-0.043**	-0.037***
	(2.78)	(-35.87)	(-2.56)	(-5.06)
Turnover change (stayed the same) $_{t-1}$	-0.006*	-0.016***	-0.005*	-0.013***
	(-1.73)	(-3.64)	(-1.67)	(-4.03)
Turnover change (increased) $_{t-1}$	0.018**	-0.004	0.002	-0.004
	(2.09)	(-1.08)	(0.55)	(-1.03)
Profit $_{t-1}$	0.006	-0.026***	-0.061***	-0.042***
	(1.06)	(-3.74)	(-25.80)	(-13.00)
Location $_t$: Urban area	-0.038***	-0.007***	-0.010***	-0.018***
	(-7.64)	(-3.93)	(-3.09)	(-5.89)
Female led $_{t-1}$	-0.024***	0.015***	-0.007***	-0.016***
	(-3.90)	(2.95)	(-2.64)	(-2.59)
Minority ethnic-led $_{t-1}$	0.015**	0.049***	0.024***	0.019
	(2.46)	(10.44)	(8.54)	(1.60)
Family owned	0.042***	0.037***	0.003	0.011***
	(5.27)	(9.41)	(0.45)	(4.32)
Business plan	0.027***	0.002	0.013***	0.023***
	(11.31)	(0.72)	(3.20)	(10.20)
Fixed effects				
Regional Fes	YES	YES	YES	YES
Industry Fes	YES	YES	YES	YES
N	-4357.520	-1866.753	-2825.634	-2541.279
Chi2	0.819	0.948	0.910	0.924
p-value	8721.040	3739.505	5657.267	5090.557
Log pseudo-likelihood	8742.601	3761.066	5678.828	5119.305
R2	-4357.520	-1866.753	-2825.634	-2541.279

Notes: This table shows average marginal effects from probit regressions. Z-statistics adjusted for clustering at regional level are reported in parentheses. Significance at the 10%, 5%, and 1% level is showed by *, ** and ***.

The results presented in Table 5 suggest that traditional non-profit and social enterprises are less likely to use a bank overdraft compared to commercial SMEs. We also find that socially-oriented SMEs are more likely to use commercial mortgages as a source of funding compared to commercial SMEs. Traditional non-profit SMEs are less likely to use this form of finance. Traditional non-profit SMEs are less likely to use credit cards compared to commercial SMEs. All types of social SMEs (traditional non-profit, social enterprises, and socially-oriented SMEs) are less likely to use equity finance compared to SMEs. Factoring and invoice discounting is also less likely to be used by traditional non-profit and socially-oriented SMEs compared to commercial SMEs. Our results suggest that social enterprises, traditional non-profit and socially-oriented SMEs tend to seek finance through government grants and schemes compared to commercial SMEs. Finally, we also find that social enterprises tend to have a lower use of leasing or hire purchase financing tools compared to commercial SMEs.

The results presented in Table 6 focus on lending. We find a common pattern suggesting that SMEs with social and environmental orientation are less likely to seek funding via loans. Traditional non-profit and social enterprises are less likely to use loans from a bank, building society or other financial institution and loans from peer-to-peer platforms compared to commercial SMEs. We also find that traditional non-profit SMEs are less likely to use loans from family and friends. In similar way, traditional non-profit SMEs, social enterprises and socially-oriented SMEs are less likely to receive loans from business partner/director/owner compared to commercial SMEs.

In Table 7, we focus on specific types of finance sought by SMEs (bank overdrafts, credit cards, government grants and loans) to study how organisational forms of SMEs could affect their decision to apply for funding and the outcome of these applications (Brown et al., 2019b).

Table 7: Heckman probit results. Social enterprises and access to main sources of finance

	Bank overdrafts		Credit Cards		Government or local authority grants or schemes		Loans from banks building societies, etc.	
	Selection	**Outcome**	**Selection**	**Outcome**	**Selection**	**Outcome**	**Selection**	**Outcome**
Traditional non-profit	-0.309***	0.152***	-0.089***	-0.677***	0.380***	0.374***	-0.307***	-0.284*
	(-11.04)	(24.66)	(-3.32)	(-6.99)	(3.96)	(15.43)	(-8.75)	(-1.71)
Social enterprise	-0.102***	0.037	-0.002	0.077***	0.115***	0.132	-0.055*	0.077***
	(-4.66)	(0.87)	(-0.09)	(49.37)	(4.21)	(1.01)	(-1.95)	(5.05)
Socially-oriented SME	0.008	0.018	-0.032**	-0.050	0.009	0.096	-0.029***	0.010
	(1.08)	(1.08)	(-2.36)	(-1.49)	(0.62)	(1.41)	(-6.02)	(0.37)
Size: Micro	0.033**	-0.031*	0.008	-0.028**	0.054***	0.424***	0.063***	0.071**
	(2.06)	(-1.96)	(0.28)	(-2.15)	(7.04)	(6.58)	(3.28)	(1.97)
Size: Small	-0.005	-0.004	0.007	0.058*	0.018	0.306***	0.036**	0.139***
	(-0.35)	(-0.14)	(0.18)	(1.69)	(1.42)	(4.98)	(2.44)	(2.59)
Size: Medium	-0.023	0.032	-0.007	0.062***	0.032***	0.420***	0.125***	0.195***
	(-1.35)	(0.82)	(-0.20)	(6.87)	(3.10)	(4.78)	(4.07)	(5.52)
Business age: 6 – 10 years	0.002	-0.014	0.004	-0.003	0.066***	-0.361***	0.026	-0.065***
	(0.08)	(-0.25)	(0.17)	(-0.03)	(4.03)	(-3.01)	(0.56)	(-3.95)
Business age: 11 – 20 years	0.021	0.051	0.038***	0.075**	0.043***	-0.489***	-0.001	-0.069
	(0.71)	(1.15)	(2.59)	(2.10)	(2.76)	(-8.78)	(-0.05)	(-1.41)
Business age: 20+ years	0.085***	0.070	0.026	0.052	0.020*	-0.293***	0.024	-0.014
	(10.20)	(1.47)	(1.25)	(1.56)	(1.75)	(-3.05)	(0.60)	(-0.60)
Turnover change (stayed the same)$_{t-1}$	0.014*	-0.015	0.012	-0.004	-0.005	0.115	-0.022	0.108***
	(1.73)	(-0.63)	(1.34)	(-0.08)	(-0.30)	(0.50)	(-0.74)	(10.80)
Turnover change (increased) $_{t-1}$	0.044***	-0.030	0.022	-0.015	0.001	-0.039	0.003	0.038***
	(5.19)	(-0.74)	(1.50)	(-0.61)	(0.06)	(-0.39)	(0.14)	(2.90)
Profit $_{t-1}$	-0.045	0.074***	-0.034**	-0.055***	-0.020**	0.308	-0.025	0.138***
	(-1.38)	(2.96)	(-2.48)	(-3.57)	(-2.20)	(0.18)	(-0.94)	(6.61)
Location $_t$: Urban area	-0.052**	-0.030	0.010	-0.007	-0.024**	0.017	-0.017	-0.033**
	(-2.35)	(-0.99)	(0.76)	(-0.20)	(-2.21)	(0.02)	(-0.96)	(-2.06)
Female led $_{t-1}$	-0.047*	-0.049*	0.023	-0.129***	-0.011	-0.063	0.055***	-0.044***
	(-1.94)	(-1.71)	(0.79)	(-10.10)	(-0.64)	(-0.28)	(2.62)	(-4.64)
Minority ethnic-led $_{t-1}$	-0.006	-0.152***	-0.061*	0.642***	-0.069***	3.508	0.015	-0.090*
	(-0.34)	(-4.13)	(-1.89)	(12.38)	(-5.38)	(0.25)	(0.37)	(-1.87)
Family owned	0.001	0.023*	0.007	-0.130***	-0.051***	-0.142	0.046	-0.019
	(0.02)	(1.80)	(0.29)	(-3.08)	(-2.68)	(-0.14)	(1.40)	(-1.03)
Aims to grow $_{t-1}$	-0.009		-0.003		0.013***		0.022	
	(-0.25)		(-0.28)		(3.20)		(0.96)	
Business plan	-0.036		-0.031***		0.054***		-0.021*	
	(-0.87)		(-3.64)		(7.93)		(-1.66)	
Fixed effects								
Regional FEs	YES	YES	YES	YES	YES	YES	YES	YES
Industry FEs	YES	YES	YES	YES	YES	YES	YES	YES
Athrho	0.326		0.443		-11.428***		-0.271	
	(0.20)		(0.27)		(-5.50)		(-0.65)	
P	0.315		0.416		-1.000		-0.264	
N	1337.000		1348.000		1343.000		1318.000	
Selected	456.000		171.000		120.000		498.000	
Nonselected	881.000		1177.000		1223.000		820.000	
Log pseudo-likelihood	-992.235		-535.709		-341.206		-1077.735	
Wald test of indep. Eqns (ρ = 0)	0.038		0.072		30.205		0.428	
Prob > chi2	0.845		0.789		0.000		0.513	

Notes: This table present the marginal effects from a Heckman probit model with sample selection (Van de Ven and Van Pragg 1981) which is estimated using the Stata "Heckprobit" routine (StataCorp, 2019). The selection equation relates to the probability of needing finance. The outcome equation relates to the probability of being a discouraged borrower conditional on needing finance. All regressions include a constant term. The exclusion restrictions used in the selection equation are Amin to grow and having a business plan. The base categories for categorical variables are: zero employees (size), 0-5 years (business age), 18–30 years old (owner's age), decreased (turnover change). Z-statistics adjusted for clustering at the firm level are reported in parentheses. ***, ** and *Significant at the 1%, 5% and 10% levels, respectively.

The results presented in Table 7 suggest that traditional non-profit and social enterprises are less likely to apply for bank overdrafts. However, upon application traditional non-profit SMEs have a greater chance of success compared to commercial SMEs. Moreover, traditional non-profit SMEs are less likely to apply for credit card funding compared to commercial SMEs. Applications for credit card funding are more likely to be rejected for traditional non-profit SMEs, but more likely to be approved for social enterprises compared to commercial SMEs. Both traditional non-profit and social enterprises are more likely to apply for government or local authority grants and schemes compared to commercial SMEs. However, we only find evidence that applications for traditional non-profit are more likely to be successful compared to commercial SMEs counterparts. Finally, we observe that all non-profit SMEs, social enterprises and socially-oriented SMEs are all less likely to apply for loans compared to commercial SMEs. However, if the application takes place social enterprises are more likely to obtain the funding compared to commercial SMEs, while applications from traditional non-profit SMEs were more like to be rejected compared to commercial SMEs.

4.6 The impact of COVID-19 pandemic on the future intentions and plans of social enterprises

In this section we explore the potential implications of the COVID-19 pandemic for SMEs with specific environmental and societal goals. Table 8 present results on whether relative to commercial SME counterparts. SMEs with different organisational forms perceived the COVID-19 pandemic as a major obstacle to business success. The results suggest that there are no significant differences in the case of traditional non-profit firms and social enterprises with respect to commercial SMEs. However, we find that socially-oriented SMEs are less likely to see COVID-19 as a major obstacle to business success relative to commercial SMEs.

Table 8: COVID-19 pandemic as major obstacles to the success of your business in general

	Model 1	Model 2	Model 3
Traditional non-profit $_{t-1}$	0.030*	0.014	0.025
	(1.83)	(0.55)	(1.34)
Social enterprise $_{t-1}$	-0.033	-0.036	-0.039
	(-0.87)	(-1.28)	(-1.26)
Socially-oriented SME $_{t-1}$	-0.028	-0.043**	-0.048**
	(-1.27)	(-2.23)	(-2.34)
Aims to grow $_{t-1}$		0.019	0.014
		(0.75)	(0.52)
Size: Micro		0.057**	0.037***
		(2.15)	(5.31)
Size: Small		0.038	0.031***
		(1.28)	(6.71)
Size: Medium		0.042	0.010
		(0.93)	(0.27)
Business age: 6 – 10 years		-0.132***	-0.144***
		(-6.84)	(-10.04)
Business age: 11 – 20 years		-0.076***	-0.067***
		(-2.70)	(-2.66)
Business age: 20+ years		-0.131***	-0.121***
		(-5.96)	(-5.06)
Turnover change (stayed the same) $_{t-1}$		-0.037***	-0.041***
		(-4.22)	(-10.96)
Turnover change (increased) $_{t-1}$		-0.035***	-0.025**
		(-2.90)	(-2.18)
Profit $_{t-1}$		-0.048***	-0.043***
		(-8.84)	(-8.58)
Location $_{t}$: Urban area			0.056**
			(2.03)
Female led $_{t-1}$			0.030*
			(1.86)
Minority ethnic-led $_{t-1}$			0.047
			(0.98)
Family owned			0.014
			(0.54)
Business plan			0.012
			(0.66)
Fixed effects			
Regional FEs	YES	YES	YES
Industry FEs	YES	YES	YES
N	-971.009	-908.901	-799.288
Log pseudo-likelihood	46.260	71.096	65.396
R2	0.024	0.038	0.040
AIC	1948.018	1823.801	1602.576
BIC	1964.110	1839.755	1612.942

Table 9 provides additional information regarding how SMEs adapted during the lockdown restrictions. The results suggest that both traditional non-profit and socially-oriented SMEs are less likely to close down completely or temporarily compared to commercial SMEs. Although owners of non-profit SMEs and social enterprises are more likely to state that their business were affected by COVID-19 restrictions compared to commercial SMEs, results in the last column of Table 9 seems to suggest that non-profit SMEs, social enterprises and socially-oriented SMEs increased their operations during the lockdown restrictions.

Table 9: Which of the following statements best describes how your business adapted during the lockdown restrictions?

	Your business closed down completely (temporarily)	Operations were reduced	Your business was unaffected by Covid-19 restrictions	Operations were increased
Traditional non-profit $_{t-1}$	-0.063***	0.008	-0.018**	0.073***
	(-10.76)	(1.61)	(-2.43)	(4.48)
Social enterprise $_{t-1}$	-0.001	0.000	-0.030**	0.031***
	(-0.15)	(0.04)	(-2.40)	(4.49)
Socially-oriented SME $_{t-1}$	-0.017**	-0.003	0.003	0.017***
	(-2.48)	(-0.37)	(0.45)	(3.12)
Aims to grow $_{t-1}$	-0.033**	0.048***	-0.031***	0.015***
	(-2.10)	(3.36)	(-14.05)	(5.38)
Size: Micro	0.042**	-0.016**	-0.039***	0.014***
	(2.40)	(-2.57)	(-2.86)	(4.83)
Size: Small	-0.006	0.042***	-0.057***	0.022***
	(-0.23)	(6.61)	(-3.24)	(4.96)
Size: Medium	-0.090***	0.067***	-0.025	0.049***
	(-4.58)	(2.73)	(-1.51)	(17.14)
Business age: 6 – 10 years	-0.065***	0.056*	0.031***	-0.022**
	(-5.20)	(1.79)	(3.85)	(-1.98)
Business age: 11 – 20 years	-0.087***	0.095***	0.015*	-0.023***
	(-5.08)	(12.04)	(1.71)	(-2.59)
Business age: 20+ years	-0.136***	0.115***	0.046***	-0.026***
	(-17.28)	(7.77)	(3.55)	(-4.40)
Turnover change (stayed the same) $_{t-1}$	-0.041**	-0.026	0.072***	-0.005
	(-2.32)	(-1.47)	(6.30)	(-0.39)
Turnover change (increased) $_{t-1}$	-0.067***	-0.013	0.060***	0.020
	(-3.64)	(-0.54)	(6.62)	(1.40)
Profit $_{t-1}$	-0.022*	0.024	-0.002	-0.000
	(-1.74)	(1.50)	(-0.33)	(-0.09)
Location $_{t}$: Urban area	0.011	0.044***	-0.057***	0.002
	(0.77)	(21.50)	(-2.77)	(0.28)
Female led $_{t-1}$	0.058***	-0.037**	-0.027***	0.005
	(5.02)	(-2.10)	(-2.86)	(1.44)
Minority ethnic-led $_{t-1}$	-0.059*	0.018	0.015**	0.026*
	(-1.89)	(0.75)	(2.24)	(1.94)
Family owned	0.055***	-0.029*	-0.050***	0.025***
	(3.06)	(-1.71)	(-6.38)	(4.33)
Regional / Industry FEs		YES		
Observations		3953		
Log likelihood		-4432.489		
Count R2		0.523		
AIC		8868.977		
BIC		8881.542		

Notes: This table shows average marginal effects from multinomial probit regressions predicting business adaptations during lockdown. Z-statistics adjusted for clustering at regional level are reported in parentheses. Significance at the 10%, 5%, and 1% level is showed by *, ** and ***.

The LSBS allows us to analyse how SME plans to do specific types of activities over the next three years have been affected by the coronavirus COVID-19 pandemic (See Table 10).

Table 10: Social enterprises and future plans affected by COVID-19 pandemic

	Increase the skills of the workforce	Increase the leadership capability of managers	Capital investment	Develop and launch new products/services	Introduce new working practices	Invest in R&D	Recruitment of new staff in the UK
Traditional non-profit $_{t-1}$	-0.052	-0.064*	0.041	0.069	0.046**	-0.045	-0.087***
	(-0.55)	(-1.85)	(1.30)	(1.09)	(2.16)	(-0.96)	(-2.69)
Social enterprise $_{t-1}$	-0.037***	0.001	-0.063***	0.009	0.058***	-0.003	-0.024
	(-6.21)	(0.04)	(-4.16)	(0.49)	(3.14)	(-0.15)	(-1.25)
Socially-oriented SME $_{t-1}$	0.025	-0.017	0.024	0.018	0.026	0.044***	0.037*
	(1.25)	(-0.51)	(1.07)	(1.11)	(0.70)	(3.70)	(1.79)
Aims to grow $_{t-1}$	0.015	0.088***	0.047***	0.149***	0.035***	0.053***	0.075***
	(0.33)	(2.73)	(9.70)	(11.23)	(9.11)	(3.88)	(3.94)
Size: Micro	0.000	0.000	0.002	-0.081***	-0.041***	0.020**	0.100***
	(.)	(.)	(0.08)	(-10.80)	(-3.35)	(1.98)	(9.42)
Size: Small	0.000	0.000	0.068**	-0.075***	-0.047***	0.050***	0.114***
	(.)	(.)	(2.27)	(-5.28)	(-3.55)	(2.85)	(5.83)
Size: Medium	0.000	0.000	0.156***	-0.051*	0.045	0.092***	0.210***
	(.)	(.)	(21.29)	(-1.77)	(1.35)	(4.16)	(6.78)
Business age: 6 – 10 years	0.004	0.075***	-0.080***	-0.158***	-0.028	-0.121***	-0.058**
	(0.12)	(10.49)	(-3.50)	(-3.06)	(-1.20)	(-21.84)	(-2.36)
Business age: 11 – 20 years	-0.055	-0.056	-0.088***	-0.096**	-0.076*	-0.062***	-0.141***
	(-1.21)	(-1.27)	(-2.98)	(-2.37)	(-1.70)	(-3.04)	(-3.69)
Business age: 20+ years	-0.048	-0.028	-0.096***	-0.120**	-0.052**	-0.094***	-0.106***
	(-1.17)	(-0.86)	(-3.72)	(-2.46)	(-2.34)	(-9.95)	(-11.77)
Turnover change (stayed the same) $_{t-1}$	-0.047	-0.077***	-0.033	-0.052***	0.006	-0.068***	-0.014
	(-1.12)	(-3.74)	(-1.37)	(-13.95)	(0.32)	(-3.32)	(-1.29)
Turnover change (increased) $_{t-1}$	-0.054***	-0.031***	-0.006	-0.021**	-0.005	-0.051***	0.005*
	(-7.05)	(-6.12)	(-0.29)	(-2.06)	(-0.42)	(-4.97)	(1.82)
Profit $_{t-1}$	-0.061**	-0.012	-0.052***	-0.011	0.001	0.009***	-0.054***
	(-2.48)	(-0.69)	(-5.11)	(-0.65)	(0.08)	(2.72)	(-2.78)
Location $_{t}$: Urban area	0.001	-0.025***	-0.013	-0.029	0.066***	0.013**	0.035***
	(0.08)	(-5.15)	(-0.72)	(-1.10)	(8.19)	(2.00)	(2.65)
Female led $_{t-1}$	0.018	0.016	-0.070*	0.032***	-0.016	-0.056***	-0.045***
	(0.68)	(0.37)	(-1.68)	(7.62)	(-0.33)	(-5.30)	(-4.06)
Minority ethnic-led $_{t-1}$	0.114***	0.098***	0.047*	0.109***	0.057***	0.044**	0.060***
	(24.69)	(17.87)	(1.91)	(6.04)	(3.25)	(2.36)	(6.70)
Family owned	0.095***	0.009	0.040***	0.019	0.034	0.020	-0.000
	(70.26)	(0.47)	(3.45)	(1.07)	(1.61)	(1.46)	(-0.02)
Fixed effects							
Regional Fes	YES	YES	YES	YES	YES	YES	YES
Industry Fes	YES	YES	YES	YES	YES	YES	YES
N	825	825	1040	1040	1040	1040	1040
Log pseudo-likelihood	-521.708	-415.825	-427.317	-501.083	-536.186	-372.767	-582.647
R2	0.025	0.056	0.081	0.052	0.037	0.067	0.050
AIC	1047.417	835.650	858.634	1006.166	1076.373	749.534	1169.295
BIC	1056.848	845.081	868.528	1016.060	1086.267	759.428	1179.189

Notes: This table shows average marginal effects from probit regressions. Z-statistics adjusted for clustering at regional level are reported in parentheses. Significance at the 10%, 5%, and 1% level is showed by *, ** and ***.

Table 10 presents results for future plans across organizational forms. Social enterprises' plans to increase the skills of the workforce and capital investments do not seem to be affected by the COVID-19 pandemic compared to commercial SMEs. In a similar way, plans to increase the leadership capability of managers for traditional non-profit SMEs doesn't seem to be affected by the COVID-19 pandemic compared to commercial SMEs. We do not observe any significant impacts of COVID 19 on innovation compared to commercial SMEs. However, the plans to introduce new working practices for both traditional non-profit and social enterprises seem to be affected as a result of the COVID-19 pandemic in comparison with commercial SMEs. Socially-oriented SMEs have a higher probability of changing R & D investment plans compared to commercial SME due to the COVID-19 pandemic. Finally, plans relating to the recruitment of new staff were less likely to be affected for traditional non-profit SMEs, while plans are more likely to be affected for socially-oriented SMEs due to the COVID-19 pandemic compared to commercial SMEs.

5. Conclusions

Social enterprises are a unique form of organization pursing economic, social and environmental goals. As such their respective commercial activities intersect with the significant social and environmental challenges facing society today. In this study, we provide an in-depth discussion of UK social enterprises as part of the wider UK small business population. In order to do so we use the most recent waves (2016-2020) of the LSBS survey to analyse key characteristics of social enterprises, their business profiles, performance, obstacles, regional disparities, access to finance and business implications derived from the COVID-19 pandemic.

Considering the UK small business population in 2019, around 2.9% of SMEs (or 170,000 SMEs) considered social or environmental goals as their only concern. 9.3% of SMEs (or 544,000 SMEs) considered these goals as their primary concern. 26.7% (or 1.5 million SMEs) considered them to be equal to financial or other goals, while 38% (or 2.2 million SMEs) considered them to

be secondary to financial or other goals. In 2019, 8.2% of SMEs (approximately 480,000 UK SMEs) met the LSBS definition of a social enterprise. This is slightly higher than the reported figure of 8% (approximately 455,000 UK SMEs) for 2017.

The findings of an extensive descriptive and econometric analysis suggest an increasing importance of social enterprises across UK services industries, and as a proportion of the overall SME population. By location, and relative to London - the North East of England, Northern Ireland, Wales, Yorkshire & Humber, and Scotland are found to have a higher probability to have social enterprises. Social enterprises are particularly prevalent in the education, health and social work, arts and entertainment, and other services sectors. Moreover, relative to commercial SMEs - social enterprises are more likely female- and minority ethnic-led.

A high proportion of social enterprises generate a profit, and at least half of this profit is used to pursue social/environmental goals. However, social enterprises do face significant obstacles to business success including staff recruitment and skills, availability of suitable premises, product market competition. With respect to financing and relative to commercial SMEs, social enterprises are less likely to use bank overdrafts, equity finance, leasing and hire purchase, loans from a bank, building society or other financial institution and loans from peer-to-peer platforms compared to commercial SMEs. Social enterprises are more likely to use government or local authority grants as source of funding compared to commercial SMEs. Surprisingly, disruptions brought about by the COVID-19 pandemic and resultant government restrictions on trading appear to have had a relatively minor impact on social enterprises relative to commercial SMEs, suggesting a greater resilience and ability to adapt to new circumstances.

Overall, the results presented in this study have important implications for public policy by providing valuable information for organizations and other key stakeholders wishing to execute appropriately designed interventions or offer financial support to strengthen UK social enterprises.

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