

The FIVE Criteria

Criterion 1 – Social Enterprises have social and/or environmental objectives.

As one of its defining characteristics, a social enterprise must be able to demonstrate its social mission. This will be evidenced in its constitutional documents but the production of other (externally verified) evidence is encouraged - to provide transparency of purpose and accountability to stakeholders. Tools and techniques to measure social and environmental impact are becoming more effective and user friendly.

Criterion 2 - Social Enterprises are trading businesses aspiring to financial independence.

This second defining characteristic is demonstrated by an enterprise earning 50% or more of its income from trading. This will be evidenced by the accounts of the business over a reasonable period. A high level of income from the public sector is acceptable in the form of contracts - but not grants.

Criterion 2 is intended to mark the boundary between social enterprise and much of the voluntary sector.

(Many Voluntary orgs trade over 50% without calling themselves social enterprises)

Criterion 3 – Social Enterprises have an ‘asset lock’ on both trading surplus and residual assets.

Whether or not it's a charity, a social enterprise re-invests all its distributable profit for the purpose of its social mission. Where the business has shareholding investment (very few in Scotland) no more than 35% of profit may be distributed in dividends (*) In addition, the constitutional documents of a social enterprise must contain a clause to ensure that, on dissolution of the business, all residual assets go to social/environmental purposes.

Criterion 3 is intended to mark the boundary between social enterprise and the private sector.

Criterion 4 – A Social Enterprise cannot be the subsidiary of a public sector body.

Whilst a social enterprise can be the trading subsidiary of a charity, it must be constitutionally independent from the governance of any public body. Additional evidence of this would be required from Public Sector externalisations.

Criterion 4 is intended to mark the boundary between social enterprise and the public sector.

Criterion 5 – Social Enterprises are driven by values – both in their mission and business practices.

Social enterprises operate in competitive - often fierce – markets but there is an expectation that their dealings will be ethical and that they will offer their people satisfactory wages, terms and conditions. Enterprises of a reasonable size are expected to have clear human relations and environmental policies. Transparency would be achieved through the voluntary adoption in the sector of a maximum ratio between highest and lowest paid – of say 1:5 – investing a culture of equality.

Read the background to the 5 criteria here http://www.senscot.net/view_news.php?viewid=9636

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