

Social Enterprise Mark- Eligibility Criteria

Principles

- Social enterprises can be very different from one another. The Social Enterprise Mark does not dictate one legal form or one way of demonstrating social impact, so long as organisations are able to show how they fulfil the criteria outlined below.
- The Social Enterprise Mark is a brand that tells customers that a product or service comes from a social enterprise. In order to build a credible and trustworthy brand, documentary evidence is relied upon in support of the operational credentials of social enterprise that the Mark embodies.
- This evidence is often available in the public domain (i.e. Companies House) and this will be referred to as part of the assessment process. If information is not readily available organisations will be asked to provide this. They must also provide responses to a set of questions asking them to describe how they have strived to achieve their social objectives. These social impact statements will be published online via the [Social Enterprise Mark Directory](#), to both promote Mark Holders and reinforce interests of public accountability for their claims.
- All applicants must also agree to the terms and conditions for holding the Mark, along with other declarations relevant to the assessment process. If ever there is reason to suspect a failure to comply with these conditions, Mark Holders may be required to submit additional evidence in support of how they are meeting different criteria.
- The Social Enterprise Mark CIC (SEMCIC) reviews all applications and licence renewals. Awards are overseen by a Certification Panel, who are independent to SEMCIC. They consider and make judgements on all new applications that do not readily conform to existing precedents governing eligibility and assessment of the evidence in support of this. They routinely examine a selection of all applications that have been approved by the SEMCIC across the year, to ensure consistent standards of assessment are being applied.
- Social Enterprise Mark status is subject to an annual renewal process, through which an organisation must be able to confirm that it remains committed to the same eligibility requirements, declarations and licence terms, as when they first applied. Unless there have been significant changes or other developments in an organisation's circumstances, this is usually a very straightforward process. Organisations will otherwise be required to submit to a fuller re-assessment at least once every three years, where all relevant evidence outlined in this framework must be updated and reviewed.

The Eligibility Criteria

There are six key criteria, which together define the characteristics of social enterprise: an organisation driven by trade – applying profitable and sustainable principles of good business practice – but who exist for wider social benefit (which includes environmental benefit). The criteria are explained below with a commentary on what evidence an organisation may be asked to provide in support of their application.

	Criteria	Rationale	Test/Evidence	Commentary
A	A social enterprise must be primarily dedicated to social and/or environmental objectives.	Transparency of purpose is a vital element of being a social enterprise.	Governing documents. ¹	<p>In the case of organisations who retain profits to pursue their own social purposes, social purpose should be clearly articulated within the legal objects of the organisation (NB: social purpose include environmental purposes). Ideally speaking, this purpose should be articulated in the form of the overarching social aims the organisation is working to achieve, and not be a simple description of the activities that may contribute to the fulfilment of these aims (which may vary over time).</p> <p>This may be directly relevant to an organisation’s trading activities but social purpose must clearly hold precedence over all other non-social objects.</p> <p>Governing documents may refer to other objects, but it must be clear that these are only pursued in support of achieving these primary social purposes.</p> <p>Organisations with overtly commercial objects or non-social objectives may still qualify. However, they must have a relevant profit distribution clause and be able to regularly prove how they distribute annual profits in support of the social objects of others – as defined under Criterion D below (e.g. the trading arms or other businesses that gift aid profits to registered charities).</p> <p>If an organisation supports purposes or acts in a way that might reasonably be considered unethical or socially questionable, then this may render them ineligible.</p>

¹ The term “governing documents” refers to a company’s constitution – typically memorandum and articles of association or company rules that are available in the public domain.

	Criteria	Rationale	Test/Evidence	Commentary
B	A social enterprise must be an independent business.	<p>Independence and self-governance distinguishes businesses from the public sector, from projects within larger organisations, and from other corporate interests.</p> <p>It also ensures a social enterprise is primarily committed to pursuing social purposes in line with Mark criteria, without undue influence or control from other legally registered entities who do not clearly share similar purposes.</p>	<p>Governing documents (including Annual Returns or Shareholding Statements, Lists of Members, etc.).</p> <p>Additional evidence may be required for externalisations from the public sector.</p>	<p>Independence means that no public or government agency, or other private, corporate bodies, hold majority ownership and therefore final decision-making control of the organisation: this may be evident in any external agencies or companies holding a dominant shareholding, membership, or director representation on the company board.</p> <p>The only exception to this is if the dominant shareholder or member (and/or director representation) is made up of organisations who are registered charities or social enterprises. In some circumstances this allowance may extend to organisations with other sorts of legal structure; in such cases, their other operational interests should not evidently compromise social and ethical business principles and they must be able to demonstrate their social purpose in setting up the applicant subsidiary.</p> <p>Projects within other larger organisations are not eligible for the Mark as they are not independent businesses with their own constitutional documents. Such projects may still be able to benefit from using the Mark of their parent organisation, if the parent successfully applies.</p> <p>Externalisations from the public sector may still retain some level of public sector involvement or control. In such cases, assurances will be required regarding the autonomy of the applicant.</p>

	Criteria	Rationale	Test/Evidence	Commentary
C	A social enterprise must earn 50% or more of its income from trading.	50% traded income is currently accepted as a way of distinguishing a business from a donations, or grant reliant organisation.	<p>Annual company accounts (preferably registered in the public domain).</p> <p>Other financial statements that are produced in support of annual accounts.</p> <p>As a minimum, a declaration of last recorded annual turnover is required, along with confirmation of how much of this is derived from sources of trade (with a commitment to provide formal accounts once these become available).</p>	<p>Ideally, a copy of annual accounts that have been registered in the public domain should be available to corroborate this i.e. accounts that have been submitted to Companies House, the FSA or the Charity Commission. However, abbreviated accounts are not acceptable and in such instances full financial statements supporting such accounts will be required. Details from accounts should provide a breakdown of different sources of income in order to distinguish the proportion of trading income (but further clarification may be sought).</p> <p>If an organisation has been trading under a different guise and has only recently incorporated, accounts from the previous trading history may be considered, if the activity is the same.</p> <p>Trading income most commonly derives from the sale of goods and services. This is typically evident in the receipt of payments and other fees, income from contracts or other agreements. It can sometimes be labelled as grant income; some grants are paid according to strict expectations of delivering specific activities and outputs that are subject to service level agreements or other contractually defined conditions, which effectively constitutes trading income.</p> <p>Most loans, investments and interest receivable count against the balance of trading income compared to overall turnover. Capital loans and investments may be an exception, as is interest receivable in finance organisations, where the nature of their trading activity is directly linked to investments and other financial activities e.g. a Community Development Finance Institution.</p> <p><i>Pure</i> grant income also counts against the balance of trading income compared to overall turnover. Such grants are usually recognisable in that they are directed at organisational resource requirements (premises, tools, equipment, the recruitment of staff etc.); payment may also include service delivery conditions but they are not solely payable on delivery outputs and outcomes.</p>

	Criteria	Rationale	Test/Evidence	Commentary
				<p>In distinguishing if grant payments received from public bodies, charitable institutions or trusts constitute trading, asking the following questions may help:</p> <ul style="list-style-type: none"> ▪ are the services provided ones that the paying body is statutorily obliged to provide? If yes, it is likely to be a fee and is therefore trade; ▪ does the paying body benefit directly from the services provided? If yes, it is likely to be a fee and is therefore trade. <p>If an organisation is on the cusp of the 50% trading requirement or has received a grant or loan (e.g. capital loans), causing them to dip below this, then trading levels in previous years and plans for future years can be considered in determining whether or not they are primarily trade dependent.</p> <p>If an organisation has been trading less than a year (or is just beginning to become trade dependent), they may still be able to apply for the Mark. An application can be submitted based on their projected income and evidence that they have started trading.</p>

	Criteria	Rationale	Test/Evidence	Commentary
D	A social enterprise dedicates a principal proportion (51%+) of any annual profit to social/environmental purposes.	Social enterprises are driven by social objectives rather than the maximising of profit for private gain by shareholders and owners.	<p>Governing documents.</p> <p>Annual company accounts (preferably registered in the public domain).</p> <p>Other financial statements that are produced in support of annual accounts.</p>	<p>There should be relevant clauses in governing documents, which confirm an organisation's commitment to how profits are distributed. Such clauses should unequivocally commit to the stated Criterion requirement, clearly holding precedent over any other clauses that might otherwise serve to undermine or contradict the required application of annual profits.</p> <p>The business may distribute its profits in a number of different ways that have a positive social/community and/or environmental benefit:</p> <ul style="list-style-type: none"> ▪ if the trading activity of the social enterprise is, in itself, socially beneficial, then direct reinvestment or retention of profits within the business is eligible; ▪ donated to other organisations or resources for social benefit, e.g. a registered charity, or investment in some other socially beneficial activity or resource that is external to the organisation. ▪ distributed to shareholders or members who primarily serve social purposes (most typically this will be formally constituted charities or other social enterprises). <p>It must be clear that at least 51% of any distributable annual profits generated are distributed as above. Remaining profit (or less) may be shared between other shareholders, owners or members (i.e. individuals or organisations who are not formally recognised as primarily serving social purposes).</p> <p>Organisations choosing to distribute profits to shareholders, owners or members, will be required to provide accounting evidence that confirms this has not exceeded 51% of distributable profits at each annual renewal of their Social Enterprise Mark.</p>

	Criteria	Rationale	Test/Evidence	Commentary
E	On dissolution of the business, a social enterprise distributes all remaining residual assets for social/environmental purposes.	As for (d) above. A commitment on residual asset distribution demonstrates a commitment to social/environmental objectives.	Governing documents.	<p>There should be relevant clauses in governing documents, which confirm an organisation's commitment to how any residual assets would be distributed in the event of dissolution ("winding up" of the company).</p> <p>The Mark is not limited to Charities, Community Interest Companies (and some forms of Industrial Provident Society/Co-operative) where such "asset locks" are subject to legal statutes. Other legal forms may also be eligible if they have an appropriate dissolution clause that commits all residual assets to the furtherance of social purposes. This usually takes the form of the residual assets being committed to other organisations who are primarily constituted to serve social purposes; in such cases, their registered governing documents will contain clearly defined social objectives and clauses having equivalent or even greater restrictions on private profit distribution and asset distribution on dissolution, than those described in this criteria document.</p> <p>Any outstanding company debts are payable before any residual assets are finally calculated. Shareholders may also be repaid the <i>nominal value</i> of their shareholding at the date shares were issued, prior to the distribution of remaining assets (i.e. the original price of the shares at the point of issue – not the price it may have changed to at the point of dissolution or the price the shareholder may have purchased the shares for during the lifetime of the business).</p>
F	A social enterprise can demonstrate that social/environmental objectives are being achieved.	Social enterprises exist to produce social and environmental benefit. At the very least, a social enterprise must be able to describe how it has strived to achieve its social objectives.	Satisfactory social impact statements. Other supporting evidence may also be presented towards this criterion, <i>but statements are mandatory.</i>	<p>Applicants must agree to a statement that as a Mark Holder they would strive to maximize social impacts and minimize negative environmental effects in the course of trading.</p> <p>Organisations must commit to confirming how they have strived to fulfil their social purpose over the previous year. This involves answering a set of questions designed to explore this, which will provide social impact statements that will form part of a public declaration promoted via the Mark Holder directory on the SEMCIC website.</p> <p>Further details of these questions can be found on the SEMCIC website.</p>