

Social

Traders

Unlocking business for good

SOCIAL ENTERPRISE CERTIFICATION

GUIDANCE NOTES AND STANDARDS



Statement of principles

Social Traders follows the below principles in its approach to certification of Social Enterprises in Australia:

1. Inclusive and embracing the diversity of Australian Social Enterprises.
2. Safeguarding stakeholder reliance on certification (e.g. business and government who are seeking to purchase from Social Enterprises).
3. Maintaining a rigorous set of standards but offering flexibility where appropriate, in their application.
4. Integrity in use of the term 'Social Enterprise'.
5. Keeping any unnecessary administrative burden associated with certification minimal as Social Enterprises are generally time poor.

Certification standards

Social Enterprises are businesses that trade to intentionally tackle social problems, improve communities, provide people with access to employment and training, or help the environment.

Social Traders certification is focused on determining if a business is operating as a Social Enterprise, i.e. with primacy of social purpose. It is a supportive and developmental framework for Social Enterprises and also assures stakeholders that a business has; a social, cultural or environmental purpose as its primary objective, that a substantial portion of its revenue is derived from commercial trade rather than grants and donations, and that the majority of the organisation's efforts and resources are directed to the social purpose.

Specifically, assessment of a Social Enterprise is through the following three criteria, to determine that the enterprise:

1. Has a defined primary social, cultural or environmental purpose consistent with a public or community benefit,
2. Derives a substantial portion of its income from trade, and
3. Invests efforts and resources into its purpose such that public or community benefit outweighs private benefit.

The criteria are based on the definition developed through the FASES¹ research. Social Traders has operationalised the definition so that it can readily be applied to Social Enterprises.

Social Traders has a broad range of organisations applying for certification. Part of the assessment will involve a conversation with the applicant to understand more about their business and impact model. There are some organisations we cannot certify, predominately where there are implications outlined in the guidance notes below.

¹ Barraket, J. et al, (2010) Finding Australia's Social Enterprise Sector: Final Report Australian Centre for Philanthropy and Nonprofit Studies

The **Certification Terms and Conditions** and **Licensing Agreement** for use of the **Social Traders certification logo** apply to all certified Social Enterprises. Enterprises trading for less than two years will undergo recertification each year, and every two years for those established for two years or more. An enterprise may be subject to an audit by Social Traders within its certification period. Complex applications for certification will be referred to our **Advisory Group**.

How to read the certification standards table and additional guidance notes

Below is a summary indicating where the certification standards table and additional guidance notes apply (as relevant to the model of a Social Enterprise):

Social Enterprise approaches and models	Standards table	Additional guidance notes
Standalone entity (not-for-profit or for-profit)	✓	x
Business unit of a not-for-profit	✓	x
Hybrid model (not-for-profit and for-profit)	✓	x
Group structures and related organisations	✓	✓
Social and community service organisations	✓	✓
Sole traders and Partnerships	✓	✓
State government entities and statutory authorities	✓	✓
Transitioning (to a Social Enterprise) businesses	✓	✓

Certification standards table

Standard documents	
Social Traders collects various legal and financial documents based on the age of the Social Enterprise	
<p>< 2 years</p> <ul style="list-style-type: none"> Signed legally binding governing documents e.g. constitution, shareholders agreement. Complete financials (to date). Business plan, including <ul style="list-style-type: none"> 12-month cash flow forecast Evidence of proof of concept for both business and impact model. 	<p>Variations</p> <p>Business units of a parent not-for-profit supply the constitution and financial statements of the parent, as well as a profit and loss statement for each applying Social Enterprise.</p> <p>Private companies supply a shareholders agreement, constitution and / or trust deed, Social Traders Verification Certificate (supplied by Social Traders once an application is made), and will be required to embed legal terms for Social Enterprises (supplied once an application is made) within 12 months after certification is approved.</p> <p>Sole traders and partnerships do not need to supply legally binding documents and can sign Social Traders Verification Certificate (supplied by Social Traders once an application is made).</p> <p>Hybrid models (not-for-profit / for-profit) may be assessed together and documents for all entities may be required.</p>
<p>2+ years</p> <ul style="list-style-type: none"> Signed legally binding governing documents. 2 most recent years of financial statements at the enterprise level. Most recent year of financial statements for the parent organisation (if applicable). 	
Standard assessment items	
There are some standard checks across all enterprises	
<ul style="list-style-type: none"> Initial meeting to understand the social purpose and business model ABN / ACN check. Understanding of the relationship between related entities (if applicable) – Social Traders may assess multiple entities in a group structure. Understanding of the approach the enterprise takes to the payment of wages. Quick solvency assessment. 	

Full criteria

1. The enterprise has a defined primary social, cultural or environmental purpose consistent with a public or community benefit

- Clear primary social purpose, consistency in its articulation, and alignment with the business model.
- Terms consistent with operating as a Social Enterprise embedded in governing documents OR Social Traders Verification Certificate for private companies indicating commitment to embed purpose into legal documents within 12 months (see 'For private companies' below).
- Public facing documents (e.g. website, annual report) integrating the stated purpose.

Social Traders uses the following guiding principles when making a judgement on social purpose and its primacy:

- **Intent** – it should be clearly discernible that the primary intent for establishing and operating the enterprise lends itself to a public or community benefit.
- **Problem definition** – there is clear articulation of the social, cultural or environmental problem the enterprise is targeting through its business.
- **Additionality** – the model allows for social impact to occur that would not otherwise occur in a business carrying out similar activities.
- **Measures of success** – even if not formally measuring success / impact, a Social Enterprise should be able to communicate in general terms the results that would indicate it is making progress in meeting its social purpose.
- **Consistency** – there is a framework of activities that a Social Enterprise delivers that are aligned to its social purpose and that occur on a regular basis. While they may change from time to time, they are relatively consistent (vs random activities that change regularly in nature and outcomes).
- **Alignment** – there is a fit between the business and social purpose models and revenue sources don't compromise the social purpose.
- **Integration** – the social purpose and business model are sufficiently integrated.

For private companies

Private companies often will not have the social purpose embedded into legally binding governing documents. Once the other certification criteria are met, a private company may sign Social Traders Verification Certificate that indicates its commitment to the social purpose and intention to incorporate relevant legal terms into the shareholder agreement, constitution or other relevant documents within 12 months from the certification date. Social Traders will supply suggested legal terms once an application for certification is made.

2. The enterprise derives a substantial portion of its income from trade (rather than grants and donations)

- Approximately 50% or more for ventures that are more than 5 years from start-up
- Approximately 25% or more for ventures that are 2 – 5 years from start-up
- Demonstrable intention to trade for ventures that are less than 2 years from start-up
- Enterprises with major shifts in strategy may be treated as start-up or early stage
- Historical financial statements and/or planning documents may be requested to demonstrate intention to grow trading revenue for marginal cases

3. The enterprise invests efforts and resources into its purpose such that public / community benefit outweighs private benefit

- Key test is that public / community benefit outweighs private benefit.
- We assess that the total (direct) social costs and impact indicators are at least 50% of the prior year net profits after tax.
- We also assess the total social costs against total revenue in the current year particularly where there are no profits.
- Enterprises should be mindful of overlapping social costs (see **Examples for Criteria 3**).
- For start-ups with no trading history we require detail of how impact will be delivered, and evidence of a proof of concept of both the business and impact models, and social impact targets within the business plan.

Direct social costs and impact indicators

Social Traders categorises enterprises across three main impact models. Depending on the primary model of the enterprise, we will collect the relevant headline impact activities associated with the social purpose and the associated delivery costs (direct social costs), as well as some additional indicators of social impact. A Social Enterprise may focus on one or all the below, and figures should be provided for the most recent full financial year.

Impact model 1: Where the focus is employment and / or training for disadvantaged people

- Total wages to beneficiaries including super
- Total direct supports costs for beneficiaries, including super for support staff wages
- Total headcount of beneficiary employees
- Total employment hours for beneficiary employees
- Total training hours (unpaid) for beneficiaries

Impact model 2: Where the focus is providing access to a product or services in response to a community need

- The direct expenditure on providing access to the product or service of need
- Tonnes of waste diverted from landfill for enterprise operating in the waste industry.

Impact model 3: Where the focus is donating profits for a specified charitable purpose

- The dollar figure donated
- Direct expenditure on managing donor / recipient relationships

See **Examples for Criteria 3** on the next page.

Examples for Criteria 3

Below are examples of how we assess Criteria 3 against the data provided, for each impact model. An example is also provided for overlapping social costs where an enterprise operates across more than one impact model.

Social Enterprises are diverse, and these examples are not representative of all variations within each impact model.

IMPACT MODEL 1

Employment and / or training for disadvantaged people

Enterprise A exists to train and create employment for refugee and migrant communities and supports these people in their employment and transition into other work.

Direct social costs

- Wages to beneficiary employees including super – \$150,000
- Direct support costs for beneficiaries including super – \$180,000 (including but not limited to wages of direct support staff)
- Total direct social costs – \$330,000
- Prior year net profit – \$148,819
- Total revenue – \$872,199
- Profit reinvested directly into purpose – 222%
- Revenue reinvested directly into purpose – 38%

Impact indicators

- Headcount of beneficiary employees – 30
- Total employment hours for beneficiary employees – 6,640
- Total training hours (unpaid) for beneficiaries – 1,000

IMPACT MODEL 2

Providing access to a product or services in response to a community need

Enterprise B exists to provide free wellbeing programs for marginalised communities, cross-subsidised by corporate well-being programs.

Direct social costs

- The direct expenditure on providing access to the product or service of need – \$230,000 (including but not limited to wages of staff delivering programs to marginalised communities, and cost of maintaining platforms and training materials)
- Total direct social costs – \$230,000
- Prior year net profit – \$20,000
- Total revenue – \$520,000
- Profit reinvested directly into purpose – 1,150%
- Revenue reinvested directly into purpose – 44%

Impact indicators

- Direct expenditure on providing access to the product or service of need – \$230,000 (as above)

IMPACT MODEL 3

Donating profits for a specified charitable purpose

Enterprise C exists to channel profits into partners that provide access to food for disadvantaged individuals.

Direct social costs

- The dollar figure donated – \$18,332
- Direct expenditure on managing donor / recipient relationships – \$3,000 (including but not limited to wages of staff managing recipient relationships)
- Total direct social costs – \$21,332
- Prior year net profit – \$7,371
- Total revenue – \$187,946
- Profit reinvested directly into purpose – 289%
- Revenue reinvested directly into purpose – 11%

Impact indicators

- The dollar figure donated – \$18,332 (as above)

MORE THAN ONE IMPACT MODEL

Example of overlapping direct social costs where an enterprise operates across more than one impact model

Enterprise D exists to promote multilingual literacy and community connectedness. The programs run for vulnerable people in the community are delivered by marginalised community members themselves (who are offered supported employment).

Direct social costs

- Wages to beneficiary employees including super – \$114,427
- Direct support costs for beneficiaries including super – \$178,962
- The direct expenditure on providing access to the product or service of need – \$402,853
- Total direct social costs – \$402,853

Part of the direct expenditure on providing access to the product or service of need is the wages of the people delivering the programs (\$114,427) and the direct support costs for beneficiaries (\$178,962). While the costs for each of the different impact models are recognised, for the purposes of calculating total social costs, wages are counted only once.

- Prior year net profit - (\$16,576)
- Total revenue – \$463,582
- Profit reinvested directly into purpose – N/A due to loss
- Revenue reinvested directly into purpose – 87%

Impact indicators

- Headcount of beneficiary employees – 5
- Total employment hours for beneficiary employees – 3,928
- Direct expenditure on providing access to the product or service of need – \$402,853 (as above)

Additional guidance notes

For some certification applications there will be a variation in the requirements where the following additional guidance notes apply.

Social Traders applies these notes in those areas that have the greatest implication for the integrity of certification – for example, primacy of social (or environmental, cultural etc) purpose, or using commercial trade as the main mechanism to sustain the organisation.

We understand the role certification plays in helping to create the standards for Social Enterprises and the Social Procurement sector in Australia. It is for this reason we take a substance over form approach when it comes to assessing social primacy and whether an entity meets the criteria. This means assessing certain approaches to Social Enterprise requires a more thorough assessment. We are looking to help build the sector in a sustainable manner.

Social Traders endeavours to apply precedent and consistent standards and methodologies in assessing for certification. However, there will be circumstances where we apply our commercial judgment and take a substance over form approach.

While Social Traders is prepared to consult, listen and provide feedback to assist an organisation seeking certification, there will be instances where we exercise judgment and decline certification. We look to national and international perspectives and take the advice of our **Advisory Group** and experts in the sector when making these judgments.

Group structures and related organisations

These guidelines are related to both not-for-profit and for-profit Social Enterprise group structures and related entities.

A Social Enterprise must have social, cultural or environmental objects as the primary purpose, prevailing over private gain and the majority of its efforts and resources must be invested into the social purpose. Social Traders will examine business models and intragroup transactions in such matters to determine independence and the veracity of the business model and social primacy.

A Social Enterprise will be assessed in the context of the broader group:

1. Where other businesses are operating under the same ABN
2. Where there are related organisations operating under different ABNs which share directorship / governance or where there is auspicing from one organisation to another, in particular where any of the following apply:
 - a. Shared **branding / marketing**
 - b. Shared **employees**
 - c. Shared **scope of operations**
 - d. Shared **customer base**

In light of the above guidelines, it will be up to the applicant to demonstrate that social primacy prevails in a manner which is sustainable and protected by appropriate governance frameworks – this may also include ensuring appropriate contract and governance arrangements are in place or meeting other conditions applied by Social Traders.

In principle, entities within a group structure may be certified where:

1. There is primacy of social purpose, both in substance and form;
2. Public or community benefit outweighs private benefit, given the relative size of the entities; and
3. The proposed business models, intragroup arrangements and governance protections are acceptable and sustainable.

Social Traders may consider certification of a group, where the relevant criteria are met on a group basis, although conditions may be applied.

Transitioning business guidance notes (in this document) will also apply to organisations within group structures that have transitioned to a Social Enterprise model in the 12 months prior to enquiry for certification.

Social and community service organisations

Social Traders does not certify organisations that deliver social services or programs funded by government where there is no other commercial trading activity. Social Enterprises are commercially trading organisations that sell a product or service that is often replicable with a variety of customers, and trading revenue is their main source of income.

Commissioning of social services, despite many times being won on a competitive basis, is not considered commercial trading activity and the source of revenue is government funding rather than 'trade'.

EXAMPLE

Job Active (JA) and Disability Employment Service (DES) providers are fully funded by the Commonwealth Government, and act as intermediaries on behalf of Government, providing employment services to both beneficiaries (i.e. people looking for work) and employers for free.

In this respect they provide services on behalf of government, even though they may operate under a contestable funding model. Hence JA / DES do not meet the trading test for certification purposes.

Sole traders and partnerships

Sole traders and partnerships are individuals that are not separate from the business i.e. there is no business entity.

Social Traders can certify these businesses where accounting is transparent and personal finances are separate from business finances. The sole trader and / or partnership should have:

1. A separate business account, and
2. Management accounts should be maintained and provided for certification.

Social Traders will not review personal income tax statements or assess financials which account for personal items unrelated to the Social Enterprise.

Social Traders will also consider the size of the business and whether the sole trader and / or partnership is considering a transition to incorporation. Sole traders and / or partnerships that are trading above \$250,000 in annual income may be encouraged to incorporate to contain the activities of the Social Enterprise, which also has a benefit from a liability perspective to the individual.

State government entities and statutory authorities

Social Traders may certify government entities and statutory authorities that are operationally independent from government, comply with competition policies and are not required to return surpluses back to government now or at a future date.

Social Traders will assess:

1. The organisation has its own structure / ABN.
2. Whether the organisation has governance and decision-making that is separate from government.
3. Whether the organisation complies with state and federal competition policies including competitive neutrality.
4. That the organisation has complete flexibility in how it treats surpluses and is not required to direct them to government.
5. Legal governing documents and financial statements in line with Social Traders usual certification standards.

Where not already provided, Social Traders may request to review annual reports and or relevant statements from a senior representative in the organisation.

Transitioning businesses

Generally, Social Traders will accept an application for certification from a transitioning business where there has been at least six (6) months of operational history (as a Social Enterprise). Social Traders will seek to understand the business transition process, prior to applying the usual certification standards. In most cases, Social Traders will treat a transitioning business as a start-up or early stage Social Enterprise.

Social Traders will seek to understand the following matters via an initial conversation with the business:

1. The planning process undertaken to support the transition to a Social Enterprise.
2. The model of impact / how the best model for impact was determined.
3. The framework for delivering on the impact model, including an understanding of the relevant partnerships required, based on the specific model.
4. Any intragroup relationships and sharing of value and costs.
5. Other relevant factors.

Where a robust transition process has been undertaken by the applicant, the usual certification standards will be applied. In most cases, Social Traders will treat a transitioning business as a start-up or early-stage Social Enterprise and will collect planning documents including a business plan and cash flow forecast.

In some cases Social Traders may determine that certification is not suitable or that the business takes additional time in its transition to a Social Enterprise model before seeking certification.

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