Civil Society and Social Innovation Unit

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# The Venture Society

*Fuelling aspiration, independence and growth through grass-roots social entrepreneurship*

Asheem Singh

ResPublica
changing the terms of debate

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*ResPublica was established in 2009 by Phillip Blond. We are a multi-disciplinary, non party-political research organisation, which combines cutting-edge analysis with practical impact to create bold solutions to enduring social and economic problems.*

*Our research combines a radical, civic philosophy with the latest insights in social policy analysis, economic modelling, behavioural economics, management theory, social psychology and technological innovation to produce original, implementable solutions across six major project areas: Economy, Welfare and Public Services, Environment, Children and Families, Security, and Civil Society and Social Innovation.*



*In association with* UnLtd*

*Civil Society and Social Innovation Unit*

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*Fuelling aspiration, independence and growth through grass-roots social entrepreneurship*

*Interim Report - May 2010*

*Asheem Singh*
*With opening remarks by Cliff Prior and Phillip Blond*

## Author's Note

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*- A.S.*

# Contents

# Executive Summary

*This is the first in a series of ResPublica publications on 'The Venture Society': a wide-ranging enquiry into the United Kingdom's uniquely rich culture of grass-roots, early-stage social enterprise and social action.*

*When we talk about social enterprise, we mean those businesses that create products and services that help people in a variety of ways while staying true to certain moral and social principles. These businesses, which can be as big as ethical companies like coffee-makers Cafédirect or the John Lewis Partnership, or as small as a local youth or sports group, are driven by the ethos of civil society, as they harness in ever more ingenious ways the mechanism of the market in order to do social good. When we talk about social entrepreneurs at the early stage, we talk about the motivated, socially conscious people who embody that aspiration; who drive these social ventures big and small; who create jobs, improve communities and help people through grass-roots action. Some are local people who want to improve where they live; others are future social business leaders who seek to replicate, scale, and structure these ideas on a national and international level. We who value civil society have an interest in backing and supporting both.*

*In this installment, we are concerned with the question of how we build the infrastructure at central and local levels in a cost-effective way, so as to get more time and money into early-stage social entrepreneurship: to the grass roots where social action can be truly transformative. In the next report in the series, we will concentrate on enabling entrepreneurs, government departments, investors public and private to better gauge the social returns and impacts of early-stage social entrepreneurship in their sphere of interest.*

*This is an ongoing body of work whose constant aim will be to invite this generation of the venture society to create the policies that can fuel the next.*

## The Opportunity

In the United Kingdom today, we have a world-leading generation of social entrepreneurs. We have a genuine growth industry, with 1.7m people involved in social ventures full-time at any one time, the highest number in western Europe.[1] We have established businesses selling socially beneficial products and services, reaping profits and improving lives. We have locally-based ventures and start-ups creating everything from youth groups to tenants' and residents' associations.

Many social entrepreneurs create social enterprises that become successful businesses. There are 62,000 such social enterprises in the UK with a combined turnover of £24bn. Many others create smaller, less formal organisations. They are the leaders of sports clubs and activity groups. They look after open spaces and parks, residents' and tenants' associations, mutual support groups for people with long-term ill health, and more. Their ventures build relationships and bring together communities. They are the grass roots; the lifeblood of this diverse, resilient sector, which itself is the age-old idea of the locally-driven, eclectic community marketplace, updated for the modern age. They are not charitable objects, they are not service users, and they are not vessels of state welfare; they are civic outriders of market and state, who are, venture by venture, sowing the seeds of a new social economy.

1. EMES, 'Social Enterprise in Western Europe,' Roger Spear.

Investors have good reason to take note of the opportunities to get into this industry; government, too. Social entrepreneurs often emerge where social problems are most enduring. Fieldwork suggests that a social entrepreneur's project reaches an average of five disparate groups in the community[2]—from people with disabilities to those suffering drug and alcohol addiction through to asylum-seekers and refugees. Unlike government, they do not work in departments or 'silos.' And their presence encourages an important cultural shift that could potentially be one of the biggest shifts in government thinking in the last sixty years: to look at a vulnerable or marginalised community and ask not only what it is lacking, but what potential is there to be unlocked.

All of this makes the enduring problems that attend the reality of being an early-stage social entrepreneur that much more frustrating. Often they do not get the funding they need to grow. There is a 'speed bump' or 'funding ceiling' that means many social enterprises cannot flourish without private backing. With as little as £20k, a social entrepreneur could take his or her promising start-up to a position of becoming sustainable and profitable. Yet support and investment dries up at this crucial level. Indeed, while there are 238,000 people currently attempting to set up a social venture of any kind in the UK, estimates suggest that only 1% of them will get the advice and money they need to grow if they do not have the help of family or friends who are prepared to invest.[3]

There is clearly room to do better. Despite the peak of the last few years, the UK's level of full-time engagement in social entrepreneurship as a percentage of all employment, while higher than the European average, is around half that of Denmark, the Netherlands or Ireland.[4] Research suggests that around 36% of supported entrepreneurs create enterprises that progress to be replicated or become going concerns in their own right. Getting supported funding to only a tenth of these viable ones means we could have witnessed the creation of some 8,500 community-building social enterprises.[5] In addition, we have lost many, many more to barriers that are more difficult to quantify. Excessive bureaucracy at the early stages of a start-up is but one example of this.

We have an incredible culture of social entrepreneurship in this country, but it is no exaggeration to say that it could be even better: that there is a latent, '*lost generation*' of social entrepreneurs who, with a more evolved social and economic *infrastructure* in place, could be enabled to take part. It is the would-be social entrepreneurs from our poorest communities who are affected most by the problems with our current policy approach; who are most hampered when they strive to create change through the social marketplace.

## The Infrastructure Deficit

Social entrepreneurs offer a genuinely effective venue for the private sector, the public sector and even for philanthropists to invest or give. Some larger social enterprises may form profitable businesses that *supply services* to the state. Most social entrepreneurs, big and small, serve in their own way to *reduce demand* on the state by spreading aspiration, social action, and strengthening community spirit. Indeed, data suggests that each social entrepreneur who receives funding can, through his or her work, create four jobs, 14 training opportunities and 15 volunteer positions, often in communities where such jobs and skills are lacking.[6]

2. Calculated from UnLtd data using a surveyed sample of those who have been through the UnLtd process. Note there may be self-selection effects in this data that we have attempted to account for conservatively.
3. UnLtd estimate based upon organisations such as UnLtd, School for Social Entrepreneurs and others.
4. EMES, 'Social Enterprise in Western Europe,' Roger Spear.
5. Calculations based on GEM and UnLtd data which tracks the number of award winners whose businesses were ready to scale or be replicated after the award process.



This distinction forms the basis for an evolved approach. Even with its successes, popular awareness of social enterprise remains low, despite high profile examples like chef Jamie Oliver's *Fifteen* restaurant. A survey from the COI showed that only 50% of respondents know what a social enterprise is, which is concerning, but less than 50% knew that these enterprises can make a profit, which is even more concerning from the point of view of securing investment.[7] The previous government's approach was to 'advocate' on behalf of 'the sector'; to 'raise awareness': a valid approach in the early days of government intervention in the social economy. Now, however, this approach is an example of tackling the symptoms of market failure, rather than the cause.

Government is well-placed, even in difficult economic times, to create the infrastructure to entice investors in. Using the know-how of larger foundations and funds already in the marketplace, it can leverage and multiply funding streams and sources. It can broker the better use of emergent mobile and communications technology, not just to platform social entrepreneurs, but to help scale social entrepreneurs and their ventures.

We conducted seminars and interviews with social entrepreneurs, support services and sector experts, culminating in UnLtd's Social Future Conferences in March 2010. This research elicited common, emergent themes.

- The need to build upon the successes of the last few years, but also recognise the problems with the current model.
- The need for a *bold, enabling government approach* that decentralises funding and makes it easier in terms of regulation and cost for social start-ups to get going.
- The need to harness the opportunity at hand to create a new social economy that binds together the interests of the public, private and voluntary sectors so that provision can most effectively meet need and that aspiration can most effectively meet capital.

In a time of economic uncertainty, we have a unique opportunity to show how a vibrant, empowered culture of early-stage social entrepreneurship can create better governance and increased growth. We need this generation of social entrepreneurs to work hand-in-glove with Government to build the infrastructure for the next.

## The Venture Society

There are already platforms for social entrepreneurship out there: the next stage is to work with and connect those platforms to create local, regional and national venues for private, public and philanthropic actors to meet. To this end, we propose two dovetailing layers of infrastructure that would get more money and support to social entrepreneurs at the early stages, by squeezing that which is on offer up the supply chain right the way down.

6. Calculations based on data from UnLtd award winners. Of the sample, 82% are continuing with their social enterprise having received support, and a further 9% have moved on to a new social venture.
7. Central Office of Information, cited infra.

(i) *Community 'Lablets' and Social Labs: the seed funders and 'R & D of the grassroots'*

Local venture platforms can provide a space to which people can go to swap ideas and get social ventures funded. That is why we need a local infrastructure. We propose piloting a network of community-based collaborative spaces for social action and early-stage social entrepreneurship: we have named this the Community 'Lablets' Programme, after the collaborative units created by microchip manufacturer Intel in universities and growth areas. These local venture funds would provide equity and start-up funding, shared workspace and access to support from independent market providers, while spreading the fruits of ideas sharing and advice. Each 'Lablet' would ultimately carry its own branding and identity, decided, not by central government, but by its managers and supporters, so as to be relevant to the particular nuances and sensibilities of the community in which it is based.

This local layer is necessary but not sufficient. It would be too susceptible to local interest, to funding shortages and to stagnation. To remedy this, we propose a second layer of infrastructure that can be created by working intelligently with the organisations already there. We would invite sponsored support organisations like UnLtd, NESTA and Capacitybuilders to join the government as **Social Labs.** These social labs would have a specific purpose—to act as what the tech industry call *macro-brands*: innovation, scale, supply chain brokers that provide the 'R & D' for social entrepreneurs at the grass roots to scale effectively and become investment ready more quickly; that could work with other large players such as Universities and corporate 'R & D' departments. We discuss an example of the benefits this would bring in practise, such as 'biz in a box,' in the report.

How does it all fit together? Social Labs would road-test innovations that help create further scale, so as to enable entrepreneurs to, for example, rationalise supply chains, or get started up more easily through brokering deals with suppliers. These efficiencies would allow community-focussed products to become more competitive and investment ready. Community Lablets would provide lasting equity funding to social entrepreneurs and build in community assets to become permanent venture hubs with a constant stream of available capital that could be used to invest bureaucracy-free. They would also become local platforms to bring support providers such as the School for Social Entrepreneurs into the communities where they can make a difference. They could pilot innovations, such as **virtual advisory boards** and the solutions that can help make social business more efficient.

(ii) *Harnessing the Local Advantage: a culture of aspiration through ownership*

We want to create a competitive market and to protect against creating vested interests; to constantly seek to back new start-ups and entrepreneurs and widen active association within communities. Social Labs and other actors such as the OTS' strategic partners would be invited to provide **start-up kits** to help local tendering management committees who wish to set up a community lablet, so creating competition and new market models in these areas. They would be encouraged to include considerations such as projected career paths for funded entrepreneurs, sustainability and community ownership and investment.

The key lever is the local – the 'USP' of social entrepreneurship itself – and especially **local ownership**. A local infrastructure provides the opportunity to spread the positive effects of community asset dispersal. Co-operatives that offer successful social entrepreneurs and community investors stakes in the community equity fund would create positive incentives to take part. An asset lock on a community lablet's overall fund would ensure that reserves are maintained along with dynamism and willingness to invest in early-stage 'risky' entrepreneurs. A further tool would be to spread the net even wider: to involve certain community members in investment decisions. Combine community lablets with a participation mechanism based upon the experience of grant-making programmes such as the Big Lottery Fund's Fair Share Trust, and we can help turn some of our most hitherto marginalised community members into 'dragons.' The culture could be that of a 'syndicate,' where people choose the local business in which they invest and 'win profits' for their lablet and for their community.



(iii) *A New Government Policy and Regulatory Approach*

We believe that building assets at the grass roots – what Michael Sherradan called 'hope in concrete form' – is the guiding ethos that ties together the next-generation infrastructure for the venture society.

Ours is a partnership model. As well as providing a venue for social ventures to scale and form consortia, we see several other advantages to truly localised venture funding. Equity funding for new start-ups would be shed of the bureaucracy and specification that comes from centralised funding. Community Lablets could create a powerful entrepreneurial nudge, running competitions in conjunction with local Government or venture foundations and also being the 'go-to' place for someone with an idea. Partnerships with CDFIs, Libraries, Community Foundations and CVSes should be encouraged and leveraged, as well as with local community activists and panel members working as charity trustees.

Social labs could also enable further policies and government deregulation to reduce the bureaucracy around start-up and early stage social entrepreneurs. It could enable a **venture-lite company form** for early stage social entrepreneurs, which we discuss in the report, by acting as a character guarantor in this modernised social market. Labs and Lablets could be a vital regulatory tool to enable more light-touch, trust-based regulation of this nature, the bedrock of the age-old way of doing business that could be so enabling for those starting at the bottom.

(iv) *Assets and Growth*

We have been careful in our proposals to minimise the up-front costs for any new infrastructure for early-stage social entrepreneurs. An exit plan for any up-front Treasury investment based upon the quality of the management plans of local tendering groups would mean that central seed costs would add to the case for additional up-front investment. We envisage being able to set up the infrastructure we need within the envelope of existing spending commitments for the Cabinet Office, DCLG and other departments, as well as by using the human resources and know-how already in Whitehall and in the non-departmental bodies.

There are, moreover, immense opportunities for Community Lablets to become self-sustaining, even in the short and medium terms. One way to do this would be for a community lablet to trade its equity stakes in successful businesses for leases or management contracts on community buildings, or other local assets. Taking over and managing derelict or unloved buildings, shops and malls as part of a community real estate portfolio has reaped huge rewards for the CDFI sector in the US. Success creates a track record, and so further investment; for the less successful lablets, the track records of the more successful would mean they represent a more attractive, viable vehicle for development work and for companies looking to invest more effectively in corporate social responsibility. They would offer an avenue for banks looking to invest in poorer neighbourhoods, government officials looking to promote regeneration or stimulus-based job funding, or indeed individuals looking to invest patient capital at a time of great volatility. Indeed, the Treasury may wish to invest again rather than 'reinvent the wheel,' as has been the case previously.

## Postscript: This Publication

The more vibrant the marketplace, the more attractive the offer to investors, be they investing in an MBO of a large social business, or seed funding a promising batch of early-stage social entrepreneurs. As such, infrastructure building must be aided by economic and tax incentive reform for investors. Tailoring a new social marketplace to stimulate grass-roots entrepreneurship should be a key reform of an incoming government. Tax incentives, legislation and supporting new financial, blended products should all be priorities.

Ethical and Fairtrade business has shown that people are willing to invest a bit more for something that does and feels good. If social enterprise were able to lower the marginal costs attached to its brand of 'good,' its attractiveness would increase severalfold. For these reforms, there will need to be treasury outlay. How can we justify it? In order to further tighten that offer, we must create new **social impact measurements** and platforms for transparency and visibility of impact, to enable investors to decide how to invest their money in this new marketplace and to enable Government departments to price demand reduction without placing too much burden on early-stage entrepreneurs themselves to create the data—and so help get seed money to the places it needs to go in the deal flow continuum. Modelling these metrics over the ten-year 'career' of a funded entrepreneur and putting numbers to our programme growth projections and IRRs will be a project for the next publication in this series.

### Creating the Infrastructure for Grass-Roots Social Entrepreneurship

***Evolving the Venture Society in Seven Stages***

(i) Create the **community 'lablets' programme**, offering a local network of support infrastructure for venture funding, incubation and support; local dragons' dens. Each would have its own, localised, community-driven brand and identity.

(ii) Invite large foundations such as UnLtd to become **social labs**: innovation hubs and seed funders for community lablets with a specific mandate to produce innovations that help the grass roots to scale, disseminate best practice, broker supply chains and bulk deals, and direct private and blended funding to promising projects.

(iii) Cut application bureaucracy through this local funding, but also by giving social labs a quasi-regulatory power to approve a new, flexible **venture-lite structure** for social start-ups funded by community lablets and social labs. Set up a **bureaucracy task force** that reviews the burden of regulation on early-stage social entrepreneurs.

(iv) Engage social labs to provide pilots for **virtual advisory boards** and work with providers to create more virtual equity and peer-to-peer lending platforms to diversify investment sources.

(v) Work with social labs to create fund management plan gold standards for community lablets that allow for mutual and co-operative local ownership and foundation models, as well as locally decided venture priorities. They should allow a **community asset career for each community lablet**. Engage with OTS strategic partners, such as BASSAC, the DTA and others to create best practice kits.

(vi) In a time of reduced funding, the costs of infrastructure for social ventures **should be limited to being within the envelope of existing programme commitments**. We see a role here for the Capacitybuilders network and the Community Development Foundation – both owned and paid for by government, the former to 2014 but capable of being wound up at any time by the Cabinet Office – to take on a distinctive, needed role supporting social entrepreneurship.

(vii) In the longer term, as the finances allow, we should look to pump-prime the social marketplace and these platforms, through a capitalised social investment bank, targeted **tax breaks for new blended value investment vehicles** and a community reinvestment act, both subjects of future ResPublica research. We must also tweak the Whitehall schema and get Treasury buy-in to formalise the process by which **demand reduction is paid for on a programme basis across service-delivering Whitehall departments**.



# Preface

**Cliff Prior, CEO, UnLtd**

*It is time to move up a gear in supporting social entrepreneurs, to sort out a sustainable infrastructure than can help the hundreds of thousands of people in the UK who want to start up a social venture, and to engage communities in a movement for change.*

UnLtd is the foundation for social entrepreneurs in the UK. In our eight years of work, we have supported thousands of people to start up new social ventures. Their commitment, energy, and innovation are truly remarkable. From local community activism to social ventures delivering transformational scale, social entrepreneurs are a powerful force for good in society. They are the fixers—the people who see a problem they can solve and fix it.

Social and community entrepreneurs are not a creation of any government or political group: they are motivated by their own passions to improve the world in which they live. One in every 30 adults in the UK lead some kind of social organisation. I am hugely grateful to the thousands of people whose enterprise and commitment has made UnLtd's work possible, and to the 1.7m social and community entrepreneurs who make the UK so much better a place to live.

They are a genuine movement. Really I should say *we* are a genuine movement: like many of the people at UnLtd, I've created new social ventures, too, and know first-hand how important the right support systems can be.

Increasingly, companies and individuals as well as foundations are contributing skills, time and cash to support social entrepreneurs in their work. UnLtd's own journey from foundation to now drawing half of its income from private, company and voluntary sources shows the level of support beyond government for this approach.

But politicians can make social entrepreneurs' work much harder or much easier. And at a critical point of UK politics, it is vital that our elected leaders understand the scale and nature of entrepreneurship for social benefit.

We know the benefits social entrepreneurs bring: learning and confidence-building, social innovation, building social capital, creating social and economic impact. We know the approach works across the spectrum of social activity. Social entrepreneurs are the glue binding society and the creative force for social improvement.

And yet it has been difficult to connect the organic, passionate nature of social entrepreneurship with the big institutions of state and market.

Right now, the UK faces its toughest time in decades. There will be little public money and many social needs. We have social and environmental challenges which need action from citizens as well as government. As a society, we cannot ignore the contribution of social and community entrepreneurs any longer.

At UnLtd we believe communities facing problems contain within them the people who are the solutions—people who deserve the backing of Government, communities and the market. We believe it is a time to unleash the talents of people who can transform the world in which they live. A time to build a movement towards a society that acts to make it better. A time for all of us in the social venture sector to rise to the challenge.

The new government coming in after the election will need all the help it can get—and UK society even more. So exactly how and where can social entrepreneurship address the challenges facing the UK? What support infrastructure will help it fulfil its potential? Who are the best enablers and how can we best support and connect them? What policies can the new government promulgate to improve the operating environment? And how can we scale up the support we offer beyond the 1% of the people trying to start up who currently get formal help?

These are the challenges which we asked ResPublica to help answer, as part of a wider programme of work at UnLtd, including seminars and consultations with social entrepreneurs to envision the future. We have provided access to our data, and much more importantly, access to hear from social entrepreneurs directly. Asheem Singh and the team from ResPublica have drawn in additional views and findings from across the field and produced this groundbreaking report with radical new ideas to expand the numbers and impact of the people who want to make social improvement happen.

The report is fully independent, but UnLtd commends it to the new Government and to our colleague organisations supporting social entrepreneurs. We will be talking with social entrepreneurs to see which of the proposals look most valuable to them. And we will be working with others in the sector to pilot and evaluate the most promising.

This is a report which challenges us all to go beyond what we do now to make social entrepreneurship mainstream, and to be just as innovative and determined in our mission as are the social entrepreneurs we support.

The one resource the UK has in plenty is the talent, energy and commitment of its people. The job we have in our sector is to unleash those talents at scale and help them shine. I believe this report is a major step forward on that path.



# Foreword

**Phillip Blond, Director, ResPublica**

We in the UK are at the cusp of a great change in our society, and we need a new way to harness the civic will and transformative power of our citizens. Social entrepreneurs, people making a difference in their communities through pro-social businesses and activities, are key to this emergent future. But we are losing too many of them to poor policy and lack of support arrangements; and with new civic infrastructure, we could both support and stimulate a whole new swath of social entrepreneurs.

We could and we must do more to encourage the good that people do. I have often thought that all businesses should think of themselves as social enterprises—and today it seems that industry and technology mean this is possible, while enlightened business strategy makes it both desirable and profitable. It is timely, too.

We are bored of juggernauts, of large entities, of remote brands offering identikit goods and services; however necessary these organisations are, they are insufficient to meet varied need and are often unable to respond to local demand. One section of the report that stands out for me is the idea that consumers don't want abstract symbols, they want concrete stories. And there are no stories better than local, community stories. This is a metaphor for the role of social enterprise and social entrepreneurs as we try to build a new economic model for the poorest and least advantaged members of our society.

Working with UnLtd on the business of change has been a pleasure; they have helped many to do the great work they do, but we need to build on their approach. My goal with ResPublica is not to just identify problems, but to create transformative solutions that tie together civil society with a renewed approach to economics and social need; as such, part of our aim is to tackle vested interest and bring access to the free market for all.

The solutions our team have created here do just that: pick up on the trends of our times and meld light-touch nudging with solid, structural reform of existing programmes. And – believe me, there was no instruction from the top! – we have identified efficiencies and rationalisations that could make these ideas possible, while also generating returns for society and the treasury at the same time. The choice is not really a choice at all: a short-term society, dependent on centrally selected support, or a venture society with a flourishing local culture of entrepreneurship, aspiration and identity. I know the one in which I would like to live.

# Part One

## Introduction: The Infrastructure Deficit

> *"Optimism is the elixir that makes everything possible. It sparks confidence—and that fuels ambition, which in turn triggers action. It leads to new inventions, new companies, new jobs and a higher standard of living."* [8] Luke Johnson, Risk Capital Partners

Take Deborah Russell. Studying for an MBA at Exeter University, running her own retail business from home, bringing up her children, the youngest of whom is disabled. Also the CEO of Loosely Wrapped, an on-line trading platform for marketing and selling products made by people with learning disabilities.

Or Ben Ramsden. He made the move from activist to business leader when he switched from a campaign organisation to creating a social business. Pants to Poverty sources cotton from fair-trade farmers, turns it into underwear at ethical factories in the developing world, and sells them in ways that create a buzz around social issues in addition to making money.

Or Jake Hayman. His venture Future First helps young people in state schools in difficult areas by bringing innovative models of careers advice. He brings successful people back to their old school to inspire and inform, tapping into their networks for work shadowing and work experience so that disadvantaged young people get the chances others take for granted.

They, and millions like them, are social entrepreneurs. There are 1.7m social ventures overall in the UK, some 62,000 of which are social enterprises, which contribute £24 billion to the economy and employ at least 800,000 people.[9] These enterprises are ambitious, and are as capital-hungry as small businesses: one-third of social enterprises have sought finance over the past 12 months,[10] while 60% of all funding required by social enterprise is expansionary[11] – investment for new projects or service development, capital investment such as plant or buildings and expansion.

Yet the 'sector' is more diverse even than that, with a myriad base whose positive effects are often difficult to quantify. At one end there are nascent social entrepreneurs and their start-ups. At the other end, the large ethical businesses such as coffee company *Cafédirect*, or television chef Jamie Oliver's *Fifteen* restaurant, with many thousands of models in-between, an unbroken sea of potential and social resilience. In so far as markets of exchange have, to a greater or lesser extent, always been personal and social in nature, social entrepreneurship is not new. It is a part of who we are and what sort of society we need to be. Whatever we think of the current state of our markets, whether a desocialised market necessarily creates momentum behind more social entrepreneurship, we can safely say that this myriad base is worth supporting. And that it is here to stay.

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8. Luke Johnson, *Accentuate the Positive*, Financial Times (13 Oct 2009). Available at: http://www.ft.com/cms/s/0/a35ff83e-b82d-11de-8ca9-00144feab49a,dwp_uuid=782015c4-f2e3-11dd-abe6-0000779fd2ac.html
9. Williams, M. & Cowling, M. *Annual Small Business Survey 2007/08* (BERR: Institute for Employment Studies, 2009). Available at: http://www.berr.gov.uk/files/file50124.doc [Accessed 26 April 2010].
10. Williams, M. & Cowling, M. *Annual Small Business Survey 2007/08* (BERR: Institute for Employment Studies, 2009). Available at: http://www.berr.gov.uk/files/file50124.doc [Accessed 26 April 2010].
11. Leahy, G. & Villeneuve-Smith, F. *State of Social Enterprise Survey 2009* (Social Enterprise Coalition) p.34. Available at: http://www.socialenterprise.org.uk/data/files/stateofsocialenterprise2009.pdf [Accessed 26 April 2010].

**Fig. 1.1 The Myriad Base: Spectrum of Social Entrepreneurs (simplified)**

| Social Entrepreneur | Social Enterprise or Equivalent | Ethical Business |
|---|---|---|
| Community based. | Community based, but sourcing more widely. Applying ethical principles to transactions. | Multi-million pound conglomerate with ethos and principles in place. |
| e.g. Deborah Russell | e.g. Loosely Wrapped | e.g. John Lewis Partnership Café Direct |

There are more people involved in social ventures in the UK – be they co-operatives, mutuals, enterprises or more – than any other country in Western Europe. The State of Social Enterprise survey of 2009 found that 45% of respondents stated that they were motivated to work at or set up a social enterprise to put something back into the community.[12] Today, 35% of nascent or early-stage entrepreneurship is in the social domain. At any one time, around 238,000 budding social entrepreneurs are trying to create a social venture.[13]

This generation of the venture society has reached unparalleled heights. Can we reach even higher?

12. Leahy, G. & Villeneuve-Smith, F. *State of Social Enterprise Survey 2009* (Social Enterprise Coalition) p.14. Available at: http://www.socialenterprise.org.uk/data/files/stateofsocialenterprise2009.pdf [Accessed 26 April 2010].
13. *Global Entrepreneurship Monitor*, 2009.



*"Why is it easier for a young person to set up a gang than a youth club?"*
*- Cliff Prior, UnLtd*

**The Problem:** The current generation of 16 to 18-year-old NEETS (people not in employment, education or training) will cost society an estimated £31bn over their lifetime.[14]

**A Potential Solution:** ***Interest in*** social entrepreneurship is persistently higher in the youngest age group (18 to 24 year-olds).[15] Yet the highest levels of action take place in the group who are 10-15 years older. Social entrepreneurship is a mechanism for teaching young people about entrepreneurship based on sound ethical, social principles, but too many are blocked from it.

**Yet how much Government money currently enjoins youth entrepreneurship?**

**Current Policy:** A £1.1bn Future Jobs fund which invests up to £6,500 per new job.[16] This money cannot be used by a young person as a means to self employment; it is paid directly to the provider who finds them a job. Compare this to the School for Social Entrepreneurs, which spends roughly £1,609 per new sustainable job created.[17] Currently all Government initiatives fail to acknowledge entrepreneurship specifically among 18 to 24 year-olds. Instead, comparative initiatives only focus on volunteering, such as the youth volunteering charity, 'V.'

**Existing job and worklessness programmes should be reconfigured to make them more accessible to social entrepreneurs and agencies who fund them.**

The behavioural barriers to potential community entrepreneurs among this age group are too high. Remote, unspecified funding, bureaucratic arrangements and a lack of community convivial space are key factors that can perhaps make setting up a gang seem like a more viable option.

14. Sodha, S. & Margo, J. *A Generation of Disengaged Children is Waiting in the Wings* (Demos, 2010). Available at: http://www.guardian.co.uk/education/2010/feb/25/pre-school-underclass-educational-disengagement
15. Dr Harding, R. *Social Entrepreneurs Specialist Survey 2006* (GEM/London Business School) p.4.
16. DWP, *Guide to the Future Jobs Fund*, p.1. Available at: http://research.dwp.gov.uk/campaigns/futurejobsfund/pdf/fjf-guide.pdf
17. SSE figures.

## 1.1 What More Can Government Do?

Despite the fact that nearly one in every 30 people in the UK is involved in a social venture full-time, we lag far behind Denmark, the Netherlands and Northern Ireland in terms of the number of people who are so involved as a percentage of overall equivalent employment. But this is more than a numbers game. The next big issue for social entrepreneurship is how we create the infrastructure that will allow the next generation venture society to build on the achievements of the first.

If New Labour considered the 'social market' to be hardwired into its DNA, then its policy to invest in it – to platform it – was understandable and perceptive. Using money from the National Lottery and Millennium Fund among others, before coming off the Conservatives' spending plans in 2001 and offering programme funding in various areas, meant that government spending of the order of hundreds of millions was channelled into creating the conditions for what then-Chancellor Gordon Brown called 'cross-silo investment': £100m went to UnLtd from the Millennium Fund;[18] £300m to NESTA from the national lottery, whose ventures team picked up the baton of social innovation.[19] The Social Investment Task Force chaired by Sir Ronald Cohen was mandated by Brown to take forward thinking in this area and helped build the Community Development Finance Institution (CDFI) market, which offered bridging loans and working capital in our poorest areas. As ethical investment has ballooned into a multi-billion pound industry world-wide, so these loans and investments have become a half-billion pound industry in the UK from a standing start in but a few years. Added to this came a diverse array of private support initiatives from the School for Social Entrepreneurs, the Young Foundation and the Shaftesbury Partnership, to name but three. Something was happening.

New Labour's model worked for its time, but as with all consistent policy approaches, it eventually suffered from diminishing returns. Following the early experiments, mindful of the diversity of the sector, mindful of the plurality of approaches to even defining it (our simplified diagram above is only a guide), its model solidified into a consensus: to use the Office of the Third Sector to *advocate*. The plan was to *challenge* the market with this social business; to attempt to create large providers with the scale potential to support those who wanted to enter the market. Its priorities:

- Create an enabling environment for social enterprise (regulation, procurement reform)
- Make social enterprise better business (business support, capacity building)
- Establish the value of social enterprise (research, track record, business case)[20]

There was some evolution of this approach. With the advent of the Big Lottery Fund in 2006, more work was done on experimenting with different forms of local provision, such as through local panels in concert with the Community Foundation Network; of attempting to constrain and localise the number of people making funding recommendations and so taking ownership of the outcome at any one time.

18. UnLtd homepage: http://UnLtd.org.uk/template.php?ID=3&PageName=ourhistory [Accessed 26 April 2010].
19. ERAWatch (European Research Area): http://cordis.europa.eu/erawatch/index.cfm?fuseaction=org.document&uuid=370C8E83-04F8-BEFD-4E540B97EA5CD647 [Accessed 26 April 2010].
20. OTS organogramme and factsheets, OTS, 2008.



Yet for all the benefits of these experiments, there was little attempt to combine them into an evolved support model or platform. UnLtd, for example, support some 1,000 social entrepreneurs per year,[21] out of the field of 238,000. Joining their work with the work of Government departments in this area and the work of the private sector has been welcome but evanescent. And so on to recession, on to a time of less abundant funding, where the failure to enjoin market forces, or indeed service delivering Government departments in any sustained way outside of the Cabinet Office is more serious.

Social entrepreneurs have already felt the effects of what happens when advocacy begins to fall short. In February 2009, at the height of the recession, the Government unveiled *Real Help for Communities: Volunteers, Charities and Social Enterprises*. Of the £42.5 million package, £10 million was directed into investment in volunteer brokerage schemes, £15.5 million was intended to provide grant funding for small and medium providers, yet just £0.5 million was invested directly into social entrepreneurship. The School for Social Entrepreneurs was given access to money in order to "double the number of people it trains to become social entrepreneurs, particularly those working in deprived communities."[22] The School for Social Entrepreneurs' last London intake was 40; nationwide it stands at 160.

For New Labour, the Government was the driver of the grass roots. The moral obligation is on government to pick up the slack where the private sector would not, "complementing the private sector," as Ed Miliband somewhat cryptically put it.[23] The successful Bridges Ventures, a Government initiative from 2002, whose three investments provided the Treasury with double figure IRRs,[24] and 2008's Social Investment Pilots were rare forays, where the Government provided first tranche capital for investments into social ventures. That these experiments were not continued down the investment scale is instructive, because they were two of the few occasions in the last thirteen years in which Government did not just complement but actively enjoined the private sector: intertwined and melded their interests into an exciting model for social good, in the way Government is now looking to do in green technology industries. Instead, the *pot pourri* of initiatives suggested a lack of commitment to the idea of evolving the infrastructure of the venture society. It suggested that social entrepreneurs at the grass roots would never be more than a subset of grantees, charities or the state itself; or a group of people deserving of support through welfare.

Centre-heavy support funds in public services and seed and start-up grants has meant that support funding has often been highly specified and regulated. Small business investment schemes such as the EIS or blended models like the CIC were tried with less enthusiasm than there might have been as a direct result. More money and weight was thrown behind the large Capacitybuilders and Futurebuilders grant and loan provision schemes than any other programme whose twin aims were support and service delivery. The result has been a skewing of the sector, which some have lauded, but which others have criticised as haemorrhaging sector resilience.

21. UnLtd. *Annual Report 2006/07* (UnLtd, 2010). Available at: http://www.UnLtd.org.uk/download/Annual_report0607.pdf [Accessed 26 April 2010].
22. http://www.cabinetoffice.gov.uk/third_sector/news/news_stories/090209_real_help.aspx [Accessed 29 March 2010].
23. Miliband, E. writing in *The Observer*, January 2010.
24. Bridges Ventures, 'Portfolio Exits.' Available at http://www.bridgesventures.com

Income source: state versus non-state

Combination = social enterprises where no clear distinction between trading and non-trading was possible

| State versus non-state | Total | £0 - £10,000 | £10,001 - £50,000 | £50,001 - £100,000 | £100,001 - £250,000 | £250,001 - £1 million | Over £1 million |
|---|---|---|---|---|---|---|---|
| Base | 821 | 48 | 125 | 126 | 182 | 164 | 144 |
| State 50%+ | 39% | 33% | 31% | 38% | 42% | 48% | 35% |
| Combination | 10% | 4% | 14% | 10% | 10% | 7% | 11% |
| Non-state 50%+ | 51% | 63% | 54% | 52% | 48% | 45% | 54% |

Source: State of Social Enterprise Survey 2009

Properly considered, social entrepreneurs do not necessarily – especially at the start-up stage – form businesses that *supply* scaled up services to the state. Some do, but even more, when at the initial stages, whether on a government contract or not, create businesses that *reduce demand* on the state. They do this by spreading aspiration, social action, and strengthening community spirit; by creating job opportunities, training placements and more.

The current state of things produces another skewing effect. Smaller social enterprises and one-person social entrepreneurs are rather less good at delivering public services to scale. The promised public procurement reform that was supposed to set them free never came; this inevitably meant that those who do not have independent means – including very many motivated people in our poorest communities – missed out.

During the recession, against a backdrop of established businesses crumbling into administration and widespread job losses throughout all sectors, 56% of small and medium sized social enterprises increased their turnover, double the increase enjoyed by the wider SME sector as a whole.[25] At the top end of the social enterprise continuum, too, investment has never been healthier. The 2009 RBS Social Enterprise 100 Index shows annual turnover growth for the top 40 social enterprises at 78%. In comparison, Business XL's figure for its 40 fastest-growing businesses was 38.9%. To take a concrete example of this, consider Fairtrade products. Buoyed by investment, this industry grew by 81% between 2006 and 2007.

The broad picture is clear. The policy not to *make* the market – despite good intentions – has helped those at the top of the sector at the expense of those at the bottom. And letting those at the top flourish while supporting as many of those as possible at the bottom as funds allow has served to cap the aspiration of this current incarnation of the venture society. New Labour did much good in this area, yet its government never seriously engaged with the idea of supporting those at the bottom – at the grass roots – not by increasing direct spending on them, but by giving them direct access to the private economy. The existing ethical market was lauded; the non-ethical market was challenged: but a social economy that works for social entrepreneurs small and large was never made.

25. See for example: Social Enterprise Coalition. *No More Business as Usual. A Social Enterprise Manifesto* (February 2010) p.6. Available at: http://www.socialenterprise.org.uk/data/files/Policy/a_social_enterprise_manifesto.pdf [Accessed 27 April 2010].



It is a serious question: can individual entrepreneurs or small-scale social entrepreneurs really be funded in the early stages by private enterprise? Especially in terms of being a business proposition rather than for reasons of philanthropy or altruism. This precisely is where infrastructure and market making meet; where the interests of society and economy can be intertwined by the right Government policy; why this report suggests that a truly 'one nation' approach is possible.

### 1.2 One Nation Entrepreneurship: The Diversity of Social Entrepreneurs

Social entrepreneurs are often motivated by personal experience to make the place in which they live better. Not all of them are service deliverers or indeed ready for large-scale private investment. Many have changed the way we think about the ways in which we come together. There are:

**Social activist social entrepreneurs:** for example *Voice of Aston* or *Haringey Warriors*, which both tackle conflict and gang culture amongst local young people, using sport, community events and mediation.

**Political social entrepreneurs**: for example Tom Steinberg's *MySociety*, backed by UnLtd at outset, which gives citizens the information they need to have an impact on politics.

**Social entrepreneurs working with trade unions**: e.g. of Matthew Bolton and his *Living Wage Campaign*, which succeeded in getting 25000 cleaners and porters a £2 per hour pay rise—also an UnLtd-backed start-up.

**Public service media social entrepreneurs:** Christie Macaleese's *Savvy Chavvy*, a web2 platform for young travellers, or Paul Hodgkin's Patient Opinion, tripadviser for healthcare (also UnLtd AWs).

**New mutuals**: *Who Made your Pants*, a social enterprise in Southampton. Its creator, Becky John, gave up a well-paid job to work full-time unpaid for a year and a half to set up an ethical underwear workers' co-operative after thinking "No one has the right to wear a cheap pair of knickers that means a child has had to work 14-hour days".[26] The enterprise trains local refugee women to manufacture lingerie as a mechanism through which they can gain employment, training and emotional support as part of a co-operative structure which enables all members to take responsibility for the business and to benefit from any future financial success. It also illustrates the way that social enterprise is very successful in reaching people from ethnic minority groups, refugees and recent immigrants. 40% of UnLtd Award winners are from ethnic minority groups. Encouragingly, this accurately reflects the number of people from ethnic minority groups as a percentage of the total number hoping to initiate a social start-up. [27]

**Supporting social enterprises**: *Aylesbury Community Enterprise (ACE)* is a 12-month social enterprise development project in the Aylesbury Estate, Southwark, London, and is based on the concept that community entrepreneurs and their ideas are not invalidated by a lack of business acumen. Following workshops, a number of people attended one-to-one business advice sessions, before appearing in a Dragons' Den style event, where eight participants with best social enterprise ideas received grants of up to £1,500. The result is the establishment of 10 social enterprises, and the opening of a local shop that serves community needs and has created jobs and self-reliance at important interstices throughout the community.

26. Churchward, S. *Who made your pants?* (*Daily Echo*, 16 November 2009). Available at: http://www.dailyecho.co.uk/archive/2009/11/16/Features+-+News+Features/4741122.Who_made_your_pants_/

27. UnLtd Findings, March 2010, p.3.

**The big social business**: *Cafédirect*, a company that works with over 260,000 coffee, tea and cocoa growers in 40 registered Fairtrade producer organisations across 14 countries, affecting the lives of over 1.2 million people in developing countries. In 2007, the company's market share for hot drinks equated to 34%, 32%, and 14% respectively of the UK's Fairtrade coffee, tea, and drinking chocolate markets. In the overall market, Cafédirect is the 5th largest coffee brand and 7th largest tea brand in the UK.[28]

### 1.3 The Infrastructure Deficit

We are concerned here not only with a question of fairness but of economic necessity; of tailoring the environment to better harness a genuine growth industry. Small and medium sized enterprises (SMEs) are the engine for growth and job creation in the UK economy, accounting for 99% of all UK businesses.[29] The United States Small Business Administration claims that a state's effort to promote the growth and survival of small businesses will have a greater effect on overall economic growth in that state than nearly any other policy option. Some of these small businesses, operating in an environment conducive to enterprise, will flourish and grow into larger firms. We agree with Dr Rebecca Harding at the London Business School who argues that "social entrepreneurship has a broader resilience [than mainstream entrepreneurial activity] to exogenous factors like the macroeconomic climate."[30]

In the 'tech' industry, we have had a revolution of bottom-up variety, top-down venture capital and intellectual contemplation. Investors are now comfortable with the idea that large returns can come from emergent, small start-ups with open intellectual property rights, so that 'monetisation' occurs in ever more innovative ways. 'Small is beautiful,' and in certain kindred industries, many of the economies of scale that come from being a giant are also capable of being acquired – as the growth juggernauts in Silicon Valley, the Silicon Fen or London's media 'Midtown' demonstrate – as part of a close, social cluster or network. Silicon Valley's genesis came about as a result of a vibrant, aspirant industry culture, a combination of buccaneering venture capital and a pliant Government environment. We can learn lessons from our most successful industries and shift these serious questions in the direction of social entrepreneurship.

28. Cafédirect. *Cafédirect wins ethical business of the year* (June 2009). Available at: http://www.cafedirect.co.uk/pdf/press/2009_June_2_WEBA_Win.pdf
29. The UK economy is driven by small businesses. They make up 99% of all UK businesses and they are the engine for growth and job creation. In a 2006 survey, FSB found that only 4% of small businesses had used govt funded business support in the previous 12 months (36% of those who had not were unaware of the services available, 20% did not use services due to confusion), in contrast to the statistic that 54% of businesses say they primarily use their accountant for business support services. Govt wanted to simplify business support and decrease the number of schemes from 3k to 100. In 2008, the Business Link 2007 survey found that 37% of businesses have used the internet for business support; 77% were satisfied, only 0.5% were not. FSB found in 2006 that the number of businesses using govt funded business support had reduced from 17% in 2004, to 4% in 2006. Other private sources were also reduced – banks from 33% in 2004, to 8% in 2006. This fall may be due to increasing numbers using the internet for support. Main barriers to business support include cost (59%), business advisers lacking overall understanding of business (44%) and time constraints (44%). The survey points to demand for lower costs of initial assessments and better advertising of govt funded services. "Strong perception amongst small businesses that there is an inherent bias towards big business from all govt funded business support services." Small businesses are the most dynamic and job-creating part of the UK economy, with half of UK employment and GDP provided by this sector. The business support network should aim to provide seamless and targeted support to businesses throughout their life cycle, particularly as they grow. Govt should focus on complementing the private sector by filling gaps in supply and addressing market failures.
30. Harding, Dr R. *Social Entrepreneurs Specialist Survey 2006* (GEM/London Business School) p.4.



Conventional entrepreneurs are not made 'to serve'; they are, as Joseph Schumpeter had it, "unquelled, restless spirits."[31] As social networks such as Facebook, Youtube or Ebay blur the line between user and producer; as sharing and group ideas are made real and, even in the poorest countries, as it all can be financed through peer-to-peer financiers such as Kiva.com, this movement is a little-contemplated part of a widely-discussed current of change whose conduits are technology, front-line empowerment, community motivation, decentralisation and activism. As social entrepreneurs continue do so much to help in so many ways, from helping the most vulnerable community member to supporting the macroeconomic climate as a whole, cutting the *infrastructure deficit* should be a top priority for a government that wants to see real social change.

31. Schumpeter, J. "Economic Theory and Entrepreneurial History", *Change and the Entrepreneur*, (1949).

Part Two



# A Lost Generation of Social Entrepreneurs

> *"Running a business or any organisation is like writing a song; if somebody else writes the song for you, it's not your song."* [32]
> *UnLtd Award Winner*

If there is one thing that characterises successful market making, it is understanding the behaviour of market participants. This means examining the entrepreneur issue from a perspective other than Government need: it should also take place from the point of view of the needs of social entrepreneurs, at whatever stage of the deal they and their investors happen to be.

And if we measure the success of Government attempts to tailor a market in terms of the *deal flow continuum* – those various transactions with backers as the entrepreneurs begins to sell his or her goods or services in greater abundance – the ceiling in the current approach becomes clear.

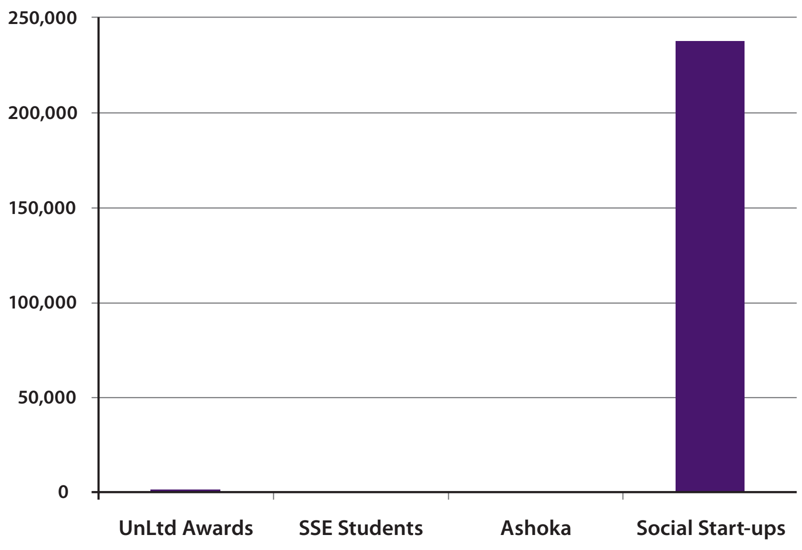
## 2.1 The Market Failure Challenge: A Lost Generation

There are serious troughs in the deal flow continuum. Its effects are clearest and most harmful at the bottom end. Neither the state nor private investors have been able to effectively fill it. The effect of this is to hamper a social entrepreneur who does not have private means as they attempt to make the movement from developed idea to a fledgling sustainable venture.

Only 1% of those wanting to start a social enterprise in this country are reached by supporting agencies such as UnLtd.[33] UnLtd runs three Award Levels: Level 1 (£500-£5k), offering support that focuses on first steps and building entrepreneurial capacity; Level 2 (up to £15k), which aims to free up the social entrepreneur's time so that they can further develop their project; Level 3 (up to £20k), for those social enterprises with the potential for replication and scaling up, and *UnLtd Advantage* to provide investment readiness support and brokerage.[34] At the end of an UnLtd Award, 36% of projects were either already being replicated or had immediate plans to do so. However, on average UnLtd tends to be able to support around 10% of projects which make it through. Competition is very high, viable social enterprises are overlooked, and others are put off applying in the first place because of this.[35]

32. UnLtd, 'Re-analysis of longitudinal transcripts,' p.2.
33. Calculations from a sample based upon UnLtd data.
34. http://www.UnLtd.org.uk/download/DMOPP0909.pdf , p.2.
35. Interview with UnLtd Award Winner conducted by Samuel Middleton, 5 March 2010.

**Fig. 2.1. The Global Entrepreneurship Monitor showed that 238,000 people in the UK are trying to establish a social venture at any given time. Yet no agency is near the scale of this start-up market.**




This despite the many forms of funding and support that would appear to be available. Yet, despite this diversity, this crucial level has remained under-capitalised.

- **Cash only awards** – e.g. vkashpoint; helpful but people from disadvantaged backgrounds struggle without development support.
- **Cash and development support awards** – the UnLtd model, also used by Firstport Scotland (partner to Scotland UnLtd) and Prince's Trust.
- **Vocational education** – learning by reflection on doing, and peer-to-peer discussion; e.g. The School for Social Entrepreneurs, and some shorter course providers.
- **Formal education** – several MBA and business schools now have a social dimension; examples range from Skoll at Said, to Liverpool John Moores University.
- **Hubs** – shared workspaces with active hosting and networking; e.g. The Hub.
- **Incubators** – Young Foundation, Shaftesbury Partnership, Participle, Innovation Exchange – hothousing a selected group of high promise social enterprises. Particularly valuable for social innovation areas.
- **Community anchors** – some like Bromley by Bow, Community Links, Blackbourne House and Sunlight Centre focus on supporting local community entrepreneurs.
- **Challenge prize schemes** – e.g. the NESTA funded Big Green Challenge delivered by UnLtd recently. Major prizes put up to attract interest and energy on a theme area.

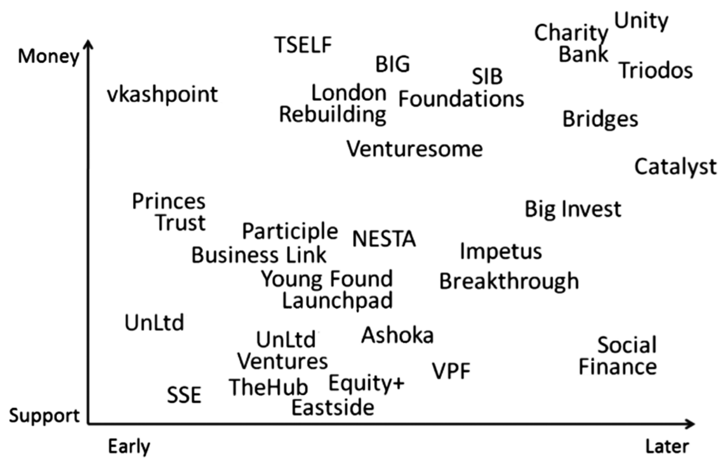


- **Student movements and competitions** – e.g. Student Hubs Movement, SIFE. Business plan competitions, live pitching competitions, student networks, UnLtd's Dare to be Different Awards.
- **Networks** – including events-based networking, drinktank style informal meet-ups, unconferences such as SHINE, social impact camps, online networks such as UnLtdWorld.com.
- **Pro bono connections** – UnLtd Connect, and the pro bono schemes that run alongside several social investment programmes such as Impetus, Breakthrough.
- **Social investment and investment readiness** – government-funded social investment houses such as Social Investment Business, and the independent ones, including Triodos, Bridges, Venturesome, Big Issue Invest, alongside investment readiness programmes like UnLtd Advantage and Eastside Consulting.

Despite this variety, closer examination of the funding sources available to social entrepreneurs reveals serious gaps along the deal flow continuum. Depending on the size of the social venture involved, the size of this problem varies; however, one of the most pernicious is that which exists from approximately the £20k to the £200k mark where angel investment kicks in, identified by support agencies such as UnLtd. The State of Social Enterprise survey has backed this up, suggesting the knock on effects of are a definite 'speed bump,' with few social enterprises capitalised to around the £100k-£250k mark.

The reasons postulated here include the difficulties of taking on debt finance, employing people, or simple cash flow management.[36] However, the implication is that once a social entrepreneur has worked to turn his or her venture into a going concern, perhaps with some personal money, a credit card, a bank loan, savings from a part-time job, or a small grant from a support agency, it is precisely at this moment that funding and infrastructure is not available to move forward to the next stage.

**Fig 2.2. Diversity of funds – but still a huge gap. Support and investment offered by Agencies and Investors in the social enterprise field mapped against the stage of development of investee.**




36. http://www.socialenterprise.org.uk/data/files/stateofsocialenterprise2009.pdf , s.6: 'Accessing Finance'

This has created a sector-wide funding ceiling. According to survey data from UnLtd, 36% of funded social entrepreneurs who went through their support programmes grew their idea into a vehicle which would be ripe for funding at this level. If further funding and support reached just 10% of the 238,000 social entrepreneurs mentioned above, we could potentially witness the creation of an additional 8,568 viable expanding social enterprises or equivalent vehicles.[37]

Short of a hefty fiscal stimulus, there is no silver bullet to overcoming the market failure challenge in the short term. Even a cash injection would not provide longer term sustainable funding at this level. A revised infrastructure would seek to funnel money down; to get investors engaged earlier and provide the many platforms to do so. If not, it is certain that, in a time of reduced funding and bank lending, this deal flow gap will continue to be fatal for those entrepreneurs who do not have independent means.

## 2.2 The Cultural Failure Challenge

Jamie Oliver's *Fifteen* restaurant; The John Lewis Partnership; Divine Chocolate: all are social enterprises that have entered the popular consciousness. People know about them and talk about them.

Yet the sector as a whole remains relatively misunderstood by consumers and investors. According to the COI, 50% of respondents representing a cross-society survey had never heard of social enterprise. Less than 50% were unaware that a social enterprise could make a profit.[38] It is a fairly safe presumption that most of those same people will have heard of individual social start-ups and enterprises, but the 'sector' is alien to many.

Part of this is because social enterprise is a spectrum, not a sector. Efforts to bring social entrepreneurs under the umbrella of a 'third sector' misunderstand this. Other more nuanced efforts recognise the diversity but tend to be confused. They include Nobel prize winner and development micro-financier, Mohammed Yunus, who provided micro-loans and grants to small businesses in Bangladesh and elsewhere. Then there are those who categorise it as a subset of venture capital. One of the leading voices in the UK has been Sir Ronald Cohen, the 'father of British venture capital,' co-founder of Apax partners. There are also genuine all-rounders such as Michael Young, who created *Which* and *Language Line* as social businesses, Open University and National Extension College as public agencies and the Young Foundation which seeds social ventures. There are semantic distinctions: some label them 'social entrepreneurs,' others label them 'ethical businesses.' There are process-based distinctions: some require a non-profit base in the organisation, or an asset lock; others suggest that employee-owned mutuals with social purposes such as the multi-million pound John Lewis Partnership should be included. Mohammed Yunus has argued for even more sectionalised analyses. In his view, a 'social business' has a social purpose; while a 'social enterprise' reinvests most or all of its profits into that purpose.

37. Authors' calculations based on GEM and UnLtd survey data. See supra.
38. Cabinet Office. Office of the Third Sector. *Is Social Enterprise at a Crossroads?* (17 September 2008) p.21. Available at: http://www.cabinetoffice.gov.uk/media/cabinetoffice/third_sector/assets/COI%20SE%20presentation%20FINAL.pdf [Accessed 27 April 2010].



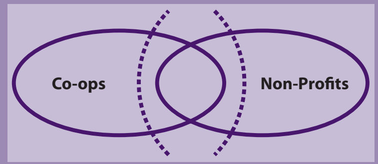
**Fig 2.3: First example of a more complex taxonomy of the sector**


*© Venturesome, Previously published in Financing Civil Society, Sep 2008.*

**Fig 2.4 Various definitions from the UK and Europe**

**Social Enterprise London**: Social enterprises target environmental or social needs. Run as businesses, but with profits being directly re-invested back into communities or business in contrast to shareholder or owner payouts. There are a diverse range of business models, with co-operatives, credit unions, housing associations, community development trusts, social firms and community businesses are the most common forms of social enterprises. And operate in all market sectors. SEL refers to the social enterprise sector as "the most exciting and inspiring business movement in the world [using] innovative and sustainable ways."

**Italy:** Social enterprises are given the status of a legal category, rather than a legal form or organisation in keeping with the cultural history of cooperative and similar structures. Without a specific form social enterprises include co-operatives, investor owned firms and traditional non-profit firms. At "least 70% of its revenue through activities that have a social benefit" run not for profit.




**EMES**: Has five social dimension indicators for social enterprise: founder by group of citizens; capital ownership is not primary constituent of power; inclusive and participatory by nature, incorporating relevant communities; profits narrowly distributed; and focus is to benefit the community.

**Department of Trade and Industry, UK**: "A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or the community, rather than being driven by the need to maximise profit for shareholders and owners".

### 2.2.1 The Mark of a Bad Market

The Office of the Third Sector maintains principle policy responsibility for social enterprise. Its approach has broadly remained to advocate and counsel.[39] Some of its programmes have been less successful than others; for example, there have been some rumbles of discontent about the effectiveness and impact of their 'Social Enterprise Ambassadors' programme. It has also attempted to avoid supporting quasi-regulation based upon a particular vision of social enterprise.

Until, that is, the social enterprise mark.

The origin of this idea is as follows. Following the above-mentioned COI survey, third sector organisation RISE conducted a series of surveys that asked people the circumstances under which their enthusiasm for the idea of social enterprise might grow. From this came a Lottery and Cabinet Office funded CIC: the Social Enterprise Mark.

There are a number of hoops to jump through for an organisation to attain the Mark:

- Does your company have social and/or environmental aims?
- Does your company have its own constitution and governing body?
- Are at least 50% of the company profits spent on socially beneficial purposes?
- Does the company earn at least 50% of its income from trading?
- Can your company demonstrate that social/environmental aims are being achieved?
- If your company ceased trading, would remaining assets be distributed for social/environmental purposes?

The thinking is that it will allow responsible corporations and businesses and demarcate the territory for those who wish to invest. However, the Senscot case highlights the drawback of this form of quasi-regulation from the point of view of the entrepreneurs themselves. Senscot disagreed with the fact that the Mark requires holders to distribute 50% rather than 35% of profits.[40] So they considered launching a rival: the social enterprise 'Badge.'

Senscot have since decided not to pursue this scheme after failing to win support from the Scottish Social Enterprise Coalition. However, the case is instructive. The criteria for the badge, per their material:

*"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, 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... (this) is intended to mark the boundary between social enterprise and the private sector."* [41]

39. Cabinet Office. Office of the Third Sector. *Social Enterprise Action Plan. Scaling New Heights* (November 2006) p.34. Available at: http://www.cabinetoffice.gov.uk/media/cabinetoffice/third_sector/assets/se_action_plan_2006.pdf [Accessed 27 April 2010].
40. Senscot. *Why the anti-distributionists are wrong.* Floyd, D. (Senscot, 26 March 2010). Available at: http://www.senscot.net/view_art.php?viewid=9370 [Accessed 27 April 2010].
41. Senscot. *Criteria for a Scottish Social Enterprise Badge* (March 2010). Available at: http://www.senscot.net/view_art.php?viewid=9351 [Accessed 27 April 2010].



Here are the problems. Both marks have the potential to exclude those entrepreneurs who might wish to participate. Both could create perverse effects. For example, excluding shareholders means that social enterprises from the start would exclude attempts to channel money into the sector. This latest attempt to challenge the market from the outside rather than to make a market and a new economic model for social entrepreneurs from the inside shows the flaws. Any market will have winners and losers; ventures that succeed and ventures that fail. Arbitrary quasi-regulation should not be the arbiters of this before these social ventures have had a chance to try. That the Mark and its variants regulate for form, not function, is the problem an evolved infrastructure must avoid.

### 2.2.3 The Awareness Issue

One way that the state can be an effective advocate is through challenging investor perception with regard to the relationship between the myriad base and size. Some small social entrepreneurs, for example, do not wish to expand beyond the motivating purpose for which they were created. Some that do expand fail to take opportunities to enjoin smaller providers and start-ups as their business model becomes more complex and scale-based.

The goal of advocacy should not just be visibility. The corporate giants – Apple, Nike, Microsoft – have spent billions on their brand recognition. They still do, though the emphasis of that spending has changed. Before, that spending was directed at large campaigns that created the soul of a brand; now multiple channels of information mean those same brands' souls are laid bare for all to see. The PR firm Edelman's Trust Survey in 2010 revealed for the first time ever that brand trust – not recognition – was the most important factor in consumer choice.[42]

Good advocacy should focus on making life easier for those at the start of their venture journey. We need a mechanism to capture good social ideas and preserve them; to seek ways to scale and bring down costs in a way that better connects small innovative social enterprises together. That will in turn enable them to reduce the costs of their services or goods. Society has an interest in investing, not just in good business people, but in good ideas and spreading them widely, across communities and even across generations, so that those who wish to take part in social change can do just that.

One example of an entrepreneur who does just that is Michael Norton. He started his career as a scientist, merchant banker and publisher before becoming a social activist. In 1975, he set up the Directory of Social Change, which became the UK's leading provider of information and training to the non-profit sector. In 1995, he set up the Centre for Innovation in Voluntary Action, where he has initiated and then taken a back-seat on a raft of innovative projects worldwide. These include: a banking system for street children in South Asia; village publishing and libraries in Andhra Pradesh, India; YouthBank scheme, where young people become donors and give money to local initiatives run by young people; MyBnk, which enables school students in the UK to set up and run a micro-bank for saving and borrowing to help develop financial literacy and enterprise skills. Norton is able to be a platform for several good ideas and to bring his expertise to bear on each, minimising the marginal cost of their products. Where an entrepreneur does not have private means, it is difficult to see how this sort of socially beneficial model could currently be supported by society.

42. Edelman. *Trust in the UK. Edelman Trustbarometer*. Phillips, R. (26 January 2010) p.6.

## 2.3 The Bureaucracy Challenge

Recent Government policy has been to advocate capitalising social enterprises through contracting with them to deliver public services. And at the second Social Future conference, Patrick Diamond, policy advisor at No.10, stressed the importance of this model to the sector.

And yet, as we argued in the previous chapter, there is no way that this approach alone will smooth out the deal flow profile. In a time of reduced funding, the tendency to scale and bundle public sector contracts, and so make them bigger, will increase. Central and Local Government have already persisted with commissioning models that favour large providers over small. The public sector spends £141 billion on procurement each year,[43] and so, in the words of systems thinking expert John Seddon, contracts grow larger "in the belief that scale is proportional to cost."

This does not only mean that small providers are shut out (they are); it means they cannot compete. It is not only social enterprises that suffer. In Hull for example, the Citizens Advice Bureau (CAB) – which had operated for 40 years – lost its council funding to A4e, a private contractor, as the primary focus became contract and tendering process rather than the service itself.[44] Large organisations employed specialist bid-writing teams to displace the small; the bid by the CAB in Hull was prepared by the manager on top of his day job.

Consortia funding and joint commissioning between social enterprises can make a difference here, but bureaucracy often gets in the way. Take, for example, the basic unit of collaboration and scale: the ability to share resources. Currently, social enterprises must pay a VAT charge when securing back office services such as HR or bookkeeping from other social enterprises. The philosophy of collaboration that can capture and refine ideas must seek to remove all barriers from this collaboration. The OTS' Futurebuilders had a programme specifically to encourage consortia creation, but overall its large, centralised mechanism meant that over the lifetime of the fund, 16% (£30m) was lost to administration.[45]

Bureaucracy, inefficiency and waste are the eternal partners of centralisation, or rather of failing to leverage the power of a strong centre to empower rather than eviscerate the local.

We see the effects of the centralisation-bureaucracy axis not only in the previous Government's attitude toward support funding, but also toward the market. Other instances of fudged implementation of market making opportunities compound the picture of an urgent need for a new approach. We have already mentioned that the treasury's EIS scheme has been tightly regulated to reduce costs and minimise tax avoidance; a proposed 'social EIS' for social enterprises might well promise more of the same. The CIC (community interest company regulation) should have offered a venue and legal model for social enterprises to mix private and Government funding. Interviews we conducted in the course of writing this report suggest that this good idea has been hampered by the regulatory model and the presence of the CIC regulator. The fact is that for a company to be a CIC is not particularly difficult, but to get out of a company's existing structure requires such a depth of paperwork that the time and effort disbursement is too high to make it worthwhile.

43. Social Enterprise Coalition. *No More Business as Usual. A Social Enterprise Manifesto* (February 2010) p.6. Available at: http://www.socialenterprise.org.uk/data/files/Policy/a_social_enterprise_manifesto.pdf [Accessed 27 April 2010].
44. Curley, K . "Local charities should not lose out for lack of a bid-writer" (*The Times*, 28 August 2009). Available at: http://business.timesonline.co.uk/tol/business/industry_sectors/public_sector/article6812822.ece [Accessed 27 April 2010].
45. There were a range of articles on this in *Third Sector Magazine* and on The Social Investment Businesses' website. *Building the Capacity of the Third Sector*, a Jan. 2009 report from the NAO was critical of Futurebuilders, though the Sheffield Hallam University post-programme evaluation was more generous.



The problems also attend larger scale programmes like the Future Jobs Fund. This fund, set up by the Government, allows social enterprises, among other companies, to bid for job applicants and receive DWP subsidies for creating vacancies; but it is not particularly efficient. It invests up to £6,500 per new job, which goes straight to the provider and so makes no contingency for self employment and its attendant effects.[46] As argued above, compare this to the School for Social Entrepreneurs, which spends roughly £1,609 per new sustainable job created. Yet its implementation is chaotic, too. Allison Ogden Newton, CEO of Social Enterprise London, related how her contemporaries have sent advisers to sit beside workers at Job Centre Plus in order to sequester people for Future Jobs placements. The process is neither sane nor considered. Botched delivery begets chaos, resulting in waste.

Uday Thakkar, CEO of support social enterprise Red Ochre, related countless anecdotes of well-intentioned officials proposing ideas for workshops on concepts such as 'sustainability,' that, in his words, would have no sustainable effect on the quality of entrepreneurship in those communities. "Why are you doing this?" he challenged one official. Ultimately, the official shrugged his shoulders and admitted he didn't know. The nexus between demand reduction and flourishing entrepreneurship, let alone the possibility of creating a new economic platform for private investment, may once have been considered. If indeed it was, it has been forgotten and allowed to slide.

46. DWP. *Guide to the Future Jobs Fund*. p.1. Available at: http://research.dwp.gov.uk/campaigns/futurejobsfund/pdf/fjf-guide.pdf

Part Three



## The Business of Change

When Annys Darkwa was in prison, she saw first-hand how many would be released only to return soon after. Upon her own release, she was directed to poor accommodation; she realised that a lack of decent housing and support increased the likelihood of re-offending. From this came the idea for *Vision Housing*.

Today *Vision Housing* offers a quick-access resettlement housing service for women leaving prison, providing support with crisis loans, housing benefit and signposting to other services to help ex-offenders find work or training and get on with their lives.

Annys built this from an idea in prison, to a back-seat-of-the car start-up, to a growing organisation registered with Probation and funded by the Metropolitan Police Service.

In the last 3 years, Vision Housing has re-housed over **200 ex-offenders**. The rate of recidivism amongst this group is **7%**. The **national average** of recidivism by prisoners on short sentences is **60%**, at an estimated economic and social cost of £7bn-£10bn a year.

Given the barriers we have outlined, how did she do it? For any business, even one where strong personal motivation drives the development of the organisation, it is a strong social network that creates the conditions for that development. For Annys Darkwa, that network was provided in the early stages by UnLtd. For those who do not have that network of support, be it family or friends, the role of support organisations becomes akin to that network: to encourage, coax, criticise, identify shortcomings and build confidence. The presence of this network is the first step to securing long-term investment.

### 3.1.1 The Social Market in Brief

The tendency of small, start-up entrepreneurs and enterprises to support each other – to 'cluster' – was recognized by the classical economists Alfred Weber and Alfred Marshall, who emphasized how firms located proximately could share back-end resources, resulting in benefits for the economy as a whole. Michael Porter, in *The Comparative Advantage of Nations*, made the case for more interventionist strategies at the state level to develop these clusters more widely.

Throughout history, knowledge clusters have often operated strongly within closely knit groups. For example, Chinese diaspora communities were traditionally successful at creating strong business networks that operate across national boundaries. Richard Davone, citing economist Murray Weidenbaum, argued that the diaspora were "advantaged and logical pioneer investors," with "widespread entrepreneurial experience, specialized knowledge and relationships which allow them to overcome language, cultural and legal barriers which frustrate non diaspora investors."[47]

47. Davone, R. *Diasporas and Development.* The World Bank.

Similarly, certain business clusters exist within segments of the Jewish community, such as the role of the ultra-orthodox community in the diamond industry, which can be traced back more than a century. The growth of business clusters within ethnic groups was often due to the high levels of collaboration and trust within the group. Strong relationships allowed for the ease of recruitment of suitable workers who can be readily trained. Since minority Chinese groups in part of Southeast Asia were not permitted to own land or to become involved in guild-regulated established trades, this led to a search for an organized alternative means of income and accumulating assets.[48] During times when information flows and transportation flows were imperfect, forming business arrangements within a circle of family and friends could serve to lessen risk.[49]

Beyond family relationships, this 'social market' helped ensure trustworthiness in transactions. Guarantee institutions included churches and chapels, literary and philosophical societies, chambers of commerce, employers' associations, friendly societies, charities, the governing bodies of schools and hospitals. They were informal, non-bureaucratic, local, built social capital and were responsive. They were powerful, too. For example, credits were often handled through bills of exchange for which there was no way of guaranteeing repayment, or as a book debt unsecured by a mortgage or by a bond with a third party. In a context where the credit system remained under-regulated, these good character recommendations were an essential means by which to determine the credit-worthiness of a business.

### 3.1.2 The Three Levers ('3 Ps')

An emerging consensus suggests Three Levers ('3 Ps') can be used to help create the infrastructure that can support would-be businesses in today's social market.

**Lever One**: Partnership with what is out there; understanding and working with the diverse range of current support providers.

**Lever Two**: A platform of platforms; how we connect the various support and funding agencies in innovative ways using the following tools:
- Economic incentives and social policy
- Civil society, community ownership and local action
- Technology and social networking as tools of scale and new sources of funds.

**Lever Three**: Leveraging pro-social and pro-entrepreneurship norms; the informal mechanisms of influence by which the effects of the above can be multiplied by leaders and citizens on the ground to invigorate the demand for robust infrastructure: a culture of entrepreneurship.

We will explore each lever in turn.

48. Perry, M. *Small Firms and Network Economies* (London) p. 58.
49. Floud, R. and Johnson, P. *The Cambridge Economic History of Modern Britain* (Cambridge: Cambridge University Press) p.49.



## 3.2 Lever One: Partnership with Providers in the Diverse Support Marketplace

### 3.2.1 The Incubators

The first large group of support agencies in the current marketplace are *incubators*. Their models harness – in a risk-managed way – the capacity of high calibre people to use their entrepreneurial energy to achieve specifically social purposes. It seeds them with the help of institutional and retail philanthropic investors in order to achieve large scale social initiatives.

Take the Teach First programme. Based upon the Teach for America programme in the US, its founders, among whom was social entrepreneur Nat Wei, were able to grow this social business into a viable, long-term, successful concern using native and acquired business knowledge. The Shaftesbury Partnership, Nat Wei's support organisation, follows the model. An example of its success can be seen in one of its progeny, Starfish Ventures. Starfish was designed in response to the growing unemployment crisis as a scalable framework that could create significant numbers of new jobs with the consequent social and economic benefits.[50] It is being developed in tandem with the public, private and voluntary sectors in a number of northern towns, creating large-scale partnerships between these sectors.

The Shaftesbury Partnership insists on a careful selection process that systematically weeds out the non-scalable and small from the viable and stellar. Those which are chosen are prepped and tailored through a robust network of support. They offer Fellows and 'crowds' sourced from their network, who assist in co-designing and managing initiatives during the start-up phase of social entrepreneurs' projects. They pick winners and seek out strong fundamentals. The Breakthrough Funds (I and II) – managed by Permira[51] and CAN[52] – invest in social enterprises that match their criteria of a £500,000 minimum annual turnover, three years of trading history, ambitious leadership, and a profitable and scalable business model. Enterprises in which the funds have invested have achieved increases in revenue of more than 20% per annum and an increase in social impact of more than 30% per annum. Breakthrough cites the "combination of equity-like capital and mentoring from private equity and social sector professionals" as the key ingredients of their success.

Clearly, those in whom this money is invested are no grass roots venture start-ups. Yet there can be a grass roots effect. Incubated enterprises can filter back to where they are needed through the process of *franchising*. Though the term is more often associated with McDonald's or Starbucks, incubated social enterprises are designed to be franchisable, to be able to have groups of people with the right qualifications create branches or arms of the original venture. Scale models and tool-kits aim to enable these enterprises to work their way into even challenging communities.

### 3.2.2 The Pyramid-Based Developers

With the incubator, the bar is set high for market entry. The standards for investment and support, whatever the provenance, are high, too. As such, its aim is not to address the funding gap, but to create more investment-ready social enterprises. The development studies-driven side of the sector focusses its attention elsewhere: on the 'pyramid.' This is a discrete base at which varying levels of support and financial aid are applied in order to grow a business or entrepreneur in an infrastructure-light area.

50. After research highlighted the potential of the franchise model in effective interventions in labour markets.
51. A European private equity fund
52. Community Action Network

As mentioned above, little more than 1% of people who want to start a social enterprise are actually reached by funding agencies. The fortunate rely on personal or family money, the less fortunate do not have this luxury. Annys Darkwa, mentioned in the above example, did not have this luxury and was supported by UnLtd, who provided technical support such as financial modelling. They also provided a pro bono mentor who helped her focus on meeting key challenges to growing her business.

This tends to spread the net of those who are involved in social start-ups more widely. Despite not actively soliciting applications from marginalised or hard to reach communities, a survey of 640 UnLtd Award Winners (2006) found that 86,500 individuals from some of the most deprived communities in the UK had been reached.

With a lower bar to market entry naturally comes more complexity. UnLtd have a series of indicators that attempt to catch the breadth of the various types of people who could qualify for support. They employ a traffic light-type system (red, amber, green), which they correlate with a measure of individual impact (greatest learning impact so needing most support, potentially less social impact) and social impact (needing least support, potentially more social impact). They look for a diagnostic trait (there is something wrong here) and an activist trait (intention to do something about it).

Support needs tend to vary from person to person. The Breakthrough Fund notes that many social entrepreneurs undervalue their enterprise.[53] This is often first a lack of business and personal confidence and secondly a lack of financial acumen. Skills, but also confidence, can be acquired in a conducive development environment. And while the individual progresses, the community in which they live also sees new bonds of association being forged. As their confidence and skill-sets increase, some social entrepreneurs may reconfigure their aspirations and business goals.

On the other hand, government has more of an interest in investing at the bottom; as do socially minded investors and even philanthropists looking to donate or to secure a profit that is somewhere between the philanthropic 'profit' of 100% and a single-figure market return. In the way that Mohammed Yunus found with his micro-finance pilots in some of the poorest countries in the world, UnLtd have also found that encouraging good behaviours in one person tends to transmit those behaviours to those around them. Literature on the nationally renowned programme Sport Relief suggests that "growth in confidence [among social entrepreneurs] to communicate with strangers has had such a tangible domino effect on taking up further opportunities to participate in community-level projects and on the acquisition of new skills."[54] 70% of UnLtd Award Winners report that they have gained confidence and 62% gained leadership skills after running their project, while 57% believe that they would have struggled without that critical help from UnLtd. Perhaps most encouraging, 89% felt able to create social change as a result of running their project.[55] For social entrepreneurs, particularly from deprived areas, success arises when UnLtd or a similar agency such as the School for Social Entrepreneurs demonstrates faith in them.[56] In the same way that the Enterprise UK initiative *Make Your Mark with a Tenner*[57] – which challenges young people to make as much money and social impact as they can with a £10 note in just one month – demonstrates that a little faith and that feeling of personal investment spurs individuals to enjoin others and succeed in their social ventures.

53. CAN/Permira, *Breakthrough: Scaling up social enterprise*, p.11.
54. Sport Relief Evaluation, UnLtd, ibid.
55. UnLtd Findings, March 2010, p.7.
56. Interview with UnLtd award winner, conducted by Samuel Middleton
57. http://www.enterpriseuk.org/make_your_mark/tenner/how [Accessed 17 March 2010].



## Case Study: New Cross Gate

*A 3-year pilot scheme in New Cross Gate, South London, run by UnLtd in conjunction with New Deal for Communities, in which 70 project ideas were identified and supported with financial awards of up to £2,500 and non-financial support.*

The programme sought to increase community involvement in the local decision-making process and increase the number of community groups/organisations directly involved with the delivery of services in the area. An evaluation of the project reported "unanticipated levels of support from local residents, businesses and organisations"[58] It also cited the 'Generosity of Strangers' effect as a reason why civil society "forms a rich source of support for early start social entrepreneurs." [59]

These are the kind of bonds which social entrepreneurship at the grass roots has the potential to create and strengthen: "confidence gained and excitement about new friendships formed – have positive ramifications for community cohesion more broadly due to their grounding in the context of new inter-group engagement and activity." [60]

The figure below illustrates the response of 437 UnLtd Award Winners to the question, what or who are your main beneficiaries or users?

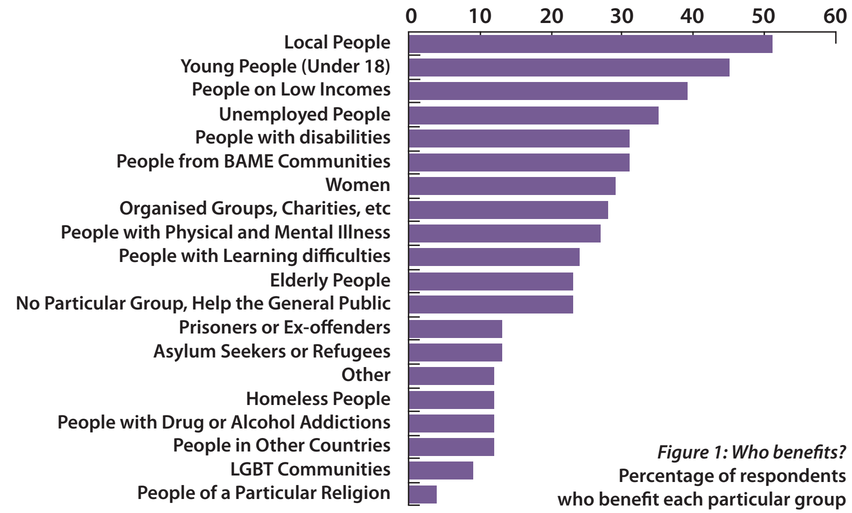



*Figure 1: Who benefits?*
Percentage of respondents who benefit each particular group

58. UnLtd, *Summative Evaluation Report: The New Cross Gate Programme* (August 2008) p.3.
59. UnLtd, *Summative Evaluation Report: The New Cross Gate Programme* (August 2008) p.18.
60. UnLtd, *UnLtd Sport Relief: Final Evaluation* (Full Report, April 2009) p.28.

UnLtd field data suggests that, on average, they create 4 jobs, 14 training opportunities and 15 volunteer positions through each UnLtd award.[61] Despite not specially targeting marginalised groups, over one-third of community entrepreneurs supported by UnLtd come from the 20% most deprived areas in the country.[62] BME origin groups are over-represented in social entrepreneurial activity.[63] So, too, are 18 to 24 year-olds,[64] precisely the age group which should be targeted if we are to help the 'NEETS' generation, a group of disaffected potential members of the workforce, who are dangerously close to becoming long-term unemployed. Consider, in Hull the unemployment rate has swollen by 16,000 names during the recession, compared with roughly 700 in Cambridge,[65] and the call for more social entrepreneurship in the former area is well-intentioned.

Getting involved is the key message of the pyramid. The bug can be spread to those groups who have the time but currently have no venue, such as new retirees. Social ventures started by older people are more likely to sustain.[66] Those with the requisite skills can perform vital advice services or volunteer. The key is to spread the net; to look wider not higher. Weidenbaum notes this pioneering effect in the diaspora 'social market' as well. And Sophi Tranchell, MD of Divine Chocolate (and a Social Enterprise Ambassador) has noted the 'enormous potential' to inspire more through starting social entrepreneurs younger.

### 3.2.3 A Plurality of Funding and Support Models

The incubator and pyramid are but two families of support model. They are both essentially top-down – though the pyramid is less so – process based, and discursive, with a development manager guiding an entrepreneur to a particular set of goals. They marry support and funding under one roof, attaching the novice to the teacher; making themselves more efficient and guiding an entrepreneur on a journey. The teacher mixes and matches support and funding depending upon how the venture is doing; they grow it with a guiding hand.

With both, the personal relationship between development manager or team and entrepreneur is key. The incubator relies on the development manager to pick the winner and tailor the enterprise's growth. The pyramid relies on the development manager to move more entrepreneurs to a state of market readiness. Can the business side lose out in this equation? UnLtd are relatively relaxed about this. They suggest that, "When Development Managers go the extra mile to support an Award Winner at risk of withdrawing from their project, their support is critical to both keeping that young person engaged and preventing a negative award experience which can damage a young person's willingness to engage with their wider community in the longer term."[67]

Spreading the net widely means limited funds are spread even wider. In an environment of squeezed funding for entrepreneurship, a wide support platform might be an easy approach for an investor or Government funder to avoid. Tracking the many benefits of the many participants in the many levels of the pyramid is tricky for an investor, and it has taken UnLtd around ten years to be in a position to discuss their impact. UnLtd's argument is that backing people rather than projects takes time—a ten-year timescale of many ideas and ventures, of myriad involvement, contribution and participation, rather than the business-shaping approach of the incubator. Yet this approach requires resources to be rationed. Resources are scarce; they cannot go into each and every community. Applications for funding, outlining the project and possible social impact are submitted by social entrepreneurs on paper. Each applicant is spoken with in person or on the telephone. Where there have been more resources made available, such as through Local Enterprise Growth Initiative schemes, more outreach work has taken place. This proactive local dimension is key. One of the lessons to be learnt from the experience of support social enterprise Red Ochre in connecting with hard-to-reach groups is the importance of proactively seeking out possible community entrepreneurs. They channelled their message through local activists, extensive leafleting, meeting with groups, and attending other events. The fact that they were prepared to go to events during the evenings both surprised and convinced potential participants to try Red Ochre's workshops. By the same token, the amount of time taken to complete an application for an UnLtd 'Level 2' Award can deter some, perceiving too much risk (in terms of diverting resources and time towards applying) for potential return.

Franchising is another important part of support diversity. One interesting statistic in this regard is that, between 2000 and 2008, the number of franchised restaurants in the US grew by 20%, while the number of independent restaurants contracted by 4% over the same period. Strong brand presence and corporate-wide marketing campaigns are cited as the reasons for their success. Shaftesbury's approach is to leverage this idea.

Franchising is a way to "overcome systemic risks that often paralyse stakeholders."[68] In their words, they create "techniques to model and develop the relational capital among stakeholders that power effective reforms."[69] This is a business rather than a development process. A recent report from NESTA criticises the approach to localism from "the perspective of centralism – trying to 'scale-up' effective local solutions to other communities without the local ownership that makes them effective – [because this] limits the potential for local solutions to achieve impact in a sustainable way."[70] Localism from the perspective of centralism is a good way to describe the incubator model. It also falls foul of another criticism: that franchising itself in the social sector is a concept that is relatively nebulous, because of the more open approach to ideas formation discussed in the first chapter. A good social idea is just that; why should one company attempt to protect their IP over it; and what actual rights do they have? It is more than a philosophical point, as we see below in the context of open collaboration.

Beyond that, both 'guiding hand' approaches have their critics, too. A point made by several, who had been through the School for Social Entrepreneurs (SSE) model of support, was that placing support and funding under one roof can actually create certain unintended consequences. For example, SSE operate a system whereby they hold group events where active social entrepreneurs speak and work through their practical problems. One of the consequences of making SSE a funder as well as supporter might well be to encourage participants to be less than honest about their problems, for fear of 'upsetting the funder.' SSE prefer a bottom-up, discursive approach, where criticism is more peer-driven. By holding support sessions in groups, they induce solutions to their business problems and attempt to overcome them. They have a short application form and interview all applicants. In their last intake in London, 140 interviews from 145 applications were held for roughly 40 places. Not being funders but supporters means that more could potentially access support.

61. UnLtd Findings, March 2010, p.6.
62. When mapped against the Indices of Multiple Deprivation. UnLtd Fundings, March 2010, p.3.
63. Harding, Dr R. *Social Entrepreneurs Specialist Survey 2006* (GEM/London Business School) p.2.
64. Harding, Dr R. *Social Entrepreneurs Specialist Survey 2006* (GEM/London Business School) p.2.
65. Stewart, H. 'Recession widens gap between strong and weak regions, report finds,' *Guardian* (18 Jan 2010) Available at: http://www.guardian.co.uk/business/2010/jan/18/recession-widens-gap-regions [Accessed 4 Feb 2010].
66. UnLtd, *Supporting Individuals to Make Positive Change in the World: the UnLtd Model*
67. UnLtd, *UnLtd Sport Relief: Final Evaluation* (Full Report, April 2009) p.3.
68. Shaftesbury Partnership Literature, available online.
69. http://www.shaftesburypartnership.org/index.php?option=com_content&view=article&id=22&Itemid=34 [Accessed 27 February 2010].
70. Bunt, L & Harris, M. *Mass Localism* (NESTA, London, 2010) p.5.

There is no one best support model for government to back if it is to get more investors into the social enterprise space. Each form caters to a different quality of social enterprise. Some deliver growth, some independence, some are aspirational. A multiplicity of the several forms of provider is preferable, not just because of the maxim that Government must not pick winners, but also because several models offer the sector the best chance of resilience in its support structure. Competition and plurality is the watchword of a healthy support infrastructure.

### 3.3 Lever Two: A platform of platforms, or using economic incentives, community ownership, and technology to create an efficient infrastructure

Platforms that encourage participation in the internet world, such as Wikipedia, are created and run by a dedicated core of individuals. In Wikipedia's case it is called the Wikimedia foundation. There is also a subgroup, or layer of community 'activists.' They – and the open, free-to-alter nature of the encyclopaedia entries – are what make the model sustainable. Connect or 'mash' two platforms together – say Google maps and the Monster job service – and you have another tool which can be mashed and refined further.

Given that there is no 'silver bullet' to smooth the dimples in the deal flow, leveraging the platforms we have by connecting them in ever-efficient and innovative ways is key. We need to create our own connected core of strategic leaders who direct the model; who bring supporters and funders together. There are several examples of this in the US. On a practical level, the Tides Foundation offers shared space for 'non-profits' in the real estate arena, while also operating a sustainable workplace for them. Each one holds activated community members. Community anchors such as the Bromley by Bow Centre perform a similar function, albeit in one space, in the UK.

Strategic leadership is possible when it comes to getting money in. For example, Seachange Fund leverages the expertise of Goldman Sachs Directors to get top-level funds and investment to ethical enterprises. Private, bespoke investment services manage portfolios which track social impact against profit. The activist amateur or 'community organiser' is replaced here by the motivated professional.

When we argue that Government's role is to platform social entrepreneurship, we mean that its job is to use real economic and legislative levers to encourage sustainable support, consumer buy-in and private investment; to bring these other platforms efficiently together, with an ethos that platforms the grass roots. This platform of platforms must work for the following:

**Entrepreneur**. Joseph Schumpeter envisioned the political economy of entrepreneurship as driven by a person who is willing and able to convert a new idea or invention into a successful innovation. That resulted in the replacement in whole or in part of inferior innovations across markets and industries, simultaneously creating new products, including new business models. This "gale of creative destruction" was seen as largely responsible for the dynamism of industries and as a driver of long-term economic growth.[71] Schumpeter came to refine his concept of entrepreneurs, later arguing that the actors that drive innovation and the economy are big companies which have the sufficient resources and capital to invest in – and guard – their research and development, or R&D.[72] R&D was the lifeblood of the market and deserved intellectual protection through regulation.

71. Schumpeter, cited supra.
72. ibid.



The 'R&D' concept remains a useful one. While grass roots social entrepreneurs do not necessarily innovate in the great scheme of human knowledge, they do often bring the spirit of such aspiration to communities; they often innovate for their areas at their level. They are the R&D of their communities; sometimes of wider society. In this case, rights protection of ideas is less important than being able to realise those ideas as a diversity of business models.

**Investor**. The first question for any business angel is: why should I invest in you? But this question hides a multitude of ideas. Will you be a viable, profit-making proposition? Has your research, your innovation, your development, the locked-up potential to be popular or useful and so make money?

Here political rhetoric and action have tended to dovetail. The major parties have recognised the need to pump-prime this market and create the opportunity for the private sector to enter. There have been delays, but both Labour and Conservatives have committed to creating a *social investment bank* from the proceeds of Dormant Accounts Funds.[73] This would enable Government to do a number of things to pump-prime their platforms: to leverage in private sector money to directly fund support organisations, or give a kick-start to social incubator-type projects. The social investment bank could capitalise and pump-prime social capital markets, for example, the Community Development Finance Institution (CDFI) market – which has lent £0.47bn since 2003 as bridging loans or working capital loans, creating and sustaining more than 86,000 jobs – which may in turn seek to capitalise support services. This would be lent on to social enterprises, or used as indemnity or undertaking to buy 'first loss' capital in larger scale projects so as to attract private sector capital at a large ratio.

Wholesale capital of this nature is crucial if we are to sustain our social marketplace and its infrastructure. However, the amount needed to achieve all these different capital ends is large. And the amount of capital promised by either party to the bank to date, amidst competing political priorities, risks being spread too thinly to provide sufficient leverage. Secondly, being dependent on dormant accounts money means that it is susceptible to banks refusing to hand money over, especially in tight economic times. Our advice would be either (i) to use the limited money available either to capitalise CDFIs and other social finance institutions exclusively, so as to get more capital into their local social venture area. Or (ii) to use the capital exclusively as a means to invest as first tranche, indemnity investor in blended value products, so as to turbo-charge uptake of these instruments—or risk becoming another experiment that fails to be repeated. It would be a waste to use this money to create another service delivering support organisation, such as Futurebuilders, or to simply perform more seed funding experiments, as NESTA and UnLtd do already. An example of one of the instruments that could be supported by the second model we suggest – the social impact bond – can be seen below.

One approach to increase the pool of capital available through the social investment bank would be to deploy a version of the United States' Community Reinvestment Act in the UK. This would 'push' banks to invest money in financial products that benefit disadvantaged areas, CDFIs, social impact bonds and social enterprises. In-depth discussion of a new social marketplace is beyond the scope of this report, but will form the subject of future ResPublica research. For now, suffice it to say that a key part of Government action to create the platform we need begins with economic policy, and requires consideration of tax arrangements around new social investment products.

73. Termed 'Big Society Bank' by Conservatives.

## Case Study: Social Impact Bond[74]

Social Finance, a social enterprise consultancy, has implemented a financial product that would allow charities to raise private investment cash in advance of carrying out payment-by-results work. The product, named the 'Social Impact Bond,' could be used by charities that won contracts to fund payment-by-results services for groups such as ex-offenders or unemployed young people. It would allow charities to raise cash in advance from private investors with the offer of a guaranteed payment if the contracts are carried out successfully. The bonds would be marketed on the back of a charity's contract with the Government (for example, to ensure that a group of people released from prison do not re-offend within three years). If the charity was successful, the Government would pay a reward and the extra cash would go to investors. This transfer of risk would make it easier for smaller charities to get involved in payment-by-results contracting.

ResPublica is working with organisations in the field to better understand how we effectively tailor the market that enables the proliferation of social impact bonds and other innovative forms of blended finance.

**Consumer**: Let us not forget those who use the services or purchase the products provided by social entrepreneurs. Market-making increases investment, which in turn can help social enterprises be more competitive for consumers. However, there is another consumer element to social goods and services that cannot be underestimated: the fact of buying into something that belongs to a community. It is to community consumer behaviour we now turn.

### 3.3.1 Community Action, Ownership and Identity

Phillip Blond, ResPublica's Director, at the social enterprise conference, Voice10, stated that "every enterprise should be a social enterprise."[75] His speech reflected the ethic of business and the economy in general; the dictum reflected the idea that it is not only the social ethos that can help rebalance the economy, but also that, more specifically, the nature of a particular business should not be constrained by the tag of 'social' or otherwise. Businesses themselves can and should be part of our vibrant civil society. Dick Atkinson, in his paper 'Vibrant Villages,' outlined the key areas of what he considered to make neighbourhoods work. In his view, there are four components to life in neighbourhoods.

1. The Voluntary Sector or Civil Society, which is made up of:
   · The Back Street
   · Families
   · Voluntary Organisations
   · Faith groups
   · An overarching Neighbourhood Council or Forum
   · Communication through newspapers, newsletters, and more

74. Social Finance. *Social Impact Bonds: Rethinking finance for social outcomes* (August 2009).
75. Phillip Blond at Voice10, reported at *Social Enterprise Magazine*.



2. The Private Sector, which is made up of:
   · The High Street
   · Small and Large Enterprises
   · Business Associations

3. The Public Sector or Civic Society, which is made up of:
   · Streets and open spaces
   · Parks
   · Houses
   · Health
   · Police
   · Schools

4. A partnership of the above, or Governance and the relationship between that and the wider urban area and the nation.

In short, neighbourhoods should be viewed in terms of what they have, not what they lack. The point of public services is to fill needs, but social entrepreneurship can also fill the wider needs of a community and can simultaneously reduce demand on the state as a non-siloed actor in civil society.

**Youth services**: There is already a DCSF commitment in the youth sector development plan, to enabling more social enterprise, that has been dithered upon and not yet auctioned. Yet social enterprises have much to offer in terms of offering out-of-school programmes, financial and business literacy and more.

**Environment**: NESTA's Big Green Challenge was delivered by UnLtd. Social entrepreneurs are already leading the way in creating products that promote responsible environmental stewardship.

**Community cohesion**: Social entrepreneurs bring new ideas, authenticity and trust in broken communities. Business is a universal language; social businesses. Social entrepreneurs are also role models in disillusioned communities, especially grass roots entrepreneurs.[76]

**Ageing Society**: Engaging older people to give experience and advice to social entrepreneurs, or to set up their own enterprise is a potential win for the Government. In this matter, UnLtd pilots in Northern Ireland with Atlantic, in England with Gulbenkian, Bradford Council, assisted by an advisory committee involving Age UK, Prime, Joseph Rowntree Foundation and others are examples.

The goods that come with social entrepreneurship are necessarily multiplied when these ventures are found in our poorest communities. Yet the ESCP-EAP European School of Management has suggested that as much as 70% of business start-ups in the UK have been financed through personal savings,[77] and this presents a conundrum for those – people and areas – who have nothing. The public sector procurement process at either central or local levels is one way of dealing with this, but it has been unable to recognise the benefits of investing in social entrepreneurship because of its focus on service supply.

76. High achieving examples of social enterprises across service-delivering departments include Patients Know Best, Enabled By Design, Star Wards, Cool to Care, Motiv, Jamie's Farm and more.
77. ESCP-EAP European School of Management. Interim report commissioned by the Conservative Party. *Enterprising Britain: Building the enterprise capital of the world*. p.6. Available at http://www.conservatives.com/pdf/enterprisingbritaininterim.pdf [Accessed 19 Aug 2009].

One way to gauge demand reduction is to use schema such as Dick Atkinson's and see the extent to which social entrepreneurs fulfill these needs—and find a way to price them accordingly. This presents the problem of who bears the burden of collecting the requisite information: 'inspectors' or entrepreneurs themselves?

#### 3.3.1.1 Fair Share

Another way of gauging demand reduction is by doing something even more simple: by involving communities themselves and enabling them to invest in that which they demand. Increasingly localised funding has been a facet of evolving government policy for some time now. The Local Enterprise Growth Initiative (LEGI) was announced by then-Chancellor Gordon Brown in 2005 as a joint programme between Communities and Local Government, HM Treasury and BIS. LEGI provides local institutions with investment and the freedom and authority to best determine the needs, options and solutions for stimulating economic development in their areas, which ran at around £100m per annum.[78]

Yet this remains a centrally granted, albeit locally delivered pot of money, with attendant characteristics, that is vulnerable when the departmental spending period is up. It is neither managed in a way that is radically new or different; nor is it given over to the absolute stewardship of local people. Managerial models of this nature do exist; they do strike at bureaucracy, and they have been tried and refined.

How do we deliver the right resources they need so that the solutions provided and funded remain truly owned by the local economy? The most famous attempt to do something along these lines is the Big Lottery Fund and Community Foundation Network's *Fair Share Trust*. The Fair Share Trust specifically addresses the lack of successful Lottery funding applications from certain areas by the provision of an *expendable endowment*. Applicants in these areas were often put off by perceptions of the bureaucracy involved, believing they would require specialist knowledge in order to apply successfully. The original amount of the endowment varied but could be as much as £800,000, which is to be spent by 79 neighbourhoods over a ten-year period. At the outset of Fair Share, the vast majority of neighbourhoods were characterised by relatively under-developed voluntary and community organisations, weak partnership working between statutory and voluntary sectors, and frequently by past neglect.

It worked as follows. BIG put the Fair Share budget of £50 million into an independent Trust fund, administered and developed by the Community Foundation Network (CFN). In its turn, CFN delegated delivery at the local level to local agents. CFN appointed a local agent in each area to manage the programme. They also laid a firm foundation for delivery of the programme by setting out steps that all agents have to follow. They were chosen because of their experience in making grants and local knowledge of and connections with the area.[79]

78. See e.g. DCLG release on this: http://www.communities.gov.uk/communities/neighbourhoodrenewal/legi/
79. Much of the analysis in the following sections draws on the findings of Sally Downs Consulting who are monitoring the programme.



Furthermore, local advisory panels were appointed by agents to:
- determine priorities and set them out in the Neighbourhood Priorities Document,
- provide local knowledge about proposed projects, and
- make recommendations about all applications to the local agent.

Note, the local panels do not make funding decisions, but merely recommend decisions to the agent.

### Fair Share: The Strengths

(i) *A ring-fenced local 'pot' of money*. Decisions on how the money is to be spent are made locally, with the involvement of local people.

(ii) *Flexibility*. The Agent and the Panel are allowed to ask the important question "what will work here?" Whilst working within the same broad model, neighbourhoods are able to respond to their own opportunities and to bring about change.

(iii) *Informality and responsiveness of the process*. The quality and style of the process enables engagement in the programme, and makes it comprehensible to participants at the neighbourhood level.

(iv) *Spread of funding*. Across the FST programme, 10% of awards have so far gone to new groups or previously unconstituted groups, 30% to groups that have not previously had significant funding, 36% to established groups that have previously had significant funding, and 17% to other categories (principally providers of public services).

(v) *Thriftiness*. Interesting use is being made of awards of £10,000 or less to help deliver strategic approaches to Fair Share. With a particular focus on activity which enables embryonic groups, either through access to training (capacity building) or to enable them to test out an idea for future service provision. **Moreover, awards of over £100,000 make up nearly half the funding allocated**. These include health projects; skills, education training and employment projects; lunch clubs and day-time activities; drama, music and films; credit unions and debt counselling; and much else.

#### 3.3.1.2 Mutuals, Co-operatives, Foundations and Ownership

What about an infrastructure for true community ownership? Ownership of community enterprises is highly nuanced, but there are tangible ways to join it into the economy. In a previous ResPublica publication, *The Ownership State*, we suggested that disempowerment at the frontline of our public services could be overcome by offering ownership to frontline workers of the services they deliver by allowing them to form cooperative and mutual 'civil companies,' owned and run by employees themselves. In that report, we argued that the rewards of employee-owned companies were immense; indeed, they have outperformed "FTSE All-Share companies each year by an average of 10 per cent."[80]

80. Blond, P. *The Ownership State* (ResPublica and Nesta, October 2009) p.18.

Employee-owned companies come in a variety of shapes and sizes, and the most famous example is the John Lewis Partnership. The rights of ownership available to participants in each need not be a share stake; they could be ownership or indeed an index-linked profit rise, as happens at John Lewis, when an employee-partner is able to make a productivity gain. The fact of ownership is as important as the shape of it. As Michael Sherradan had it, assets are "hope in concrete form."[81] They spread access to and the aspiration of the marketplace.

Local panels and employee partnerships are but two forms of ownership. One promising current strand in Government thinking, *Total Place*, is beginning to move towards the local and so to begin to create the structures that allow more local ownership of budgets. Total Place allows all funding streams for various services in an area to be sequestered by an authority and allocated per local priorities. This has produced healthy efficiencies in the first 13 pilot areas. For example, the Birmingham pilot has shown "that for every pound spent on early years work, they could save four pounds on the costs of anti-social behaviour and severe health problems. And that for every pound spent on drug treatment, they could save £9 in the criminal justice system."[82] Yet even at the local Government level, there is little to suggest that community ownership is *felt*.

The Dunbar number, the ideal size of a group that allows productivity and mutual interaction to be effective, is in the order of 150.[83] A next-generation *Total Neighbourhood* which devolves funding streams to a sub-local government level of around this number would give us something closer to this number and bring us even closer to spreading local ownership. Generating ownership through giving community members veto powers and enabling them to share in efficiencies and productivity gains would crystallise this *feeling* into an asset.

If consumer communities are to be given a say in how investment in social entrepreneurs takes place, another venue for local ownership and asset accrual begins to emerge. The possibilities of that holy grail, the 'property-owning democracy,' become wider—and the social and commercial attractiveness of community invested social entrepreneurs' goods or services become higher still.

This is a development that is of its time, too; buying stories not symbols, now more than ever, is a viable commercial consideration. As *Trendwatching* has it, "consumers will increasingly have to tell *each other* stories to achieve a status dividend from their purchases. Expect a shift from brands telling a story, to brands helping consumers tell status-yielding stories to other consumers." The neighbourhood hero, the neighbourhood business, the neighbourhood investor and the neighbourhood consumer can be the story of that neighbourhood.

### 3.3.2 Technology, Collaboration and Scale

#### 3.3.2.1 Tailoring the Platform

We have already argued that we can learn much from the revolution in investor perception, but moreover investor behaviour brought about by the technology trends of the latter half of the last century and the early part of this. Google CEO Eric Schmidt, for example, has a clear view of innovation platforms as places where a culture, not just a strategy, is created. It is a group endeavour;

81. Sherradan, M. *Assets and the Poor* (Armonk, NY: M.E. Sharpe, Inc., 1991) pp.155-156.
82. Similarly, "Bournemouth, Poole and Dorset believe they can save £12m by refocusing resources from acute care for older people to supporting them to live at home and thereby reducing hospital admissions by some 15 per cent. While the scheme is not perfect, interim results are a testament to the worth of saving through innovation." See http://www.communities.gov.uk/news/corporate/1447492
83. *The Ownership State*, supra.



a thing of connection, collaboration, cross-checking. This culture is exemplified by Linux, and the law of Linus, Linux's creator: "with enough eyeballs, all bugs are shallow," which, loosely translated, means that even the most complex problems can be solved if we have enough people engaged, working on solutions, and scanning and reiterating the solutions that are proposed.

### Case Study: The West Coast Village Capital (WCVC)

This scheme splits the participants up into six groups; they meet weekly to help each other out, someone who's confident in technology and weak in marketing might team up with a marketing-savvy colleague who lacks a technology background. At the end, the entrepreneurs vote to decide who receives money from a specified fund by voting for the most "investment ready" start-up, rather than the most "investment worthy". It provides a peer support network in an atmosphere of mutuality, addressing the needs of social entrepreneurs to develop a variety of skills. The program gives social entrepreneurs the opportunity to:

- Network with other social entrepreneurs within and beyond their own sectors;
- Share challenges and lessons learned with professional peers;
- Refine and strengthen their business models and pitches.

In addition, participants work together in five groups of six and have the opportunity to serve in the role of investor as they evaluate each other's businesses as potential investments. A funder, First Light, invests up to a total of $500,000 in the 5 - 10 businesses that rise to the top in the community-driven due diligence process. Participating businesses also may receive funding from First Light independent of the WCVC process.

Silicon valley culture tends to pursue this social, entrepreneur-plus-network model. This extends throughout the Google brand and affects even how Google employees work. For example, all Google engineers have 20% of their time to pursue projects about which they are passionate.[84] It relies upon that which author David Weinberger referred to as "small pieces, loosely joined"[85]: innovative free-thinkers, groups, businesses work together, exchange ideas and leverage their social capital and shared knowledge into hitherto unseen financial returns.

It has influenced the Linux 'open source' model, where thousands of people across the world have created a computer operating system by volunteering their free time and by using a so-called GPL license to allow anyone else to share and remix their code; server software known as Apache that has become the industry standard; and much more. In a sense, this takes the idea of sharing and support and brings it from the back office into the front office.

The returns can be huge. Google is the biggest provider of open source applications in the world. It uses the connective and shared spaces of the internet to enjoin small groups of programmers in open source 'jams' across the world and encourages those programmers to meet in person at especially organised events as far apart as Beijing and Dublin.[86]

84. http://www.google.com/support/jobs/bin/static.py?page=diversity.html&sid=workenvironment
85. Weinberger, D. *Small Pieces, Loosely Joined: A Unified Theory of the Web*.
86. http://www.google.com/corporate/history.html [Accessed 29 March 2010].

The connection between a big brand and smaller clusters of small and start-up businesses has reaped huge dividends for organisations like Google; Apple with their user-programmed Apps for their iPhone available to download at their *Appstore*; and Facebook with their own 'App' programme. Understanding the different ways that big and small come together and are mutually supportive, is especially key to understanding the possibilities of a platform. Some platforms such as Wikipedia or Linux are open. Others are closed with IP rights and regulated distribution chains. Harnessing these ideas can connect investment to businesses and moreover can enable different bits of a business – especially in the back office – to be effectively scaled through using workspace and time management programmes. Social network technology means multi-access web programmes available on the cloud allow different people in different places to focus on one business or cause.

One example of how ownership, localism, scale and the technology of peer-to-peer lending, using the internet to secure equity style investment, can come together is found in *Bikeworks*.

## Case Study: Bikeworks

Bikeworks was recently named best new social enterprise in the UK 2009. It engages in a range of activities such as recycling & refurbishing second-hand bikes in London, providing dedicated (free to the public) training to get more people cycling on the road and doing so safely & affordably, creating training and employment opportunities for disadvantaged communities in a booming cycling industry.

Bikeworks' co-founder Dave Miller wanted to set up social business and identified a gap in the market: there are few places in East London to buy a second-hand bike legitimately. Dave's business partner Jim had previous experience running a small bike hire company. They saw this area as a growth market, and conceived a social enterprise offering versatility, combining environment and health aspects, enhancing community cohesion, transport, recycling, employment, training programmes, youth projects. The issue of raising money resulted in the creating of Bikeworks' unique business model which also offered the opportunity to address disparate social issues through bikes.

Bikeworks offers training programmes, volunteer and work experience for the homeless in a supportive, friendly and professional environment. The programmes can lead to qualifications as cycle instructors (National Standard Cycle Instructor) and mechanics (City & Guilds qualifications).

Bikeworks are now looking to expand and realise their vision of creating numerous community cycling hubs dotted throughout various communities. They are considering how to offer the local community a non-equity share in the social enterprise through an online peer-to-peer platform, possibly through small-sized loans which might even offer a potential return. The key component would be the offering of a stake to the local community, combined with benefits such as discounts when attending activities run by Bikeworks.



Clarity and distinctiveness of infrastructure, ethos and delivery is what attuned investors to the silicon valley moment, and these conditions were created by pliant planning laws and the spirit of 'hippie meets yuppie' that is at the heart of what academics have referred to as the 'California Ideology.' Can this idea be transliterated to social entrepreneurship? It certainly has its characteristics and its method of delivery, its ethos of participation, its root in the local and its alleviation of community demand. One thing is for sure: if there is an emergent intellectual thread, it cannot be imposed from on high; like the many edicts of open-source, it is the creation of the millions of entrepreneurs who run and scale social ventures.

## 3.4 Lever Three: Nudging a culture of entrepreneurship through pro-social and pro-entrepreneurship norms

### 3.4.1 Emergence

The final lever is the influential power of social norms. Our contention here is that an infrastructure is only as alive as the ethos that underpins it. Peer norms and group formation can be key to creating, from the platform of an enabling state and market, a real, vibrant grass roots culture of wider participation in social entrepreneurship.

In business, this translates to a group model for support, sharing expertise and ideas that has been used to great effect in the start-up industry on the tech side. Y Combinator, for example. provides seed funding for web-based start-ups. Like the UnLtd Award Level 2, the funding provided by Y Combinator is conceived in the same terms as university financial aid: in order that people who do need the money can pay their living expenses. The primary focus of Y Combinator is to work with start-ups on their ideas.

Through a huge alumni network and a strong ethos of cooperation between YC founders, the Y Combinator boasts that "there's a good chance someone in the network can help you...whatever your problem, whether you need beta testers, a place to stay in another city, advice about a browser bug, or a connection to a particular company..."[87]

Like UnLtd, Y Combinator recognises the need for entrepreneurs to maintain ownership of their project. "We try to interfere as little as possible in the start-ups we fund. We don't want board seats, rights to participate in future rounds, vetoes over strategic decisions, or any of the other powers investors sometimes require. We offer lots of advice, but we can't force anyone to take it. We realize that independence is one of the reasons people want to start start-ups in the first place. And frankly, it's also one of the reasons start-ups succeed. Investors who try to control the companies they fund often end up destroying them."[88]

Behavioural economists and social psychologists such as Maurice Asch have charted the incredible effect of group norms to create positive (or indeed negative) behaviours in group members. Learning lessons, nudging members into good habits that foster and maintain the entrepreneurial spark and enable it to be passed on are done well when done communally. The peer-to-peer effect is high: positive behaviours are more easily transmitted in strong, self-selected groups such as groups of start-up entrepreneurs.

87. Y Combinator Corporate Literature [Accessed March 2010].
88. http://ycombinator.com/about.html [Accessed 28 March 2010].

## Case Study: The Funding Network

The *Funding Network*, founded in 2002, enables individuals to join together to fund social change projects which address traditional and emerging issues; some of which are largely neglected by existing grant-giving charities, but that promise to have great impact on society, with a particular emphasis on supporting small-scale projects that are difficult to fund. It has been described as a marketplace for donors and charities; as the UK's first public, open giving circle; and as the 'Dragons' Den' for charities. It has raised over £2 million for over 350 projects. It is based on the observation that most people give to charity alone, and due to confusion or a plethora of appeals, donations are often reactive and seldom strategic. There is a lack of direct touch with organisations donors support. The Funding Network brings people together to:

* act as a 'marketplace' to which individuals can bring projects that work towards a fairer, healthier, and more sustainable world;

* provide a mutually respectful setting where those who might like to join with others in funding such projects get to meet and hear from those doing the work;

* promote a paradigm of social change giving: that those who have much can usefully share their wealth in creative and proactive ways, and that the process of giving can be enriching to the giver as well as to the receiver. [89]

As argued above, ideas and rights protection in social enterprises do not work in the same way as in large-scale conventional enterprise. They have more consonance with the open source ideas of the internet: to achieve good. Indeed, here we see a convergence between these two areas. A detailed survey of 498 high-tech SMEs in the Netherlands found that 48% of (process) innovations were simply given away to other (rival) firms.[90] As Baldwin & von Hippel (2009) argue, "innovation by individual users and also open collaborative innovation are modes of innovating that increasingly compete with and may displace producer innovation in many parts of the economy."[91]

This nuances the ownership idea further. The motivation that drives these business models is often akin to kudos; learning and the Burkean or Chestertonian idea of 'love.' In the tech industry, this sees profit become the corollary of learning: Linus Torvalds, the inventor of Linux, has suggested that the "best thing I ever did was to make Linux open source." His C.V. is just one word: *Linux*.

89. http://www.thefundingnetwork.org.uk/why.php [Accessed 6 March 2010].
90. Jeroen, P.J. de Jong, von Hippel, E. 'Measuring user innovation in Dutch high tech SMEs: Frequency, nature and transfer to producers' (MIT Sloan School of Management Working Paper, February 2009) p.2. Available at: http://web.mit.edu/evhippel/www/papers/JeroenEric%20User%20to%20producer%20TRANSFER%20MAR%202%2009.pdf [Accessed 22 January 2010].
91. Baldwin, C. & von Hippel, E. 'Modeling a Paradigm Shift: From Producer Innovation to User and Open Collaborative Innovation' (MIT Sloan School of Management, November 2009) p.3. Available at: http://web.mit.edu/evhippel/www/papers/Carliss%20Eric%20Paradigm%20shift%20model%20WP%20Nov%2021%2009.pdf [Accessed 27 January 2010].

But there are other practical benefits, too. Group formation can:

- strengthen the entrepreneurial ethos amidst members who may have differing or incomplete skill sets, spreading the pressure away from the guiding hand of one development manager;

- bring people together and offer new combinations of tools for people to work together and solve problems, the outcome of the process offered by the School for Social Entrepreneurs, which involves groups of 20 sharing details of their entrepreneurial journey. It can also create practical situations for scaling. For example, three or four entrepreneurs incubated together might be able to more successfully bid as a consortium for a public sector contract, partner with a private organisation or do something as ordinary as help out with application forms or spread application precedents on a group server. It can also:

- spread the enthusiasm of one or more group members to others who are not doing so well.

Combined with the most effective examples provided by large support funders and foundations of awards, prizes, and recognition for those who have contributed to a particular community, clusters of locally owned, small groups can reinforce the entrepreneurial culture at the neighbourhood level and be a signpost or venue for even more to take part. Consider the fillip of naming a local street or park after an entrepreneur, and we have a powerful example of the power of local recognition. All this before we have even considered the many examples of local movements across the world that continue to activate and exercise so many.

# Part Four

## The Challenge Ahead

The question we may ask ourselves is why we haven't done this yet. Social entrepreneurship is, after all, an unalloyed good that should be ripe for support. Most commentators and politicians would agree that we can only benefit from a wider culture of social entrepreneurship. We should get more investment in; and more understanding investment across service delivering departments. We should help entrepreneurs lower the costs of their products or services by enabling them to intelligently scale and give people the opportunity to get involved in funding their local entrepreneurs, many of whom are local heroes. Suggest that we should do what we can to support and enable the next generation of Deborah Russells, Annys Darkwas or Ben Ramsdens and there will be little disagreement; indeed it is already seen by many as the future.

The challenge is that getting Government involvement right in the delicate affair of building a helpful support infrastructure is hard to do. Creating a localised social economy that allows aspirant grass roots entrepreneurs with good ideas to progress means having to overcome four major challenges.

### 4.1 Governance: Poor Structures are Endemic

There is of course the endemic inability on the part of Government to not only monetise demand reduction, but to connect it to tangible benefits for service delivering departments. Departments such as DWP and DCLG are anxious to work with social entrepreneurs, but the nuances of deal flow and the optimal political economy for social entrepreneurs has eluded them.

We may remember the regeneration programme fell under the purview of the vast, cross-cutting Office of the Deputy Prime Minister, then under the eye of John Prescott, which at the time exercised responsibility for these matters. In 2000, this department created the Neighbourhood Renewal Fund. The journey of the Neighbourhood Renewal Fund (NRF) is really a microcosm of the kind of Government practice that was so well intended and yet delivered so much less than it could and should have.

The NRF was allocated to the 88 Local Authority areas deemed to have the highest levels of deprivation based on the 2000 Indices of Multiple Deprivation. This was channelled through the multi-agency Local Strategic Partnerships (LSPs) and used for interventions to advance the social renewal of the deprived areas.

There were some positive sounding programmes that would not have sounded out of place in any of the civil society programmes of the major parties—to name three:

**New Deal for Communities**—A £2 billion fund available to partnerships to support intensive 10-year regeneration strategies in 39 of the most deprived areas.

**Community Chest**—A fund for grants for communities within the 88 areas with a £50 million budget. This is for the purpose of small scale projects.

**Neighbourhood Wardens Programme**—The £18.5 million neighbourhood wardens programme funds 84 schemes in deprived areas. The street warden programme is worth £25 million and has funded 123 schemes.

And yet, from the start, these schemes were beset by basic, familiar, strategic errors. There was a failure to adequately deploy what is there. There already existed, for example, a strong network of community voluntary services (CVSes) that were offered no formal role in regeneration and development. Highly specified contracts and bureaucracy were the next problem. While the rhetoric of the NRF programmes was to engage 'the voluntary sector' in local service delivery, the fact that this money came from a specified Government fund meant that contracts and grants were only made under highly specified circumstances. Local authorities who received this funding were only able to commission services from social enterprises and charities with huge contracts as much as fifty pages long. This resulted in a failure to gauge the worth of small providers. This bureaucracy crowded out community entrepreneurs and even small social enterprises from the service delivering and regeneration space. Large private providers and larger voluntary organisations reasserted their dominance as a combination of bureaucracy and a lack of positive innovation and discrimination in favour of social capital-building organisations meant that small providers could not compete.

### Case Study: Marsh Farm, Luton

Marsh Farm estate houses a socially excluded population. Around 20% of young people over the age of 16 are still "NEETS" (not in education, employment or training), the average wage is around £16,000, and drug problems are rife.

In 2000, the newly formed Marsh Farm Community Development Trust (MFCDT) – a coalition of residents, service providers and the council – became one of 39 of the most deprived communities to win £50m regeneration funding from the government's NDC. Eight years later and evidence of the area's transformation was scarce. During that time £3.1m was spent on external consultants.

The residents in frustration decided to create Marsh Farm Outreach (MFOR), a not-for-profit enterprise that promotes community involvement. They are attempting to develop a multi-functional community hub, with community services, business centre and social space. It will also contain a series of a social enterprises, known as the Organisation Workshop, which aims to start up several community businesses, including an MOT centre, indoor children's play park, and a builders' cooperative.

The group secured funding through the local Learning Skills Council (LSC). In May 2008, the money was given to Novas Scarman Group, who took £130,000 to act as the accountable body. However the money was never made available to the residents, and with the LSC demanding the money back, Novas Scarman Group (NSG) offered to return just £80,000 of the £130,000 grant because of deductions for costs including staffing.[92]

One of the biggest problems was isolated thinking. There was another network in place that was not utilised, albeit one with no specialist knowledge of 'social enterprise,' that offered a one-stop shop: business link. According to Mike Carr, Director of the East Midlands Development Agency, in 2009 Business Link supported more than 942,000 businesses, undertook more than 95,000 health checks,

92. NewStart. *Novas Scarman in Funding Dispute with Marsh Farm*. Rosie Niven (4 March 2010). Available at: http://www.newstartmag.co.uk/news/article/2536/novas-scarman-in-funding-dispute-with-marsh-farm [Accessed 30 April 2010].



had helped more than 54,000 businesses start up and had taken up 282,636 enquiries at regional call centres.[93] Yet there was no specialised service for social start-ups and no professed expertise on their part. It need not have been the network of choice; yet it was as if the DTI (as it then was) existed in complete isolation from that which was taking place at the Office of the Deputy Prime Minister.

More support schemes have emerged, many of which have repeated some or all of these problems. Within this plethora of schemes, the main avenues for support are through Regional Development Agencies, whose annual expenditure has increased from £825m in 2001 to £2.3 billion in 2007, and also through better deployment of Business Link. However, it is no exaggeration to say that the silo mentality still exists. Consider, for example, the DWP's Future Jobs Fund, which we earlier discussed.

Consider moreover the various, disparate support agencies for civil society organisations, set up as part of Government itself, which, while doing good in small pieces, have generally failed to afford the necessary strategic leadership in this area:

**Capacitybuilders—**A £230m company established in 2006 to take control of ChangeUp and other discrete funds as an organisation to not only provide direct support to Third Sector organisations and to 'nurture sustainability' in the Third Sector by improving and developing support providers. Since 2006 it has invested £100 million into its chosen projects, £30 million in 2009-10 alone. Recent grant projects included a £16.8 million grant for 'national support services', which sought to 'upskill' support providers.[94] Capacitybuilders now has several regional offices and has turned its reputation around somewhat since its initial issues with its funding programmes and impact measurements, which led to huge criticism from the Public Accounts Committee and the National Audit Office. Insiders we spoke to suggest that the £24 million a year ChangeUp budget is in reality too little to make a large difference. Could that funding stream – along with the significant human resources in the organisation led by CEO Matt Leach – be better channelled into creating the infrastructure we need for social entrepreneurs?

**Community Development Foundation—**A budget of £6m and a staff of 68 populate this government company. Its mission is to "lead community development analysis and strategy in order to empower people to influence decisions that affect their lives."[95] Amongst its current programmes are: the Targeted Support Fund, £15 million,[96] available to organisations whose work is strictly related to recession relief; and management of the OTS' Grass Roots Fund, which makes available grants of £250 - £5000[97] from an overall budget of £80 million using an arcane and complex spreading formula. The Community Development Foundation has been criticised as attempting to populate a space already rich with providers, such as the Community Foundation Network, Community Matters, and the newly convened Community Alliance. Again, there may be resources there that could be channelled into this space, where as we have seen, there would be no danger of duplication.

There are others. The picture for charities is of a disparate series of initiatives that have failed to convey an overall vision. The vision for social entrepreneurship will have to be more directed.

93. Business Link. *Business Link National Overview*. p.2. Available at: http://www.seeda.co.uk/_publications/BusinessLink_Review_2009.pdf [Accessed 30 April 2010].
94. http://capacitybuilders.org.uk/programmes/our-programmes [Accessed 28 April 2010].
95. http://www.cdf.org.uk/web/guest/about-us [Accessed 28 April 2010].
96. http://www.cdf.org.uk/web/guest/funding [Accessed 28 April 2010].
97. http://www.cdf.org.uk/web/guest/targeted-support-fund [Accessed 28 April 2010].

### 4.2 Measurement: Understanding the Effects of Social Impact Measurements

Former policy maker at Number 10, David Halpern, referred to it as the 'washing machine' model of governance: a four-part cycle of policy development that solves problems using four levers: market choice, state capacity building, top-down targets and bottom-up engagement.[98] We need a new strategic vision for the OTS, for BIS, and for the Treasury if we are to bring the threads of our ideas together into Government action.

This begins with a different system of measurement across the centre. One idea, proposed at UnLtd's Social Future symposia, suggested that increasing the transparency of a social entrepreneur's work, perhaps through an online platform or feedback system, allied with a location map and associated socio-economic data, could enable departments to visualise impact more easily. However such data is difficult to aggregate and scale without imposing large burdens upon social entrepreneurs themselves, at a time when they need it least: at the start-up phase. We need to think more about what we are measuring and for whom the measurements are being made.

Consider current models of Social return on investment (SROI). This is a widely available methodology for calculating the positive impact that a programme has for a community, applying quantitative measurements to try to capture the social dynamics.

The methodology was first developed and applied by REDF (formerly the Roberts Enterprise Development Fund), and entailed identifying measurable outcomes such as the number of hours that children attended school as a result of the particular intervention.

The output is seductively clear: invest £1 and your algorithms and suppositions to monetise your impact: to show that you save, for example, £5.60 in later life while creating any number of positive outcomes.

But it is limited. It cannot include intangible aspects of success in its monetisation of social capital effects. So if we argue for a 'social' aspect to a business, does an improved family situation from a job-creating business constitute such a 'social' effect? As New Philanthropy Capital have stated, "omitting these benefits from an SROI calculation can actually result in negative social returns for work which is socially valuable."[99]

There have been attempts to overcome the shortcomings of SROI by integration of measures that more accurately reflect the effects on society. The New Economics Foundation has adopted an approach to SROI that tries to integrate the perspective of stakeholders into the prioritising and monetising of outcomes. Nevertheless, the financial metrics that are attributed to outcomes are not necessarily objective and therefore hard to compare across the board.[100]

98. Halpern, D. *The Hidden Wealth of Nations* (Polity: Cambridge, 2010) p.201.
99. "SROI Not Enough", New Philanthropy Capital Blog, 03/11/2009. Available at: http://newphilanthropycapital.blogspot.com/2009/11/sroi-not-enough.html
100. The Culture Works blog points out that, "The thing is, no two projects are exactly the same, so SROI's will be highly individual and need to be used not as comparisons to others, but as a means of comparing and improving your own performance in terms of the added social value."
"SROI Lessons So Far", Culture Works, 16/02/2010. Available at: http://blog.cultureworks.info/?p=133



> *"I wonder sometimes," non-profit consultant, Mark Homgren, asks, "if our approach to results and measurement starts in the wrong place – or at least should start in a different place. It may seem like a fine line, but instead of developing measurement systems that are based on 'So, prove you make a difference to me' types of questions, we might be better off starting with, 'What do we want to do together and why?' "*[101]

Rather than escaping the utilitarian calculus of the cost-benefit analysis, SROI merely extends it. It extends the reductionist quantifying mindset to domains where this is even less appropriate, such as measures of well-being. The implicit comparison of SROI with financial measures is somewhat misplaced. As a young entrepreneur commented, "Shoehorning [social value] through another frame that was created to do something else I don't think is right. The frame of ROI was created for efficiency, and the people in charge of it are given authority based on effectiveness in that area, not on moral leadership."[102]

It is easy to see why Social Return on Investment (SROI) is attractive, particularly to advocates of the social enterprise sector who want to see more mainstream recognition and appreciation of social enterprises' contribution to the economy. And making the case for social enterprise in strictly financial terms can be helpful. As the Social Enterprise Coalition say, social enterprises contribute £24 billion to the economy, are twice as confident of future growth as traditional small and medium enterprises, and since the economic downturn began, 56% have increased their turnover.[103] However, while their financial contribution is considerable, the additional value they create through their social and environmental outputs, be it reducing waste to landfill, addressing health inequalities or tackling poverty and social exclusion, is exceptional.

Yet another problem with SROI is the effort it takes to show it. In order to collect the data, SROI calculations must be carried out by social start-ups themselves. This requires another piece of outsourcing, which carries a cost, often around £10,000,[104] and takes time and effort in a way that the 'outsider' entrepreneurs may find difficult to handle. One of the common reactions is: what is in this for me?

Another way of expressing this concern is as follows: without a localised vision of how community entrepreneurship, social enterprise and ethical business should develop the overall service delivery paradigm, simply changing one's indicators will not procure fundamental change. Without a series of indicators that can be collected by going with the grain of human nature, we will lack the data to channel money to the right sorts of enterprises. Larger organisations can work with SROI. Even medium-sized ones can use mechanisms such as free-to-set-up social networks to gauge user impact, and can use web 2.0 to visualise and map their impact. However, for those starting out, the best transparency comes from locally based monitoring.

101. "Is SROI Another Bandwagon", 21/11/2009. Available at: http://markholmgren.wordpress.com/2009/11/21/is-sroi-another-bandwagon/
102. "'Smells Like Wall Street,' Executives Weigh in on SROI", Social Edge Blog. [Accessed 05/03/2010].
103. Social Enterprise Coalition. http://www.socialenterprise.org.uk/pages/frequently-asked-questions.html [Accessed 30 April 2010].
104. The precise cost varies, but this figure was typically quoted during the interview process.

It is not enough to have departments in Whitehall justify to each other the social dimensions of this or that programme. Interventions should be selected and funded in communities themselves, and Government must use its impact measurements to facilitate this process. Measurement must go hand-in-hand with delivering independence – making things easier – for social start-ups themselves, enabling them to measure their own development in line with the pyramid or incubator models, as well as to delivering upstream reassurance to managers and senior managers. We believe that this balance is achievable and that demand reduction induced by social entrepreneurs can be tracked without placing undue burdens or risks on the entrepreneurs providing the data. Showing how is the task of the second report in this series, but we will set out some broad options in the next chapter.[105]

### 4.3 Cost

In an environment of reduced funding for non-service delivering essentials, social entrepreneurship may be viewed as a soft target.[106] Binding social entrepreneurs to the end of service delivery is seen as a way of protecting the sector. However, this can only ever be part of the story; only a portion of the journeys for a generation of social entrepreneurs.

The challenge is for the Treasury on the one hand to be able to monetise the reduction in demand offered by a vibrant culture of community entrepreneurship – but also on the other hand to step its own interventions so that its funding mix enables it to exit from some venture projects at zero loss; even at a profit.

### 4.4 Guarding Against Vested Interest: Diversity and Resisting Colonisation at the Local Level

Local approaches offer an invaluable way to bring to bear mutual forms of regulation on situations that resist centralised regulation and micromanagement. However, a criticism often levelled at them is that they are dangerous. Problems with Fair Share in the early years, for example, were as follows:

(i) *Novelty*. Participants found the freedom offered difficult to take. So the idea of building social capital and developing capacity often had to be made an explicit aim of funded projects or of the wider initiative.

(ii) *Difference*. In the most marginalised neighbourhoods, identifying local priorities was difficult. The standard of evidence was often poor and the assessment documents created by the local panels sometimes were skewed and did not provide a detailed picture of local problems. Quality varied across localities.

(iii) *Issues with Ownership*. With Fair Share, local panels recommend rather than make decisions about funding, which led to frustration. There have thus sometimes been tensions between local agents and panels. Wider communications strategies in each neighbourhood were an essential aspect, but it has been a steep learning curve. Group views, vested interests and individual aspirations have often been difficult to manage.

105. In the next report in this series, we will investigate longitudinal data that will enable us to create these tools.
106. For example, as NCVO Chief Stuart Etherington has said, "We know there will be severe cuts in public spending in the coming months. But we should not be seen as a cheap or fluffy addition to core public services."

(iv) *Strategy*. Many panels found it difficult to develop strategic approaches. This may result partly from lack of confidence about more systematic grant-making, but it sometimes also reflects group and individual views about what communities want to fund.

Over the life of the Fair Share programme, this has improved, as CFN have channelled more money to each local panel, but the experience highlights some of the issues with creating the right sorts of local platforms. There may well be up-front periods of assimilation and acquaintance. We need to build this acclimatisation period in to any reformed policy or management approach. Social impact indicators that help but do not hinder will aid the local regulation process and provide upstream indicators.

David Halpern, in his book *The Hidden Wealth of Nations*, has suggested that such policies could be part of a wider sea-change in Whitehall; part of a more bottom-up direction across Whitehall, whose elements are:

- strategic leadership;
- new professionalism;
- citizen empowerment.

Across politics, strategy, new technology, local ownership and commercial and brand trends, the idea of the sector grass roots can now match the wider sector flourishing. It is time to implement a structure that harnesses the wisdom of social entrepreneurs themselves, but that converts consultation into implementation. Talk into action.

## Part Five



# The Venture Society

### Creating the Infrastructure for the Venture Society: Seven Stages

(i) Create the **community lablets programme**, offering a local network of support infrastructure for venture funding, incubation and support, local dragons' dens, awards and citations, and to place grass roots entrepreneurship in local civil society alongside CVSes, libraries, CDFIs and more. These would be the R&D of the grass roots, whose businesses would be able connect through online networks to people of similar and specialist interests. Each lablet would have its own, localised, community-driven brand and identity.

(ii) Invite large foundations such as UnLtd to become **social labs**: innovation hubs and seed funders for community lablets with a specific mandate to produce innovations that help the grass roots to scale, disseminate best practice, broker supply chains and bulk deals, and direct private and blended funding to promising projects. In order to aid with this, we propose more convenient **social impact measurements and platforms to allow transparency and visibility of impact**, which do not place huge reporting burdens on social entrepreneurs, but which do produce information on the amount of reduced state demand in several service areas offered by each project. This can also be used to pay for social entrepreneurship within the envelope of existing departmental service budgets.

(iii) Cut application bureaucracy through this local funding, but also by giving social labs a quasi-regulatory power to approve a new flexible **venture-lite structure** for social start-ups funded by community lablets and social labs. Set up a **bureaucracy task force** that reviews the burden of regulation on early stage social entrepreneurs.

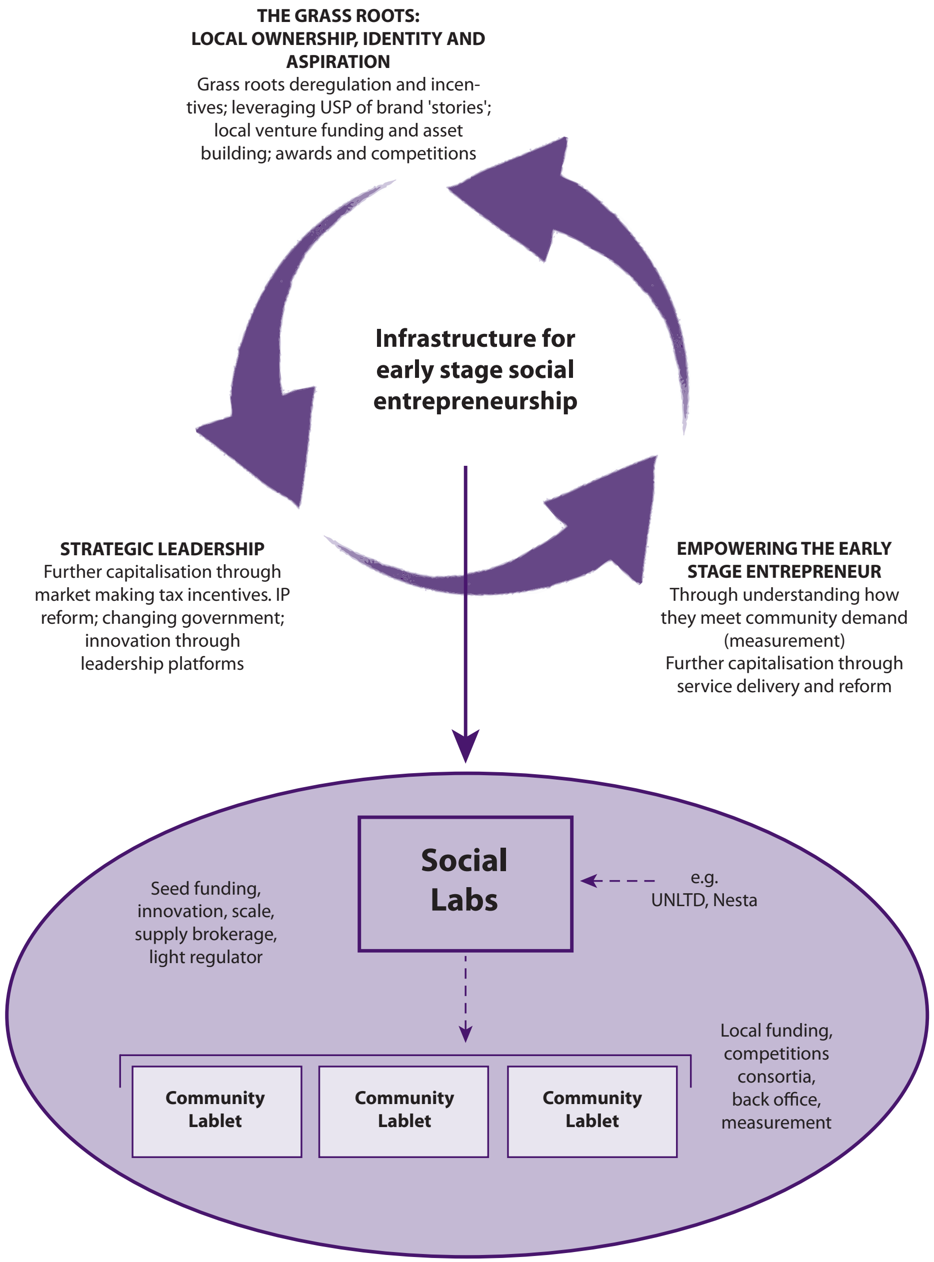
(iv) Engage social labs to provide pilots for **virtual advisory boards** and work with providers to create more virtual equity and peer-to-peer lending platforms to diversify investment sources.

(v) Work with social labs to create fund management plan gold standards for community lablets, that allow for mutual and co-operative local ownership and foundation models, as well as locally decided venture priorities. They should allow for fund management committees to generate scale and asset accrual through taking on community assets and gaining access to the market for communities: a **community asset career for each community lablet**. Engage with OTS strategic partners, such as BASSAC, the DTA and others to create best practice kits.

(vi) In a time of reduced funding, the costs of infrastructure for social ventures **should be limited to being within the envelope of existing programme commitments**. We see a role here for the Capacitybuilders network and the Community Development Foundation – both owned and paid for by government, the former to 2014 but capable of being wound up at any time by the Cabinet Office – to take on a distinctive, needed role supporting social entrepreneurship.
This would free up the funds for pilots in around 30 areas, subject to finding the right fund management plans, with scope for community asset development and IRR generation built in.

(vii) In the longer term, as the finances allow, we should look to pump-prime the social marketplace and these platforms, through a capitalised social investment bank, targeted **tax breaks for new blended value investment vehicles** and a community reinvestment act, both subjects of future ResPublica research. We must also tweak the Whitehall schema and get Treasury buy-in to formalise the process by which **demand reduction is paid for on a programme basis across service-delivering Whitehall departments**.

**Fig 5.1: Social entrepreneurship: stimulating aspiration and social change**




## 5.1 Beyond Business Link: Community Lablets

Compared to the vast support funds for established and service-delivering charities, in future-builders and capacity-builders, and even compared to the grant funding available to small charities through central Government programmes, direct support for social start-ups is limited to a few organisations, such as UnLtd, the Young Foundation and the School for Social Entrepreneurs.

So there is a case for a new stream of support. However, there are clear problems. The first is the current funding shock in which we find ourselves. The second is the lesson of the last few years.

Localised, directed support funding is key. Local venues could be the go-to place for those with an idea for a social venture in places with the most serious social problems. Local funding can help foster a sense of local ownership.

That is where our concept of the community lablet comes in. A community lablet would begin, simply, as a local fund dedicated to investing in social start-ups and in entrepreneurs. It is not a capacity-building or working loan fund as such; rather it is a series of potential equity investments and start-up loans devolved to a beyond-local government level. As such, its function would be separate from that of a CDFI – though CDFIs would be able to form or partner with community lablets.

Community lablets are beyond-local. Each would be an active, independent platform for various groups dedicated to social entrepreneurship. A flexible ownership structure would be key. They could be structured as CICs, or blended value limited liability partnerships that allow those who form part of it to meld philanthropic, private or public capital towards a shared purpose. These structures would allow members of the partnership to share profits at an agreed level. An asset lock would mean that an agreed level of seed funds would remain in the lablet, which could be tailored to local demand and set on a yearly or three-yearly basis.

The structure has another advantage. It allows the fund managers of lablets to invest in a variety of purposes. To form the first tranche of investment capital in larger social ventures, so encouraging private sector banks and companies to create instruments based upon that commitment and so come in knowing their investment is underwritten. Or to invest in a group of entrepreneurs who are coming together to deliver a particular service or secure a particular contract. A first tranche of capital could be invested against the quality of support structures and the performance of the manager to date—knowing that back office, advertising, PR were all in place under good quality support and stewardship from external providers would provide an attractive offer to investors. This is the 'R &D of society' in action, monetised directly.

In this way, lablets create scale and efficiency in such a way as to not have to negate the community-focussed principles that make so many social enterprises so successful; this kind of cooperative, peer-inspired environment leads to participation and collaboration across social fault lines. [107]

107. UnLtd. *Summative Evaluation Report: The New Cross Gate Programme* (August 2008) p.4.

### 5.1.1 Accountability

What we can also create here is an asset effect that allows a social entrepreneur to more easily gain access to the market. Any local community group or locally run community asset could become a community lablet; they would need a management plan that is very tightly specified, typically requiring a portfolio of investments to attract funding, allowing them to raise money from government, from philanthropy and from the private sector as part of the corporate social responsibility agenda. Local agents, such as in the Fair Share model, could be allocated to help with this, perhaps drawn from the private sector, who are often very giving of their time and expertise in the right venue. It may also, farther down the line, make use of alumni, so offering entrepreneurs with a good idea to 'buy in' to the lablet, whereby entrepreneurs with successful parent ventures who have created profits for the lablet get to share in the profits of successful daughter ventures. It could also be achieved by allowing entrepreneurs to sit on the 'dragons' den' deciding committees when assessing new ventures and adding more entrepreneurs to the incubation stable. It could be a mixture of both.

There is no one way to create the right accountability structure for each lablet. While mutuals encourage ownership, they may also encourage rigid working practices. Foundation models, too, can become set in their ways. That is why we would like to see management plans that make provision for regular review and change in at most five-yearly cycles.

Successful management plans would enjoin the local community, local Government and local service partnership in the life of the community lablet. Here the Fair Share model, with its local panel made of prominent community actors, could be one of a number of models that guard against stagnancy.

One of the biggest criticisms of SureStart, the great hub service for children and families, is that it is slow to enjoin the experience of voluntary groups and private companies and individuals. The community lablet would attempt to do the opposite; it would be a physical fund, run by active citizens, who are interested in being proactive. Government should open up provision of start-up kits for management plans to the wider support market, and Social Labs in particular (on which see s5.2 below) to create genuine competition. Online, social and offline tools would suggest networked ideas to bring private sector experience and the experience of retirees (on which see s5.3 below). While the ownership of board membership or 'veto' may not be so important to the former group, the idea of tapping in to an engaging cooperative of entrepreneurial minds would be attractive for any company as a possible asset in its own right—and certainly a transformative addition to a 'CSR" agenda. As for the latter group – besides the possibility of using their skills and experience to establish a social enterprise of their own – the structure encourages them to play a vital role in a small organisation that is building entrepreneurs: a significant incentive.

Some other policies would make this idea even more effective. For example, current VAT rules mean that sharing back office services is expensive. The community lablet could get around that by effectively partnering social entrepreneurs into one mutual company. There would understandably be a Treasury push back; better for the relevant cost study to be commissioned and the Treasury to change this anomaly for community lablet members.

We will discuss capitalisation options, government programme options and capitalisation nudges for these platforms in section 5.4.



### 5.2 Social Labs: Encouraging Scale and Productivity through Innovation

Just as the ownership structure of a typical community lablet allows scale to happen more quickly, a useful function of larger funding and support bodies would be to allow even more scale, not by creating efficiencies and outsourcing, but by remaining true to the principles of social entrepreneurship. Using innovation and technology to slice even further the costs of setting up a venture and so make efficiencies in these—not in the provenance or quality of the good or service that makes social entrepreneurship 'social.'

We advise Government to invite certain independent foundations or Government-owned companies to become Social Labs. These central foundations, or hubs with local outposts, such as Capacitybuilders, the Community Development Foundation and even UnLtd and NESTA, could demonstrate real, immediate outward-facing social impact by acting as **Macro-brands and Umbrellas to provide support to community lablets**. To explain further: a tech analogy is Apple's AppStore service, which provides a product – the iPhone – that is also a distribution channel, and provides this distribution channel for small programmers to get their applications for iPhone into the wider market. A profit-sharing program on the price of the download means that this intervention in monetised.

The key to a successful macro-brand is being able to innovate new ways to create scale and efficiency and promote ideas to raise awareness. A community lablet, by its localised nature, in competition with other community lablets may not be able to secure the full benefits of this movement. This is where the large foundations can enjoin the small by becoming their outsourced 'central office' R&D departments.

Consider for example, **business ('biz') in a box**.

Biz in a Box builds on the office-in-a-box concept UnLtd's partners in Scotland devised. The idea is as follows:

- Start-up social entrepreneurs have enough on their hands without having to worry about what legal form to choose, what bookkeeping software to use, how to navigate the opaque support infrastructure, how to record impact, etc.
- In addition, they start with no track record, no credit rating, no accounts or impact to show, so struggle to get a bank account, phone contract, etc.
- This is the most commonly reported set of problems at start-up stage.
- The following concept was thus developed around a table convened by Livity for O2 businesses, comprising:
- A refurbished blackberry (or other smart phone) – refurbed by a recycling social enterprise maybe.
- Specific tariff suited to start-up social venture.
- Preloaded apps for basic bookkeeping, start-up tool-kit, guide to legal forms, impact recording, directory of support agencies, a social entrepreneur network, whatever goodies we can get pro bono.

- Backed up by an online network but specifically mobile because it is cheap and something that can be used anywhere, including with no office.

- Further inquiry to see if it can be linked to a start-up bank account, insurance for start-ups, etc.

Macro-branding would afford social entrepreneurs running their own enterprise similar benefits to a franchise without the latter's reduced sense of ownership. Namely, public recognition and trust of the brand, an umbrella organisation that helps small providers win public service delivery contracts, preferential prices from suppliers by exercising a 'group buy,' and capitalising on shared logistical and marketing infrastructure. And innovations that occur locally but are scaled at the Social Lab level could have their profits shared among both tiers, subject to an agreed asset lock.

### 5.2.2 Leveraging Trust-Based Regulation: The Venture-Lite Start-up Form

The possibilities of social labs are immense. They could innovate for more local, trust-based regulation, acting as the guarantor as in the original social market. One of the best ideas around this that emerged from the Social Future conferences was that we could introduce a **venture-lite legal status** with limited liability for people at the beginning of their social enterprise journey. This would enable them to get started quickly, to not have to make a big choice of legal status before they see how their venture develops and crucially, to change quickly as the venture matures: a legal structure that could subsequently be easily transferred into a company, CIC, charity, or co-op without penalty.

This could be a standalone reform or part of the authority devolved to Social Labs. This would be a start on busting the bureaucracy around start-up social ventures, but it would only be a start. There are several other contumelious areas, which is why we would recommend in addition a more wide-sweeping **bureaucracy task force** for an incoming government that seeks lower regulation for social start-ups. This could mitigate against the costs of required compliance with health and safety, CRB checks and liability for start-ups. It should also involve a new venture-lite legal structure that can be easily put together for a start-up from a community lablet and be moved out of when the venture is ready to progress.

### 5.2.3 Taking Further Advantage of Technology: Advertising, Virtual Advisory Boards and More

While drawing in private capital is crucial, equally important to a flourishing social enterprise sector is the support and advice that the private sector can offer—and that, as our interviews have suggested, they are willing to offer if asked. Mentoring can make or break a social start-up. While peer mentoring is vital, the value of private companies encouraging their staff to dedicate time and advice – rather than money – is incalculable.

Experienced advertising companies can help to build the public awareness and brand trust that social enterprises require, while social entrepreneurs offer advertisers powerfully inspirational personal stories and businesses to work with. Mother, a leading advertising agency known for their work on global brands – Coca Cola, Dove, Stella, Greenpeace and Amnesty International – are working with UnLtd to provide strategic branding clinics to social entrepreneurs on an ongoing basis,[108] while

108. UnLtd. http://www.unltd.org.uk/template.php?ID=196&PageName=unltdconnectsupporters [Accessed 30 April 2010].



PwC – as well as funding places on the School for Social Entrepreneurs' programme and encouraging employees onto mentoring programmes – has extended its support to press and media work.[109]

Despite one-to-one mentoring being the optimum arrangement, often demand on time can stymie this kind of dependent relationship. An alternative to one-to-one mentoring is to create **virtual advisory boards** for start-up social entrepreneurs. The 'boards' would be made up of a range of experts – legal, marketing, finance – and would meet with the social entrepreneur via webcams. If one member of board is unable to attend a meeting ,the time can be used productively by the social entrepreneur and the other mentors. This could be another project for social labs, or indeed for community lablets themselves.

### 5.2.4 Social Impact Measurements

We want to give social labs a specific mandate to produce innovations that help the grass roots to scale, disseminate best practice, broker supply chains and bulk deals, and direct private and blended funding to promising projects. In order to aid with this, we propose more convenient **social impact measurements** which do not place huge reporting burdens on social entrepreneurs but which do produce information on the amount of reduced state demand in several service areas offered by each project. This can also be used to pay for social entrepreneurship within the envelope of existing departmental service budgets.

In the next report in this series, we will use UnLtd data to create modelled impact measurements based on 10 years of impact data from funding successful and unsuccessful social entrepreneurs. Here we will sketch out the broad strokes of an **impact-lite** approach that is capable of being used by those starting out, not only as a means to report on progress, but also as a means to measure their own progress, too: as a tool of analysis and development that allows investors to forecast 'down the line' returns.

Our approach will be to model funding success against five major zones of demand reduction:

1. Education, learning and confidence-boosting for the social entrepreneurs – this is particularly evident for young people and for those whose self confidence is low, e.g. in areas of prolonged high unemployment.

2. Social capital and cohesion – community entrepreneurs, the teenagers developing programmes to engage their peers in pro-social rather than anti-social activities, people tackling conflict in their communities, and people in deprived areas simply inspiring their neighbours to believe it is possible to make a difference; both bonding and bridging social capital is created in this way.

3. Social impact – the direct social impact (health, education, reducing reoffending, carbon reduction, landfill diversion, etc) is evident as social ventures scale up; indirect social impact comes from opportunities to contribute – average volunteering opportunities created within 2 years is c7 per social entrepreneur.

4. Economic impact – start-up social entrepreneurs in surveys by UnLtd and the School for Social Entrepreneurs typically create an average of around 3 jobs in their first 2 years, with a substantial skew, as a minority create large numbers.

109. PwC. http://www.pwc.co.uk/eng/issues/working_with_social_enterprises.html [Accessed 30 April 2010].

5. Social innovation – new ideas, authentic to their communities, emerging from the people who have lived with the problem, producing some of the most significant innovations in the social and environmental domains. Transformational system change is the area of social innovation supported by global agencies such as Skoll, Ashoka and Schwab, and agencies in the UK such as 4iP, Social Innovation Camp, NESTA and Young Foundation Launchpads.

The goal will be to create a series of measurements that can be used by government—but can moreover be improved by minimal data-gathering from developing entrepreneurs, so creating (relative to SROI or more centralised measures) a 'bureaucracy-lite', start-up–specific approach.

### 5.3 Nudging Cultural Ventures and Aspiration: Developing Community Venture 'Careers'

Our research has suggested a key role for community assets in fuelling the growth of social entrepreneurship. In America, real estate has proven to be a means by which the Community Finance sector can make itself sustainable. The provision of communal space where social entrepreneurs can share back-office resources is fundamental to the success of local business societies. A 'community right to buy,' first advocated by ResPublica, is an essential element of a culture of local ownership. But, as organisations such as the Local Initiatives Support Corporation show, this can be turned around into viable property portfolios that improve communities and are worth millions.

Part of the management plan of a community lablet should be its own development and career path that bring the many benefits of local initiatives and real estate to the social venture space. Many will see their role initially as akin to that of Development Trusts so that they can begin to acquire community assets and anchors. This would provide social entrepreneurs with both a vibrant peer-populated space and a venue to share and encourage back-office resources. There is no nudge quite so strong as knowing that one community building is the dragons' den: here are the opportunities and the equity funds to start a venture. There are a number of agencies that can assist in this process, from the Development Trust Association and the Asset Transfer Unit to Capacitybuilders, Community Matters and Community Builders.

This role would develop. There are several government funds currently dedicated to encouraging community groups to take over public assets.

- Assets—£30m (OTS; deals in capacity-building channelled through the BLF)
- Anchors—£10m (managed by the Community Matters Alliance)
- Community Builders—£70m loan and grant fund (managed by the Social Investment Business, DCLG; c. £36m loan book)

A fund of comparable nature would be worth reinvesting in a community lablet scheme dedicated to real estate acquisition and management.

Community save and loan schemes are another element that could be tied in, and are being considered by ResPublica in a forthcoming project. Could we combine this with venture funding? Thinking radically for a moment, for small loans, it is possible for social entrepreneurs to form a money club along the lines of the Korean ggeh or the South Indian cooteh, the Brixton pound or indeed an online currency or peer-to-peer lending or fundraising entity. Here a group of several dozen people contribute an equal amount and disburse the total to an individual in order of priority and loan amount. Over the course of 18 to 24 months, loans could be cycled to meet the needs of nearly all members of the group. With the prospect of a market win, a group culture could foster more entrepreneurial activity at the grass roots.



#### 5.3.1 Awards and Citations: A Different Generation of 'Local Heroes'

There is a myriad of different methods for attracting people into social entrepreneurship. Methods such as proactively raising the profile of social enterprise through hitting the streets, or running national or local prize challenges will be more effective in some areas than others.

To an extent, social entrepreneurs must themselves play a role in raising the profile of social enterprise, making presentations at schools and local community groups. This report has highlighted the role they can play in building social capital and cohesiveness in communities. Often it is the sight of someone successful from the same background that inspires people to take a first step to emulate. Social entrepreneurs need to assume their position as role models for their communities.

Once someone has decided that they want to create a social enterprise, we must ensure that they have all the right support at their fingertips. This means not only offering financial assistance and advice, but reducing burdensome regulation, and health and safety compliance. It means local authorities creating the kind of atmosphere and landscape where potential social entrepreneurs feel that they can make a difference. Often this translates as a council that is seen to 'listen' to local concerns, but can be gestures as small as simply clearing rubbish or fixing broken streetlights.

Competition dynamics such as NESTA's Big Green Challenge are excellent ways to turbo-charge enthusiasm for these ideas. However, the criticism is that it is difficult to measure these effects. With community lablets in place, we would encourage local panels to work together to enjoin local government funding in local competitions, with impact being mapped along the way through macro-brand platform organisations providing the substance.

Social entrepreneurship produces community heroes; people who have been down and pulled themselves up. Many become role models and the beneficial effects of spreading entrepreneurship – of creating a new generation of community entrepreneurs – cannot be underestimated.

We recommend community lablets work with organisations such as UnLtd and NESTA, local councils and organisations like the Community Foundation Network to learn and develop new competition and award-style products. Local councils should work proactively with community lablets to investigate how public spaces can bolster and complement the work of social entrepreneurs; e.g. street furniture, youth clubs, transport routes.

### 5.4 Capitalising Community Lablets

The ideal scenario would be for a company along the lines of the US Tides Foundation, or the many community anchors in the UK today, to franchise their support and experience of providing localised hubs over to the UK. However, even this would be a slow burn, with the likelihood that more sure investments would be taken on first. An incoming Government should seek to leverage the work we have done in building relationships with these organisations.

Initially, community lablets could replace certain existing 'capacity-building programmes' as a priority for Government funding, either through the OTS, DCLG, BIS, or directly from the Treasury, with a clear management structure between involved departments. As social entrepreneurship promises to reduce demand on several key departments, budgets, good management is key.

The business case for pilots should be made by the Treasury during the new CSR, or by working in tandem with the Big Lottery Fund. We would recommend, as a start, working with the staff at

Capacitybuilders to see how their ChangeUp funding could be better channelled to a pilot programme of community lablets. A working party of sector luminaries, organisations such as UnLtd and the SSE, both of whom have contributed to this report, the Community Foundation Network and more, would begin the process. This would allocate an average £24m of ChangeUp seed funding to these organisations per year until 2014.[110] It would also take advantage of the macro-branding opportunities afforded by Capacitybuilders' offices. Resources could be reallocated also from the Community Development Foundation, a government-owned company that ran the OTS' grass roots grants programme. With a staff of 68 and a budget of £6.8m, there is much good that this network and knowledge base can be put to in furtherance of the local social venture agenda.

We recommend seeding each pilot community lablet with £2m over 3 years in 30 pilot neighbourhoods. The remainder should go into an 'invitation' programme pot for social labs to work with innovation organisations such as NESTA on ways to radically expand the possibilities of macro-brand status.

### Case Study: Calvert Community Investment Notes

Calvert Community Investment Notes are structured as a general recourse obligation, designed to make it safe and convenient for average investors to direct capital to community development and other blended value-generating projects and enterprises. Investors can chose the profile of investments underlying their notes, targeting specific geographical regions and programmatic areas. Investors can also select maturity of notes and interest rate (from zero to three percent).[111] Underlying portfolios are very carefully screened, monitored and managed. The Foundation has never defaulted on its obligations to any Community Investment noteholders.[112]

This not only provides a platform to attract private investment, it lays the foundations for social entrepreneurs to begin experimenting with crowd-sourcing funds. Combined with technological advancement, the internet, and social networking sites, there is incredible potential in this sphere for social enterprise to attract funding from the very community in which they are situated. Sourcing funds – however small the individual investments – from the community offers social entrepreneurs a powerful means of extending the community a stake in their enterprise, buttressing the cohesion often promoted by social ventures.

**Through developing sustainable asset careers**, community lablets could conceivably begin to bridge the funding gap experienced by social entrepreneurs that exists after their start-up, but before their turnover (c. £200k pa) attracts the interest of incubator funds or cautious social investors, who both tend to wait until viability and profitability are proven. As the social marketplace develops, and Government creates more tax incentives and tax credit schemes for social investment, community lablets would act as key infrastructure, working in tandem with CDFIs to deliver equity to social

110. Destination 2014, Capacitybuilders.
111. Calvert Foundation. http://www.calvertfoundation.org/invest/how-to-invest/community-investment-note, http://www.calvertfoundation.org/invest/how-to-invest/offerings [Accessed 30 April 2010].
112. World Economic Forum. *Blended Value Investing: Capital Opportunities for Social and Environmental Impact* (March 2006) pp.23-24. Available at: http://www.weforum.org/pdf/Initiatives/Blended_Value_Report_2006.pdf [Accessed 1 August 09].



enterprises. Mentored by established agencies such as UnLtd, the School for Social Entrepreneurs and the Community Foundation Network, this could be an effective route towards establishing a social enterprise hub and funding organisation in, for example, every major UK city.

By offering a portfolio of social enterprises in the same geographical area, community lablets could also be legally structured to take on the form of a Community Investment Note. Investors could buy 'notes' that offered junior and senior tranches on loans to social enterprises.

#### 5.4.2 More Radical Ideas to 'Nudge the Magic 1%': Economic policies to tailor the marketplace and capitalise further community lablets

Just as we need to get more funding into the wider social enterprise sector, we must also draw private funding into Community Business Societies. We propose using nudges to reach a 'magic 1%' for philanthropy, for private investment and for mainstream banks.

This 'magic 1%' might be achieved in a number of ways. Here are some radical ideas for consideration.

The Enterprise Finance Guarantee Scheme, under which the government stands behind a tranche of a loan advanced to a business,[113] holds vast potential for social finance and should be adjusted to cover a greater percentage of a loan made to a social enterprise.

### Case Study: Loan Guarantee

A loan guarantee "is a powerful and versatile tool, which can generate more than money, forging partnerships, helping mainstream financial institutions understand and accurately price risk, and demonstrate blended value projects' viability – all while giving guarantor market rate returns." For example, ICICI Bank (one of India's largest mainstream banks) purchased 25% of the loan portfolio of Indian Microfinance Institution, SHARE Microfin Ltd (in 2004). As a direct result, Share Microfin Ltd was then able to borrow funds at 8.75% (versus the 12%-13% that it had previously paid to access commercial financing). Key to this form of financial innovation is that CDFIs or MFIs continue to administer the loan after it has been sold on, and that they are at the heart of future developments. Bigger institutions can work on creating accurate financial models of cash flows from MFIs and understanding the risk association with those flows, as well as forging investment vehicles that are familiar for investors. Loan guarantees are not alien to the UK. Through a joint initiative between Santander and Essex County Council, a £100m fund has been created to offer loans to businesses in Essex at a marked-down interest rate. The scheme Banking on Essex uses £50m of public money invested alongside Santander's £50m to reduce the price that the bank feels it has to charge to cover its risks and make a return.

113. Department for Business, Innovation and Skills. *Enterprise Finance Guarantee*. Available at: http://www.berr.gov.uk/Policies/enterprise-and-business-support/access-to-finance/enterprise-finance-guarantee [Accessed 30 April 2010].

This incentive to investors could be coupled with a concerted effort to encourage customers of pension funds to invest in the future that they want to inhabit. This would mean pensioners reaping double the benefits from their investments, social and financial—the double "win" that social enterprise offers. In 2008, the value of self-administered pension funds' assets totalled £928 billion.[114] A fraction of these savers directing a proportion of their funds into viable social enterprises would create a new swathe of funding for social entrepreneurs.

#### 5.4.2.1 Socially Useful Backstop Leverage Ratio: Diversifying Risk, Spreading Opportunity

An incoming government could moreover incorporate investment in social enterprises – directly, through intermediaries such as CDFIs or through support agencies – into the '"backstop" leverage ratio,' which the Conservatives have already committed to introducing to the banking sector.[115] The arguments for such a limit on banks' leverage is an economic one, with the FSA and Bank of England calling for an increase in banks' capital bases, but this can be blended with a social objective. According to figures from the Bank of England, the capital composition of the major UK banks incorporates just under £200bn of Core Tier 1 capital.[116] A small percentage of that mandatory capital base – rather than being held in gilts for example – could be invested in secure 'Blended Value Investment bonds' which would comprise of investments in a range of social enterprises—from start-ups to the well-established. If this requirement was to be expanded to encompass all major UK banks, requiring them to hold 1% of their Core Tier 1 capital in Blended Value Investment bonds, a substantial sum would be released.

As well as getting more direct funding in, a second win is that it may act to nudge mainstream banks into this field; so that if they were to establish branches and lend into these communities, the sum of Core Tier 1 capital they would be required to hold in Blended Value Investment Bonds for example, would decrease in proportion.

The principle of putting reserve capital to social use through blended value capital should also be extended to the public sector, with the explicit understanding that it is there to incentivise, attract and leverage in private capital. For example, total local council reserves are estimated to be between £15-20bn.[117] The investment and loan portfolios of Community Development Finance Institutions (CDFIs) totalled £331m in 2008.[118] If just 1% of council reserves were channelled into CDFIs, it would nearly double the pool of funds available to these institutions. Government guidelines urge councils to "balance risk and potential returns."[119] This advice seems to have led to (127) Local Authorities investing a total of £953m in Icelandic Banks.[120] Now is the time to rewrite these guidelines, incorporating a duty of local authorities to put part of their resources into social projects in their area.

114. FT Adviser. 'ONS Sees Pension Assets Drop' (March 2010). Available at: http://www.ftadviser.com/FinancialAdviser/Pensions/News/article/20100304/864ab7ce-214c-11df-9767-00144f2af8e8/ONS-sees-pension-assets-drop.jsp [Accessed 30 April 2010].
115. Limiting how much banks can lend from a given amount of capital. Conservatives. *From Crisis to Confidence: Plan for Sound Banking*, Policy White Paper, p.6.
116. Bank of England. *Financial Stability Report* (June 2009) p.27.
117. http://www.nlgn.org.uk/public/articles/secure-reserves-in-a-new-councils-bank/ [Accessed 10 August 09].
118. CDFA. *Inside Out 2008: The State of Community Development Finance* (May 2009) p.2.
119. Quoted by Local Government Association. See: http://www.lga.gov.uk/lga/core/page.do?pageId=1739811 [Accessed 13 August 09].
120. As of 7 October 2008.

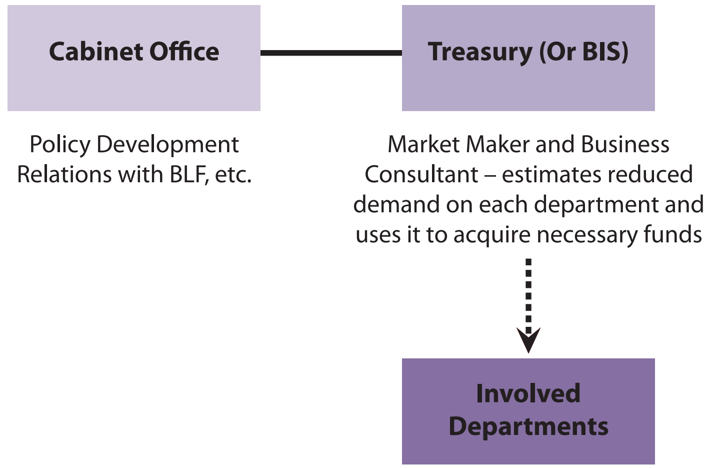


### 5.5 Government Reform and Implementation Issues

In order to make the specific policies happen, we would recommend that an incoming Government rethink its managerial approach to social enterprise policy. This issue is relevant to all service-delivering departments: a coordinated effort means all can play a part.

As a start, we would recommend that the relationships between the involved departments are made clear. The Cabinet Office or equivalent should remain the policy architect of this area. However, responsibility for building business capacity and strategy should lie with the market-makers: with the Treasury, who have access to the relevant departments and who can sequester the relevant budgets in aid and coordinate programmes to allow for demand reduction from social entrepreneurs.

**Fig. 5.3: Implementation Schema (simplified)**




A cabinet committee for social enterprise should oversee the relationship and highlight any issues. The public accounts committee or a civil society select committee are also less desirable options for this purpose.

In terms of time-scale, we would advise market creation and venture society creation to run side-by-side. With the advent of a social investment bank and steps taken to pump-prime the social investment market. An incoming Government should seek to implement the first pilots within a year, enjoining interested CDFIs or other support institutions with distinct venues for community lablets in the poorest areas and convening a macro-branding summit at, for example, NESTA. We would expect to see more community lablets after the first impact study, at three years of a five-year pilot, depending upon results.

## Conclusion: Making This Happen

**Supporting grass-roots social entrepreneurs** is more than a fairness or social justice issue: it is a question of the mechanics of social change. Throughout this piece, we have attempted to show how social entrepreneurship is not simply a policy idea or a niche undertaking, but a genuine movement that has emerged from the ventures of many, to become a way of thinking about business, community, personal motivation and association that is informing and revolutionising every aspect of our lives. This piece is the first stage in gathering that movement and seeing how we might take it forward.

This study has taken us from Silicon Valley to the Social Future Conferences in High Holborn; from the back of Annys Darkwa's car to the coffee plantations of Cafédirect. It is a series of radical solutions that form a coherent model. We believe we can pump-prime this market; we can tip it over the edge and take it mainstream. We can win the intellectual battle against the old market norms. This will take more than this publication alone: it will take concerted government action informed by the same civil society of social entrepreneurs and experts who have already helped make this publication happen.

So it is to them we now turn.

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About UnLtd

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Phillip Blond, Director, ResPublica

*"This is a report which challenges us all to go beyond what we do now to make social entrepreneurship mainstream, and to be just as innovative and determined in our mission as are the social entrepreneurs we support."*

Cliff Prior, CEO, UnLtd, the Foundation for Social Entrepreneurs

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