SOCIAL ENTREPRENEURSHIP AWARDS TOOLKIT

STAGE #1: INITIAL IDEA & VISION

WHAT ARE MY MOTIVATIONS?

There are many reasons why someone might consider becoming an entrepreneur and starting business. Some of the more common ones are:

- Can't think of anything better to do
- Avoiding a corporate career
- Being your own boss
- Becoming rich
- Exploiting an opportunity
- Meeting a need
- Doing something better/ improving an existing provision
- Changing the world

The popularity of TV shows such as the BBC's Dragon's Den and the Apprentice has popularised if not glamorised entrepreneurship, attracting even more people to starting a business. What popular myth doesn't tell you is that starting and managing an enterprise is incredibly hard work – often much harder than working your way up the corporate ladder. Choosing to be a social entrepreneur is even more demanding, due mainly to the complex nature of your objectives (including social, environmental and financial outcomes) and, very often, the range and diversity of your stakeholders.

To date many of your goals, or measures of success, will have been set by others, or at least developed with the close support of others. Starting on an enterprise requires that you need to decide for yourself what you want to achieve, what you consider to be a success and what it is you hope to achieve in the short as well as the long term. This applies to both you and the enterprise that you are thinking of starting.

Success is never assured. Often it takes a number of attempts to get to what you define as success. You need to be very sure about what you are proposing to do and the demands that this choice will make on you.

If you are considering becoming an entrepreneur just because you can't think of anything better – don't. This is not sufficient motivation to make a success.

Fortunes can be made out of enterprise. But most entrepreneurs do not become millionaires. Money alone should not be the motivating factor for any form of entrepreneurship; it is rarely enough. This is especially true if you are considering social enterprise, where personal financial reward is, at best, a peripheral motivation. Successful social entrepreneurs can be well rewarded but not as well as those who are only operating in the commercial sector. You should choose social enterprise only if you are motivated with creating positive change (social change, environmental change) through the agency of enterprise.

Successful social entrepreneurs are more likely to be motivated by innovation, creating change, doing good, and improving existing services more than by money.

Many people believe that social enterprise is an easier option than starting a commercial business. This is completely wrong. As a social entrepreneur you will be expected to generate profits, prove that you are creating measurable positive change and improving the planet, or at least not damaging it – otherwise known as the 3 P's:

- Profit
- People
- Planet

So a social entrepreneur is measured on three counts (sometimes referred to as the social enterprise **triple bottom line**) whereas commercial entrepreneurs need only prove their ability to make profit.

You need to be certain that you are prepared to work harder for less monetary reward, but immensely greater emotional reward.

You will also need to be aware that since social enterprise tends not to be highly profitable, it is harder to fund the business and harder to attract investment. You need to operate with greater agility and learn how to attract support by means other than monetary reward – this applies to investors as well as employees.

Other social entrepreneurs have the same challenges and so tend to be very supportive of each other. There is the feeling that social entrepreneurs are creating a new order and a more sustainable world, which is another great motivation for entering this sector.

Stage 1: Initial Idea and Vision

Theme 4: Business Model

IS SOCIAL ENTERPRISE THE RIGHT MODEL?

Introduction

As your plans emerge from initial ideas and thinking towards a more complete project concept and potentially on to a fully operational enterprise, you will increasingly need to think about your business model. Essentially, your business model breaks down into a number of elements:

- Headline purpose, (social impact) objectives and moral / ethical compass – Vision, Mission and Values
- Your strategy: how what you do fits together into a coherent whole; and how that helps you deliver your objectives
- Your offer: what product / service are you offering your customers and / or beneficiaries

It is never too early to start thinking about these elements. Look at your business model as a continuously evolving concept – ideally it will become more robust and more detailed over time as you go from idea to project to organisation.

The function of **business planning** is related to designing and documenting your business model; however, full business planning will define the business model and then do a deep dive into much more detailed aspects of operations, governance, finance, social impact, etc. – that is, pretty much every other theme covered in this toolkit. We will start considering full business planning later in the project's lifecycle.

When you are the Initial Idea and Vision stage of your project's lifecycle, the focus is on determining whether social enterprise is the right business model for you and, if so, starting to develop some early building blocks to help you design your business model.

Start by asking yourself two questions…

Question 1: Does your concept translate into a viable enterprise model?

Let's ignore the 'social' part for a moment and consider whether your idea really translates into a potential enterprise. At this early stage, have a think about 3 different aspects of your idea:

a) Can you define your market and how confident are you that there is a real demand for what you want to offer?

When thinking about demand, it will pay to think early on not just about who might want your product or service but also how likely is it that they will be willing to pay for it. In a social enterprise context, an important issue to consider early on is that those that benefit from your product or service may not actually be the one that might be willing to pay for it. Social care and healthcare-focused social enterprises are a classic example of this, where contracts may exist with local authorities or PCTs to deliver a service to eligible people within the community.

b) How realistic is it that you can successfully deliver the product or service?

Although your idea may have an amazing potential, the practicalities of delivery may be a barrier. Further down the line, this area of planning will focus on the internal operations of your project or organisation, i.e. how you deliver your offer to the market. At this stage, it's worth developing a sense of 2 things: firstly, do a little investigation into in the market(s) that you're looking to operate in and start to understand how potential competitors, partners and other stakeholders are operating. Starting to build relationships with people working in the area will be invaluable later down the line, but at this stage will give you great insight into the operational and competitive landscape of your market(s), and help you understand which operational models might work for your idea. Second, start having a think about what your own strengths and skills are that are relevant to the realisation of your idea, and where there are gaps. Being honest about where you need help, either by bringing others on board or working with third parties such as your higher education institution / university or other partners, is critical; few entrepreneurs, social or otherwise, are able to realise their vision without support; the most successful are often those who are clear from an early stage about where, when and how to secure the right type(s) of skills, capabilities and knowledge from other sources.

c) How sustainable do you think your idea is?

The issue of sustainability is critical to any business, and social enterprise is no exception. In its most basic sense, it translates into whether or not you think you can sell your product / service for more than you sell it and whether you think demand will grow in the medium to long term (e.g. after your completed an initial pilot and are looking to scale up). Note that in the social enterprise setting, revenue may also be augmented by grants and other sources, depending on the nature of the organisation (see below), and so sustainability considerations will need to take into account all sources of income. Another point worth making is that some social projects and social enterprises may have a finite life; in this case, the same considerations of sustainability apply, but within a discrete timeframe. This area of thinking and analysis is, ultimately, the door to financial planning and management; it is worth bearing in mind that many good ideas have been brought to market in the past but have failed because, ultimately, the economics of the business were not sustainable. This is true for the social enterprise space as much as it is true for the commercial world. As you begin developing your idea and concept, as well as investigating areas addressed in (a) and (b) above, include cost and revenue implications as part of your analysis and start recording this data – you will need it later on when you start to consider financial planning.

Question 2: Why is social enterprise the right way forward?

You think your enterprise idea is viable; so what makes it a social enterprise? You will find a variety of definitions of social enterprise and plenty of heated discussion about whether a particular organisation is a true social enterprise or not. A good place to start is the Department of Trade and Industry's definition:

"A social enterprise is a business with primarily social objectives, whose surpluses are principally reinvested for the purpose in the business or in the community."

It's also useful to think about the motivations and objectives of a typical social entrepreneur. Put simply, social entrepreneurs are people who act to make the world a better place. That doesn't mean they necessarily develop complex, global solutions to large-scale issues; often, social entrepreneurs simply take a problem in their own community and make a commitment to tackle it.

A social enterprise is the 'vehicle' that a social entrepreneur uses to deliver his/her solution to a social problem. At its most informal level this may be the entrepreneur themselves, working on an individual, self- employed basis. Many social enterprises, however, eventually become a separate legal entity to any one individual or individuals, with its own vision, mission and values. Legal structuring considerations is a major topic in the field of social enterprise, mainly because there are a wide variety of legal forms that a social enterprise can take; this subject is addressed elsewhere in this toolkit.

Let's go back to the DTI definition. You'll see that a social enterprise must have *primarily* social objectives, and profits should be *principally* reinvested in the business or community. What this means is that, in some cases, social enterprises can aim to turn a profit and some of that profit can be used to pay back investors. This is the social enterprise notion of a **blended return**: being in business to deliver a social return as well as (in some cases) an economic return.

It is this feature of social enterprise that distinguishes it from charities, which are by definition non-profit organisations. It also means that the funding / investment landscape for social enterprise effectively spans both the charities and the commercial sectors – i.e. social enterprises can attract both grant-making / philanthropic sources of funds and / or more commercial-looking investment such as debt and equity.

It is useful to think about social enterprise as occupying the 'space' between charities at one extreme and commercial business at the other. When developing your business model, it is useful to think from an early stage where your project / organisation is likely to sit on that spectrum – this will influence many aspects of how you are legally structured, how you operate and, perhaps most importantly, what are your most likely opportunities for funding.

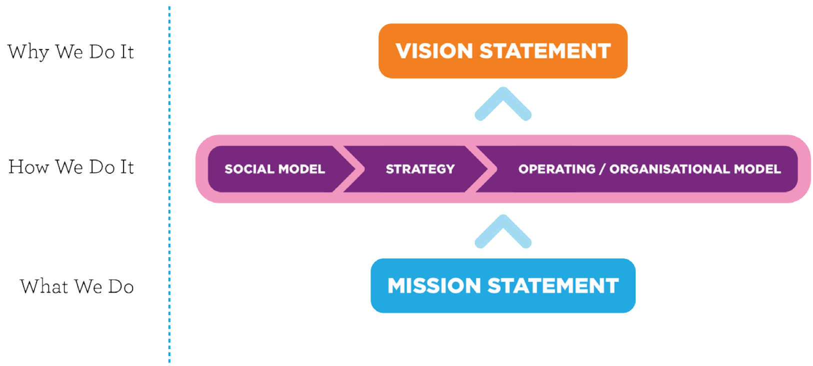
Two hypothetical examples will illustrate the point. Social enterprise A sources large scale waste materials and re-cycles them to enable the manufacture of new products for sale to consumers. It social objective is at the centre of what it does; the organisation's business model is focused on being 100% sustainable through its product sales. Its operations are typical of an organisation involved in the manufacture, marketing and sale of consumer products. It aims to turn a profit on its activities and this is expected to provide an attractive opportunity for social equity investors in order to secure long-term growth finance once the pilot phase is complete.

Social enterprise B aims to promote ethical cotton supply chains in the UK textile and fashion industries. It works through a range of public and other events, partnering with various organisations to help get its message across to consumers and industry players. In order to support its campaign activity, it manufactures an ethically sourced 'signature' cotton product, which is sells at these events and through other channels, including online. The organisation is geared up to be an event organising, campaigning/ advocacy organisation, with all aspects of product manufacture and logistics outsourced to partners. Whilst product sales do generate some income, the organisation expects 90% of its funds to come from grant-makers for the foreseeable future.

Both organisations fit the social enterprise mould, but are likely to have very different business models, operating / legal structures and funding opportunities.

What is a business model?

Your business model is an integrated view of your entire organisation, bringing together your social model, strategy and operational plans. These components form the 'engine' of your organisation, with your vision and mission providing the context of what you do. The diagram below summarises this concept:



Note that this complete framework is, strictly speaking, your business model; in this theme of the toolkit, we will be focusing on your Vision and Mission statements, your strategy and link into your operational / organisational model (that covers multiple areas such as staffing, infrastructure, marketing, legal structures, etc.). The Social Model component is discussed elsewhere in this toolkit.

Also, see the Organisation, Operations and Infrastructure theme of the toolkit for a more detailed dive into the internal workings of your organisations.

Recommended first steps in developing your business model

Now that we have introduced the foundations of business modelling in a social enterprise context, it's time to take the initial steps in developing your business model for your idea. At this early stage, start at the highest, most strategic, level. As you develop your idea and project further, you will get more granular and detailed in your thinking.

Try working through the following steps:

1. Capture the key components of your business model in a simple diagram that will consider:

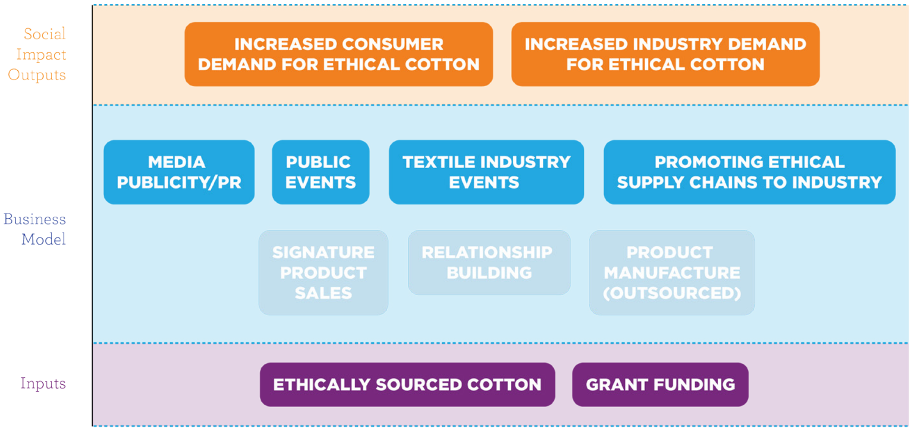
- Inputs (i.e. what goes into your organisation)
- Internal process / actions (i.e. the major elements of what you want to do)
- Outputs (i.e. the impact of your actions / operations).

This diagram should be a reflection of your strategy and – at the very highest level – the operational components of your project / organization

2. Link your outputs to your social impact and other objectives.

3. Identify which elements of your internal process are critical to your success and which are peripheral or best outsourced to someone else.

4. The business model for social enterprise B above might look something like this:



5. Considering your business model diagram, identify the areas that are most unclear in your mind and what research you could do / relationships you could develop to help test your assumptions and build more certainty into the model. At this stage, it's likely that most, if not all, areas of your business model will require some further analysis and consideration.

6. Finally, based on the issues identified in the previous bullet, develop an action plan and timetable for next steps in developing your business model thinking.

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SOCIAL ENTREPRENEURSHIP AWARDS TOOLKIT

STAGE #2: PROJECT CONCEPT & DESIGN

WHAT ARE THE IMPLICATIONS ON MY LIFE?

To become a successful entrepreneur requires total commitment and focus on your project. Though this should not be to the total exclusion of other facets of your life, it does imply that you may have to sacrifice or reduce your involvement in hobbies and leisure activities and potentially your family life. Remember that this is true of entrepreneurship generally, and not confined to the world of social enterprise.

In the early stages of an enterprise there is always a struggle with resources. For instance, having enough funds, having enough time and having the skills and expertise to do what you have to do. Often it falls on the founder or the founding team to provide all the resources.

Finance

Until you secure adequate funding you will have to fund your fledgling enterprise. This could mean that for quite a number of months you may have to fund all the activities required to start up the enterprise, market its activities as well as the cost of trying to secure the funding.

Remember too that whilst you are devoting your time to your enterprise, you may not be in a position to retain paid employment and therefore sacrifice potential earnings until such time as the enterprise can afford to start paying you. Even when this happens it may be some time before the enterprise can afford to pay you the equivalent of paid employment with an established employer.

You may be in a position to invest a sum of money yourself – which means that if you are thinking of starting an enterprise, you need to be setting some money aside for the time that you decide to launch the business. You certainly will need to ensure that you do not have any other heavy financial commitments at the same time as the lack of earnings in the initial phase may damage your ability to repay loans or mortgages.

You may want to seek the initial funding from other sources known to you. Many start-ups are funded by friends and families. Take care in approaching these sources of funding, as long-standing relationships can end up being soured if your enterprise does not work out and you are unable to repay any money borrowed. You will need to be very sure that you are prepared to strain these relationships and are able to enthuse these potential supporters to your cause.

Time

Managing an enterprise requires you to be available to its needs 24/7. You may find that you are thinking about the enterprise and its challenges all of the time. You will be exploring every opportunity to ascertain whether it could benefit your enterprise. Every existing and new contact will be told about the enterprise in the hope of eliciting support. You will be on the phone to contacts and supporters. You will be building networks of contacts. You will be attending events that might give you access to financial and other support and investment.

New enterprises are often talked about as being the founder's 'baby' – that's because it can be as demanding as a new child in terms of both time and emotion.

Social Life

Consider how all this will impact on your life, especially the non-work areas of your life. Often it is those around you that will resent the fact that you no longer have as much time for them as you used to. You may find that you are increasingly isolated and seeing more of people that are work related but not necessarily people you would want to socialise with under other circumstances. You need to ensure that you make a commitment to keep up your social life and leisure activities and ensure you have time for your family. You will need the social and family networks as the demands of the enterprise increase.

Health

Long hours and continuous stress are pre-requisites of running an enterprise. Missing meals, unhealthy food, irregular meals and lack of exercise are common features in an entrepreneur's life. Add to this the stress and strain of managing finances and people can lead to a potentially unhealthy situation.

You need to be determined to ensure that you do what is required to break your work routines and maintain as much of a healthy life style as possible. You must ensure that you maintain a balanced work/life existence. This is even more so when you have a team working with you. You owe it to the others that they have a balanced life and that you are healthy and available to support them and the business.

Personal development

Though you will be focused on your enterprise you need to ensure that you do not cut yourself off from new developments that are going on around you. Ignoring changes in technology, finance, funding, political activity, society trends, and law and tax issues could have adverse effects on you and your enterprise.

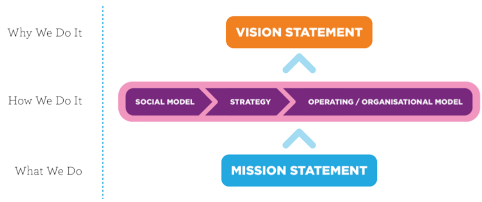
Try to keep yourself abreast of changes. Join networks, go to seminars and conferences, join the various enterprise social networks that exist that will keep you informed, e.g. UnLtd World, LinkedIn, etc. Subscribe to trade journals and web sites.
You should also consider your own development both in the technical skills required for your enterprise and the soft skills that will allow you to manage yourself and your team better.

Stage 2: Project Concept and Design
Theme 2: Social Model

DEFINING THE PROBLEM AND YOUR SOLUTION

Introduction

As your plans emerge from initial ideas and thinking towards a more complete project concept and potentially on to a fully operational enterprise, you will increasingly need to think about your social model. Your social model forms an essential component of your business model and helps link your mission (*'what we do'*) to your vision (*'why we do it'*):



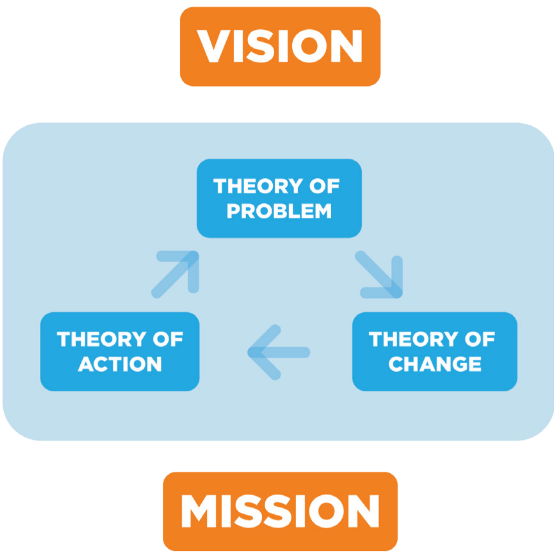
This framework forms your entire business model; in this theme of the toolkit, we will be focusing on the development of the Social Model component. Vision, Mission, Strategy and the link into your operations is discussed in the Business Model theme of this toolkit.

The social model is the key element that differentiates a social enterprise from a commercial business. Although many social entrepreneurs recognise the importance of their social model, many fail successfully to define and articulate its key components. Due to the significance and challenges of this topic, this section goes into some detail compared to other themes within this toolkit. Throughout this theme, we will refer to a single case study, Social Enterprise D, an organisation that provides advice, information and support to refugees and migrants in city 'y'. This hypothetical organisation is used to illustrate some of the key processes and thinking required when developing your social model.

The ‘social change model’ is a useful framework for understanding and communicating your social model. The framework separates an organisation’s social model into three core components:

- **The theory of the problem:** The problem (social, environmental) that you are setting out to solve / alleviate.
- **The theory of change:** The solution theory *(your strategy)* to addressing the problem defined above.
- **The theory of action**: The key interventions *(your actions/ operations),* which will enable the organisation to deliver the theory of change solution.

The diagram below illustrates the fundamental role of your social model in bridging the gap between your organisation’s vision and mission.



The future the organisation seeks to create.

The engine of change that connects the vision to the mission.

Capturing the organisations view of the problem it is trying to solve.

Idntifiying what change to target and how to act.

What the organisation intends to do; it’s reason for being.

It is never too early to start thinking about the nature of your social model. It is likely to be a continuously evolving concept – as you learn more about the problem and the effectiveness of your interventions, you may discover new, more robust strategies and actions for addressing the root causes of the problem.

The very fact that you have chosen the social enterprise model for your project / organisation suggests that you have already identified a problem which you believe you can solve. The purpose of this section is to take a closer look at both the initial 'problem' idea (theory of the problem) and your proposed strategy for solving this problem (theory of change). The translation of your solution / strategy into a set of interventions is discussed in the next section of this Social Model theme of the toolkit.

The function of **business planning** is related to designing and documenting your social model; however, full business planning will define both the social model and the business model, then do a deep dive into much more detailed aspects of operations, governance, finance, organisational development, etc. – that is, pretty much every other theme covered in this toolkit. Business planning is considered under the Business Model theme of this toolkit.

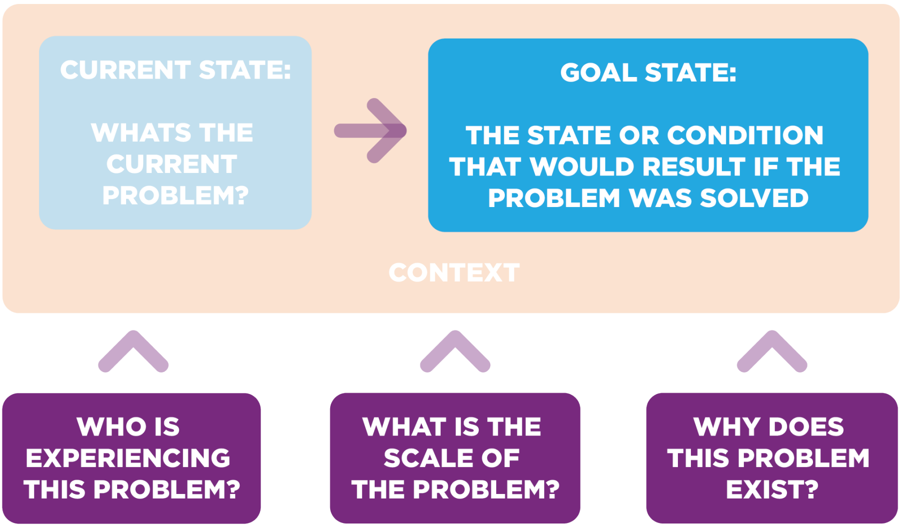
Defining the theory of the problem

You are likely already to have an idea for solving a particular social or environmental problem. However, before launching into designing your solution, it's worth thinking about the nature of the problem in some detail. If you can successfully define the problem you are setting out to solve (ideally in one statement), it is far more likely that you will be able to develop a robust strategy for solving it. Furthermore, if you are serious about making your organisation work, you are going to have to find a way of communicating the nature of the problem to a variety of stakeholders, in a clear, simple and accessible way.

In this next section we will introduce a logical process for defining the problem you are setting out to solve; the **theory of the problem.** This process is driven by three core elements of the problem definition:

- What is the **current situation** (or state) of the problem you have identified?
- What is the **context** behind this problem?
- What is the end, **goal state** or condition that would result if the problem was solved?

The diagram below demonstrates the role of these three elements in defining the theory of the problem your organisation is looking to solve:



Note: 'Defining your theory of the problem' is based on Shrestha & Appanah's 'Innovative Problem Solving Guide' (2008), accessed March 2010: http://ysei.org/node/88

Theory of the problem - current and goal states

The first step in this process is to define the current situation and the goal state for the problem you are seeking to address. The example below illustrates the current and goal states as defined by Social Enterprise 'D', an organisation seeking to provide advice, information and support to refugees and migrants in city ‘y’:

CURRENT STATE:

MIGRANTS AND REFUGEES IN CITY ’Y’ ARE SOCIALLY EXCLUDED, LEADING TO TENSION AND HOSTILITY IN THE LOCAL COMMUNITY

→

GOAL STATE:

MIGRANTS AND REFUGEES ARE SOCIALLY, CULTURALLY, POLITICALLY AND ECONOMICALLY INTEGRATED WITHIN THE LOCAL COMMUNITY

Remember, determining these different ‘states’ will require a close understanding of both the current problem and the desired state. This will require you to have a detailed understanding of the context of the problem by completing a robust environmental analysis (see next section). With this in mind, you will often find that you may need to re-examine your definition of the current and goal states once you have completed your environmental analysis (the context).

Theory of the problem - the context

Now that you have defined the problem and what the world would look like if the problem was removed, the next step is to develop a deeper understanding of the situation through an **environmental analysis** – i.e. the context**.** When assessing the context behind the problem you are trying to solve, you should be aiming to answer the following questions:

- **Who is experiencing this problem and what are their typical experiences?**
    - Identify the target population
    - Where appropriate, segment the target population into a number of separate groups
    - Try and identify the typical experiences of the target population / segments
    - Identify trends or future expected changes that may change the situation (for better or worse)
- **What is the scale of the problem?**
    - How big is the target population (ideally broken down by the separate groups outlined above)
    - Is the problem growing / is the target population growing?
- **Why does this problem exist?**
    - Understanding the root causes of the problem (see below)

The most challenging, yet ultimately vital element of this analysis is identifying the root causes of the problem. These causes will become the foundation of your theory of change and your theory of action. The PEST analysis is a useful way of assessing the root causes of the problem you have identified, providing a framework for assessing the potential **P**olitical, **E**conomic, **S**ocial and **T**echnological causes of a problem. For some problems, it may also be worth examining the potential **L**egal and **E**nvironmental causes - i.e. PEST(LE). When completing the PEST(LE) analysis, it might be worth referring to your stakeholder analysis to identify some of the key groups that might influence the problem you have identified.

In many cases, the root causes of problems identified with your PEST(LE) analysis can be split into two categories:

- **Individual causes**- a lack of specific individual interventions (e.g. 'lack of support around employment issues for migrants)
- **Systemic causes**- large scale systemic causes which effect the population as a whole (e.g. 'wide spread discrimination towards migrant workers')

Theory of the problem - example

The diagram below sets out a high level summary of key elements of Social Enterprise D's (an organisation aiming to provide support to refugees and migrants in city 'y') theory of the problem:

CURRENT STATE:

MIGRANTS AND REFUGEES IN CITY 'Y' ARE SOCIALLY EXCLUDED, LEADING TO TENSION AND HOSTILITY IN THE LOCAL COMMUNITY

→

GOAL STATE:

MIGRANTS AND REFUGEES ARE SOCIALLY, CULTURALLY, POLITICALLY AND ECONOMICALLY INTEGRATED WITHIN THE LOCAL COMMUNITY

WHO IS EXPERIENCING THIS PROBLEM?

- Refugees

- Migrants

WHAT IS THE SCALE OF THE PROBLEM?

- Number of refugees

- Number of Migrants

- Growth Rates (%)

WHY DOES THIS PROBLEM EXIST?

Individual Cases

- Language barriers with local services

- Lack of understanding of rights

- Unable to access entitlements

- No way of getting integrated into local community activities

- Unable to access employment opportunities

Systematic Causes

- Discrimination by employers / local community

- Refugees / migrants are not currently 'politically significant'

During Social Enterprise D's analysis of the context behind the problem, it was established that the key 'root causes' of the problem were as follows:

- **Individual causes:**
    - Difficulties for migrant and refuges in understanding and accessing their rights and entitlements around:
    - Employment and benefits § Healthcare
    - Social care
    - Immigration
    - Limited support to help migrants and refugees integrate into the local community through local clubs, groups and community activities.
- **Systemic causes:**
    - Discrimination by employers
    - Discrimination in the local community

Taking these root causes into consideration, Social Enterprise D has created the following definition of the 'theory of the problem' it will aim to address, combining the identified current state, goal state and problem context:

Many migrants and refugees in city 'Y' don't understand their right and entitlements to services, receive limited support in helping them integrate into local activities, and are discriminated by employers and their local community. These factors to social exclusion and social polarisation, making it very difficult for migrant workers and refugees to become integrated into the community.

CONTEXT CURRENT STATE GOAL STATE

Theory of change

Now that you have clearly defined the problem you are aiming to address **(theory of the problem),** the next stage is to develop your strategy for addressing this problem **(theory of change)**. Your strategy for solving this problem, your theory of change, needs to define the building blocks required to bring about your long term goal (goal state).

CURRENT STATE:

WHAT IS THE CURRENT PROBLEM?

→

SOLUTION:
THEORY OF CHANGE

GOAL STATE:

THE STATE OR CONDITION THAT WOULD RESULT IF THE PROBLEM WAS SOLVED

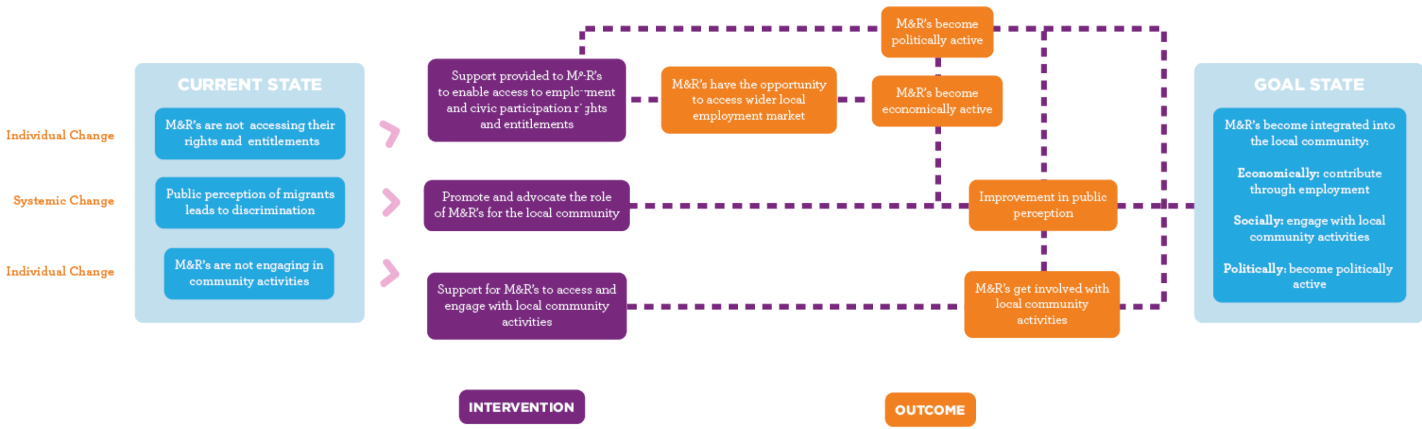
The purpose of the 'theory of change' process is to help you develop a robust solution strategy built around the root causes of the problem you are setting out to address. It should be structured around three key elements:

- **Interventions**: the high level initiatives or activities that bring about outcomes
- **Outcomes**: the results generated by the interventions
- **Assumptions**: explaining the connections between the interventions and the outcomes.

Using the context of the problem outlined in the previous section (theory of the problem), you should aim to define and map the 'cause and effect' links that connect your high level interventions to your outcomes, and your outcomes to the alleviation of the problem(s) experienced by your target population.

The example overleaf illustrates the pathway of change for Social Enterprise 'D' which provides advice, information and support to refugees and migrants in a city Y. The theory of change outlines both the current state and goal state of the defined problem, then illustrates the key interventions (in red) that social enterprise D can make to change the outcomes (in green) and achieve the overall goal state.

This example, as with any theory of change, would also require clear documentation of the assumptions made within this solution theory- the connections between the interventions and the outcomes. Where possible, evidence should be provided to justify these examples; from research, personal experience or experiences from a similar organisation. For example, why would ‘s*upport provided to migrants and refugees around employment and civic rights’* generate: 1) More opportunity for migrants and refugees to access the local employment market. 2) Make migrants and refugees more politically active?


CURRENT STATE
Individual Change
M&R's are not accessing their rights and entitlements
Systemic Change
Public perception of migrants leads to discrimination
Individual Change
M&R's are not engaging in community activities
Support provided to M&R's to enable access to employment and civic participation rights and entitlements
Promote and advocate the role of M&R's for the local community
Support for M&R's to access and engage with local community activities
INTERVENTION
M&R's have the opportunity to access wider local employment market
M&R's become politically active
M&R's become economically active
Improvement in public perception
M&R's get involved with local community activities
OUTCOME
GOAL STATE
M&R's become integrated into the local community:
Economically: contribute through employment
Socially: engage with local community activities
Politically: become politically active

SETTING YOUR VISION, MISSION AND VALUES

Introduction to Vision and Mission statements

Social entrepreneurs take an interesting idea and run with it because they are driven, ambitious and want to make some sort of lasting social impact. They have a dream that they want to achieve and a plan for how to achieve it. The dream is the vision; the plan is the mission.

The vision statement of your project or organisation will invariably be carried over from your personal vision, although it is likely to evolve as you develop the project's concept and design. **The vision statement articulates the long term goal that the project or organisation aims to realise**. It should be inspiring and aspire to an environment where, if realised, would mean that the project / organisation could wind down and cease operating, reflecting a job well done.

For social enterprises that support a marginalised or minority group, the vision might be about ensuring all people in that group enjoy their full rights and participation in society; an organisation that offers alternative energy technology may have a vision of a sustainably fuelled planet.

The vision statement will serve as your one-line hook to engage with all of your stakeholders – staff, partners, customers, beneficiaries, funders / investors and regulatory and statutory agencies.

By contrast, **your mission statement is a clear and simple summary of what you do and why you do it**. It is much more focused on giving a brief insight into the internal workings and objectives of your project. For the social enterprise supporting a marginalised group, the mission might be about offering advice and information services and providing training to statutory service providers so that individuals understand and access their rights more fully. The green technology project might have a mission to offer energy companies sustainable technology products and services at prices that are competitive to traditional sources of energy.

A couple of practical points are worth pointing out:

- It is easy to mix vision and mission statements up. Your early vision statements may be focused too closely on the actual project you have in mind, and may be much closer to mission statements. Starting with your first pass at a vision statement, keep asking yourself why achieving this vision is important - see whether you can work further up the ladder to start articulating at the highest levels your aspirations for change. For example, it might be worth thinking about the larger, systemic changes that could happen way down the road if your project was replicated across the country or your customer base grew exponentially.

- Don't get too obsessed with perfecting your vision and mission statements. They are notoriously tricky to nail down, with long deliberations over exact wording, syntax and structure. And the more people involved, the trickier it will be! Think of your vision and mission statements as on-going works in progress. Indeed, as your business model develops and is refined, there may often be a need to change them, in particular your mission statement.

Values

Social enterprises, as with most charities and a growing number of commercial organisations, will often have a set of values that act as guiding principles around how a project or organisation will operate. Values will often have an ethical or moral foundation; others who join the project or organisation will be expected to support and uphold these values.

Some values may be 'generic' in nature, for example:

- Adhering to ethical trading standards and practices

- Minimising impact on the environment

- Non-discrimination in all areas of engagement and operation

Whilst others may be more specific to your particular project or area of focus, for example:

- Offering employment opportunities where possible to the target group the project aims to support
- Sourcing certain raw materials from a particular group of local producers to promote local employment

Thinking about your own value system, and how they should translate to your project, is a useful step at this design stage. These values will help you identify and develop relationships with future stakeholders later on. Unlike your vision and mission statements, your initial values set is unlikely to change very much as you proceed; but as you develop your project further and learn more about the environment in which you operate, you may well augment it with additional values.

STRATEGIES FOR OPERATING ON A SHOESTRING

This theme in the toolkit looks inside your project or organisation to consider how its internal workings are best organised to achieve your objectives. The main introduction to the various aspects of your internal organisation, operations and infrastructure can be found at the next stage of the lifecycle, Set Up and Start Up. During the project design stage, however, we will focus on ways in which you can build a functional, operating organisation at the very earliest stages, when access to cash and therefore the ability to buy-in resources and expertise, is limited.

Securing start-up funding

Although this topic is discussed elsewhere in this toolkit, it is important to recognise here that securing initial, external funding for your idea is the most common way to helping you realise an operational organisation. By external, we mean money that is not your own. Notwithstanding the advice set out below, most new ventures will require some form of initial capital. For social entrepreneurs, this may come from a variety of sources such as supportive family and friends, an awards program such as the HEFCE Social Entrepreneurship Awards, or socially-minded angel investors. Your funding network is going to be a critical component of your social enterprise from the beginning and will remain so until such time as your organisation becomes fully self-sustaining. So start building those funding connections early; see for some guidance on how to kick this off.

A supportive network and supply chain

Building a successful social enterprise, like any other business or operation, will often rely on the networks at your disposal. Networks can help in many ways across your business – securing funding/investment, building partnerships, winning new customers, etc. Networks can also be a valuable source of know-how for enabling you to build an effective and affordable operating model. Whilst your project may be unique, the challenge of turning your idea into operational reality is one that others will have already faced. Seek out networks and forums that will enable you to engage with others who can signpost you to cost effective solutions to your operational needs or tell you about strategies they've adopted to overcome similar challenges.

As well as building your networks to help you develop your operating model, it is also worth thinking your choices in relation to your key inputs into the organisation (i.e. your suppliers). As with any organisation, you are likely to form an element (for many social enterprises, the final element) of a bigger supply chain. It may be that your social mission and objectives may be of interest to some potential suppliers who may offer you improved terms compared to their commercial customers. For example, if your project idea aims to deliver social benefits at a local level, then local suppliers may be attracted to partner with you in order to help deliver some benefits to their community. At a bigger scale, your social mission may be aligned with a larger supplier's CSR program; they may be willing to offer you preferred rates in order to support your operation.

Interns and volunteers

An intern is someone who will work for you for a fixed period of time in return for little or no financial compensation, in order to help them build their skills and experience. Whilst interns are often students or recent graduates seeking to develop their CVs, volunteers can come from all walks of life and will often work more informally, with no fixed duration of work. The volunteer's motivation to work with you will usually be related to your Vision, Mission and Values.

Volunteers and interns can be a valuable source of affordable resource, especially at the early stages of building your organisation and operations. They are often seen working within new or early stage social enterprises. Once again, securing interns and volunteers will be driven by your success at building an effective network and tapping into the forums where you can engage with likely candidates. Setting up a university- based social enterprise puts you in the enviable position of having a 'ready-made' pool of potential interns and volunteers, i.e. the student body. Be careful not to under-estimate the difficulty in building an effective internship or volunteer arrangement.

Here are a few tips:

- Define the role and the outputs of the role as clearly as possible. An intern will be with you for a short period; a volunteer will not be able to invest limitless time. So both will require a discrete (and manageable) set of tasks to deliver.

- View both internships and volunteer relationships as a two-way process. That is, think about what you will offer them in return for their work and effort. For the intern, this will be about skills and experience, for the volunteer it will be reward of doing something good in an area that interests them. The more specifically you can articulate the benefits, the more likely you are to find the intern or volunteer you really need.

- From a number of perspectives, view the take-on of interns and volunteers as similar to taking on staff; that is, you will need to make them aware of your social model, your business model and how their work fits into the larger whole. They may need some induction and almost certainly they will need a fair amount of

Look at the Chartered Institute of Personnel and Development (CIPD) for a suggested **Internship Charter** that can help you define your internship agreement more formally. Similarly, the Trades Union Congress has published a **Volunteer Charter** that provides some useful guidelines in the volunteer context.

A final point is worth making here. The use of interns and volunteers can confer legal rights for these personnel and legal obligations on the part of the organisation, it is important to be aware of these.

Pro bono expertise

Another valuable source of knowledge and experience can come from those who have many years of experience in a field that is relevant to your operations. Pro bono experts give their time to social enterprises for free as a way of making a contribution to social change. Pro bono support is usually either ‘personal’ (e.g. mentoring) or ‘technical’ in nature. Technical pro-bono support will often help you leverage experts in specific area of your operation. For example, you might get support around your PR / marketing strategy or how to build your supply chain effectively. Again, networking is the key channel for securing pro bono support.

When using pro-bono experts, bear in mind that often their time will be limited and therefore precious. It is much more likely that you will be meeting once every few weeks rather than daily. As such, this puts great emphasis on preparing for your meetings and being clear about where you need advice and assistance.

Look big externally – think lean internally

In social enterprise, as with most businesses, your success will depend on how your customers perceive you and your venture. Looking professional from the outset can help you get off to a winning start; this can be done without a huge amount of expense. Business cards, a website and standard correspondence materials and templates are possible at minimal cost. However, this professionalism also applies to the way in which you engage with stakeholders and tell your story.

Being articulate about what your project / organisation is about and why it will be successful can be excellent steps in making your operation look like it is going places and winning over your audience. This links directly in to your vision, mission and values and defining your business model.

Whilst the external face of your organisation should look professional and successful, your internal operations should be governed by the need to get things done as cheaply and efficiently as possible. The less cash outlay, the better. Don’t fall into the trap of thinking that you need a top of the line laptop to celebrate the birth of your new organisation when a budget one would do!

As well as minimising expenditure, the social entrepreneur should be willing to be a jack-of-all-trades at the outset. This means things such as learning how to build a decent website to save on the cost of design and development. It also means that, up to a certain extent, you will need to get involved in most aspects of operations, from marketing your offer right through to managing your cash-flow. View this start up period as a time when you will learn about the major features and components of your organisation. Later down the line, when you may have recruited staff to complete some of these roles, these early experiences will be invaluable in helping you manage and lead your growing organisation.

Cash-flow is king

Many businesses, social enterprises included, fail in the first few years of trading, not because the idea was poor, but because the cash-flow position of the organisation was not managed well and at some point it literally ran out of money.

Financial management is addressed in a separate theme of this toolkit. However, it is important to include the cash-flow issue here under strategies for operating on a tight budget. It is highly recommended that you actively manage your financial position from the outset. This means understanding how you expect your finances to grow in the future, but also tracking how and when cash comes into the organisation and leaves it over time. The more tightly you track your cash, the more likely you will be able to anticipate cash-flow shortages in the future and plan for them.

SOCIAL ENTREPRENEURSHIP AWARDS TOOLKIT

STAGE #3: SET UP & START UP

THE FINANCIAL AND PERSONAL COMMITMENTS OF SOCIAL ENTREPRENEURSHIP

Starting any enterprise requires a dedication that is quite different from anything else that you may have committed to before. As we've already discussed in the previous section, the enterprise demands enormous amounts of time, energy, courage and money. The demands can be relentless. For the founder there is no hiding place – you are in charge there is no other boss who can cover for you or bail you out.

If you are unable to give this, almost heroic, commitment then don't even start down this route. The reality check to your vision or innovative idea is that everything takes longer and costs more than you believed. What is worse, however good your idea is, most other people will just not agree with you. The rejection and short- sightedness will sap you and you need to be emotionally strong to continue despite everything.

This section discusses financial and personal commitments in a little more detail.

Financial commitment

There are a number of scenarios involved in getting an enterprise started. You could start it by working in the evenings and weekends (this might be the most likely scenario if you are a student or member of staff within a higher education institution, for example); you can start it part time, maintaining other paid work, also on a part time basis; or you could give up what you are currently doing and devote all your time to it. In any of these scenarios you are going to have to finance the initial costs of the enterprise. These could include:

- Marketing research
- Professional fees
- Company formation costs
- PC/ Printer etc.
- Software
- Travel
- Print and stationery
- Web and domain names
- Training and conference attendance
- Books and other publications
- Subscriptions
- Telephone costs, etc.

You should try to keep track of all these expenses as they should be recoverable from the enterprise once it is funded or financially self-sustaining. However, bear in mind that some costs may never be recovered.

Once you stop paid work to concentrate on the enterprise there are also your living costs to cover such as:

- Accommodation (mortgages / rent)
- Food and drink
- Communications
- Travel, leisure and entertainment

You will need to ensure that you have sufficient savings to cover theses costs. It could be months before you succeed in obtaining funding or get the enterprise generating enough revenue for you to be paid. In parallel with budgeting and planning financially for your enterprise, it is also advisable at set up stage to plan out your own personal budget and finances (e.g. for the first 12-18 months of your enterprise's operation).

You may need to seek support from friends and relatives to help with the finances. You may have to use personal overdraft facilities and/ or credit card facilities to help you make you meet ends. Whichever route you choose, you will be responsible for meeting any debts or personal commitments that you have entered into.

It is best to start planning well before you launch your enterprise. Make a commitment to saving funds. Examine all the options that would give you financial flexibility in the earliest stages of your endeavor. There is nothing more frustrating than running out of cash days before you are likely to receive funding or get paid for the work you have done.

Cash flow is always a problem for start up and small enterprises. Customers/clients pay late but salaries and various suppliers need to be paid regularly. Shortfalls of cash may mean that you have to delay paying yourself and you may find that at various months in the enterprise's annual cycle you are financing it through not taking a salary or indeed lending the enterprise small sums of money to cover running costs.

You may also find that your enterprise needs an overdraft facility or loan; lender will often ask for personal guarantees from you as the enterprise itself is unable to do so. This means that you are exposing yourself to further potential debt should anything adverse happen to the enterprise.

Make sure that you understand all the financial implications and that your other half, relatives and friends understand this. Their continuing support and understanding during this early risky phase will be vital for you.

Personal commitment

Starting and growing an enterprise requires considerable focus. Often this focus is to the exclusion of everything else. You will find that you are constantly thinking about the enterprise, about problems, opportunities, how to improve things, what to do about people working for you, your fellow management team, your competitors and so on.

Often this focus means that you have little time or emotional commitment to devote to loved ones, friends, family and interests. If you are in a relationship then your enterprise is going to intrude. You need to make sure that this does not cause permanent damage. You need to be strict with yourself about not neglecting your emotional and social needs, and those of the people who are close to you. Prepare for this by ensuring your family and friends know what is likely to happen to you. Get them to ensure that they intrude on your business life and give you an alternative time away from the concerns of the enterprise.

You may find that you have little time for exercise or holidays. You may miss meals or eat at odd times. This together with long hours, late nights and stress will affect your health. Again, try and get some life balance in place. Ask friends to get you out to play a sport on a regular basis, for example. Take fruit and home-made food with you to work – get your work colleagues to insist you eat these regularly. Get a few nights of good sleep each week.

None of the above should put you off your endeavour. This is more the case that if you are aware of all these issues then you are more likely to be prepared for them and are better able to cope with them.

DEVELOPING YOUR SOCIAL MODEL

In the previous section in this theme we looked at defining the theory of the problem you are seeking to address, and your theory of change; these are two of the three components of an organisations social model. The third component involves defining the specific activities or actions that will enable you to deliver your solution to the problem.

Developing your social model- theory of action

Your theory of action will typically contain two types of activities/ actions:

- **Core actions:** Articulating the key interventions outlined in you theory of change.
- **Support actions:** additional interventions that may be required to enable your organisation to deliver its core actions.

Using the example of Social Enterprise D (an organisation providing advice, information and support to refugees and migrants in city 'y'), the diagram below illustrates the translation of the key interventions (defined through the theory of change) into core and support actions (the theory of action):

Finalise your social model

To summarise, your social model should be a documented overview of the following elements:

Theory of the Problem:

- The current state
- The goal state
- The context *(environmental analysis)*

The Theory of Change:

- Headline interventions o Outcomes
- Assumptions

The Theory of Action:

- Core actions
- Support actions

Once you have defined your theory of action, the social model for your organisation will be complete. The complete social model will form an important component of your business plan. For example; your '**theory of the problem**' will be closely linked to your analysis of the market in which you are operating , and your '**theory of action'** will provide you with many of the foundations for your business model, operational & organisational plan and marketing strategy and plan.

START UP BUSINESS PLANNING

Now that you are ready to turn your idea into a concrete, operating project, there is an associated step up in the level of detail that you will need to develop for your business model. This is the point at which your thinking across most of the other themes in this toolkit will be relevant as you develop your business model. We will cover the headline issues here and refer to other parts of the toolkit where relevant.

A focused business model

One simple recommendation is worth making at the outset of your business modelling process. Social enterprise strategies are generally most effective when the organisation has focused clearly on the value that it delivers to its customers and beneficiaries, and when its activities are defined narrowly towards delivering that value. This focus is related to understanding to a sufficient level of detail the needs of your customers / beneficiaries and also the key strengths, skills and knowledge that make you best placed to address those needs. Every time you think about extending or expanding your business model to do more, think about whether this is really necessary (and if it is, then whether someone else could do it better, perhaps in partnership with you). Start-ups that set out with a fairly narrow definition of what they do can sometimes seek to add complexity and activities to their business model in a reactive manner in the belief, for example, that it will lead to more rapid growth. Try to ensure that you keep some degree of simplicity in what you offer, particularly through the pilot period when you are testing your initial concept. Later down the line, when you have a proof of concept, refining your business model will be a much more strategic and informed process.

Defining your offer; mapping your stakeholders

Before your project begins, make sure that you have adequately articulated your offer to the market. Regardless of whether you are offering a product or a service, it will be important that you have clearly and simply defined:

- What it is that you are offering
- Why it will address the needs of your audience
- Why you are best placed to deliver this offering

Early stage entrepreneurs can sometimes focus too much on the first of these 3 components; later down the line when they start engaging with other stakeholders, they find it difficult to sell the idea / product / service successfully because they can't articulate the second and third elements adequately.

Notice that we have referred to your 'audience' rather than your customer. That's because, in the social enterprise context, you are likely to have a range of stakeholders who you need to communicate with and 'sell' your project to for one reason or another. Although what you offer may be constant, you may find that the way to best define it may depend on who you are speaking to and what their needs / circumstances are. A grant-making investment panel, for example may need to know how your project addresses their priority criteria and targeted outcomes in a particular area; whilst one of your beneficiaries may just want to know how your product or service will benefit them personally.

As you can see, you may find it necessary to have different definitions of your offer (i.e. different **value propositions**) to different stakeholders; these are likely to have many things in common, but will also speak to the specific issues that are relevant to each. Value propositions for your various stakeholders are discussed in more detail under the Marketing theme of this toolkit.

Here are a few tips to bear in mind as you define your offer:

- Make no assumptions about what people will know, or won't know about your project. But at the same time, your definition should be simple and focus on concise statements addressing the 3 areas above.

- Avoid jargon, technical terms, etc. (except if you define a set of stakeholders who will be used to this language, and who may even expect it in your definition).

- View it as a work in progress. Learn from the reactions and feedback of those you engage with and adapt your statement accordingly.

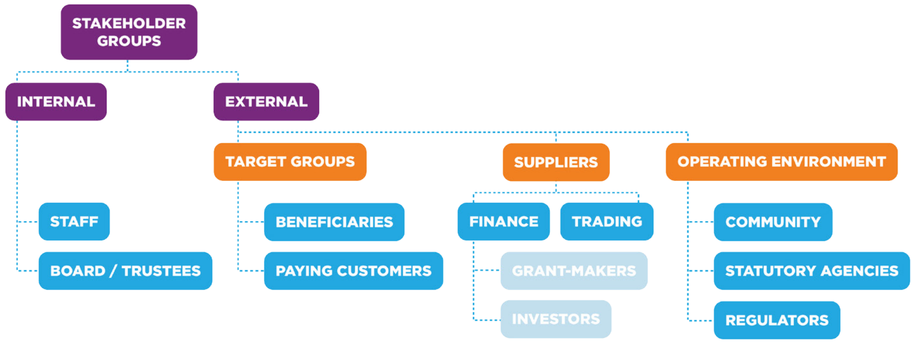
- Make sure your various value propositions across your set of stakeholders are consistent and don't contradict one another.

- Look at your competitors and start to think what they offer and the reasons why your solution is better – being able to differentiate your project will be valuable in helping you sell it to others.

- Be focused in what you offer; don't try to take on too much from the beginning. As you went from idea to concept and design, you are likely to have had lots of ideas around parallel and complementary products and services. This is a valuable part of the early stages of the process and will have helped you refine and define your business model; but now that you are at set up stage, it will be essential to narrow back down and focus on the core element of your final project design. This could be what you do best, where there is the most urgent need, or the starting point that gives you the best chance of growing into other related areas in the future. Whatever it is, make sure that what you offer reflects a focused and well-articulated solution to a well-defined set of needs.

Finally, it is worth discussing your stakeholders in a little more detail. This encompasses anyone or any organisation that will impact your project and those that will be impacted by your project. The diagram below shows the potential range of stakeholders for a social enterprise.

Your particular project will have emphases on different groups, depending on what it is you will be doing and how you will be doing it:



Stakeholder engagement is common to any business, but its importance is particularly important and complex for social enterprise. For example, the separation of beneficiaries and paying customers, typical for many social enterprise business models, is rarely seen in the commercial context. Similarly, social enterprise has a broader range of potential funding sources than a typical charity or commercial business. Understanding who your key stakeholder groups are and what their needs and priorities are is an essential element of the business model / business planning process, and an important input in helping you to define your value proposition statements.

Note that a social enterprise may have other stakeholder groups to the general ones shown above and / or may find it beneficial to break out some of the groups shown further for the purposes of how you will engage with them.

The Marketing theme of this toolkit discusses how to communicate your value proposition effectively with external stakeholders. The Funding and Finance theme of the toolkit discusses your engagement with a specific and important stakeholder group - funders and investors.

Defining the parameters and targets of your pilot phase

Before turning your plans into an operational organisation or project, it is also worth defining as best you can the initial **pilot phase**, the overall aim of which should be **to demonstrate that your project is a viable (i.e. sustainable) social enterprise that can deliver effective change / impact** in a specific area.

The first step is to think about the parameters of that pilot. By this, we mean the headline features of start up project that will define exactly where you operate. Often, 'where' is geographical for many start-ups. For example, in the pilot period you may focus on providing services and support to homeless people in one local area, with a view to replicating your offer in other locations later down the line. However, for some social enterprises, 'where' may also be about focusing on a particular segment of a larger target group; after the pilot phase, your aim may be to rollout your offer to other segments.

Another key feature of the pilot phase is timeframe – i.e. how long do you think you will to prove your business and social models work? Often at start-up, organisations will set 3-year plans in place, with the implicit assumption that they will deliver their 'proof of concept' within that timeframe; but your project may have very different timetables and so it's worth thinking now about how you are likely to grow. This thinking will translate directly into your thinking around things such as organisational development (e.g. timing for recruiting staff) and financial planning (i.e. revenue and cost projections).

As well as the parameters of your pilot, have a think about the targets that you'd like to achieve during this period. It's useful at an early stage to distinguish between two broad categories of target:

- **Operational targets** (aka outputs, objectives) address the 'amount' of your product or service that you want to deliver, e.g. delivering the first 1,000 training sessions to service providers, building the first 2 clinics or capturing 10% of the local market share for a product. Start by thinking about the highest level targets of this type, for example the number of beneficiaries that you want to deliver your service to; then drill down into underlying operations-specific targets; for example, if you want to reach that many beneficiaries, then how many average size service contracts do you need to win with local authorities? What size pool of freelance personnel will you need in order to offer that size of service? Your choice of your key operations-specific targets should mirror the operational 'map' of your organisation, discussed elsewhere in the toolkit.

- **Social / environmental impact targets** relate to the ultimate benefits of delivering your operational targets, e.g. improvement in the quality of public services received by refugees in your location; enabling more elderly people to access healthcare services in the community; reducing the carbon footprint of the local community. This topic is discussed in more detail elsewhere in this toolkit.

Your critical success factors

Having defined your offer, your pilot phase and what you want to achieve during that phase, it's now time to start translating that thinking into concrete plans across a range of areas. This will, ultimately, become your project / organisation business plan. A good first step is to think about the critical success factors ("what are the top 3-5 things that I have to achieve?") across each of the following areas of your enterprise:

- Showing that your **Social Model** works – i.e. you can deliver the impact you say you will.
- Defining your **Organisational, Operations and Infrastructure** needs
- Developing your **Marketing** value propositions
- Finalising **Legal Structuring** issues associated with set-up
- Finalising your **Governance** structure
- Creating a **Financial Management** function
- Securing start-up **Funding / Financing**

As you can see, this is the jumping point into a range of other themes addressed in this toolkit and once again demonstrates the role of your business model (and business planning) as encompassing all aspects of your social enterprise.

A final, important point is worth making here. Thinking through all of the above will be a long process, if done comprehensively. As mentioned, it is effectively the first step towards full business planning. But it is highly recommended that you not only think about your critical success factors in the areas above, but that you also document this in one place within a document that will ultimately become your business plan and a roadmap, both internal and external, for how you work.

We have included a business plan template here to give you an idea of how your emerging critical success factors can be organised into a single business plan document.

Using strategic management tools

At this stage, it may also help you to use some of the well-established strategic planning tools to help in one or more of the areas introduced above, for example:

- **Social Change Model** – a single framework for linking your business strategy to your social impact targets. This framework is discussed elsewhere in this toolkit.
- **Skills audit** – helping you identify your skills gaps and plan for how to fill them
- **SWOT analysis** – defining where your project / organisation's strengths, weaknesses, opportunities and threats lie.
- **PESTLE analysis** – defining the external factors (political, economic, social, technical, legal and environmental) that will impact your project/ organisation.

Stage 3: Set Up and Start Up
Theme 5: Organisation, Operations and Infrastructure

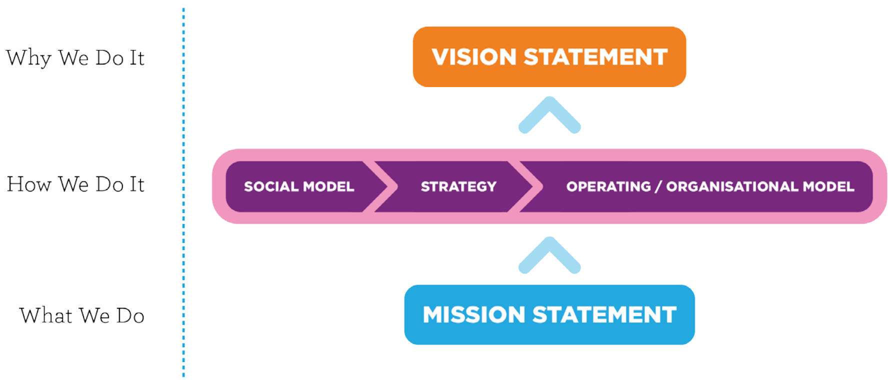
MAPPING OUT YOUR OPERATIONAL NEEDS

Introduction

Operations and infrastructure relate to the internal workings of your project or your organisation. It is the way in which people, systems and processes all work and interact together (given a set of external inputs) to deliver your project's outputs and outcomes. As your idea turns into a full and working project or organisation, you will need to think about formally mapping out your operational needs. This section of the toolkit will give you some guidance on building the various components of your organisation and operations.

Operational mapping

The following diagram sets out the broad framework for building your business model that is covered in other themes of this toolkit (in particular see the Social Model and the Business Model themes):



Operational mapping will require you to start understanding the details of the activities that you will need to carry out (on a day to day basis) to deliver the interventions, outputs and outcomes that you have defined as part of your Social Model and Strategy. This is very much aligned with the process of developing your key activities within your Social Model theory of action. The activities you define will be unique to your organisation; here are some typical, generic examples:

- Production / manufacture
- Service / product delivery
- Promoting your offer (Sales, Marketing)
- Managing suppliers / supply chain
- Monitoring and evaluation
- Networking
- Fundraising / investor dialogue
- Financial management

For each of the operational activities you define, start to think more deeply about how it will actually work in practice; the operational mapping template will enable you to document the following aspects of each component:

- **Purpose / objective of activity**: how do you define success for this activity? Think broadly about the various aspects of delivering this activity that would enable success and include them in your definition.

- **Key steps / actions**: what are the headline (3-5) actions, which, in aggregate, would define how this activity takes, place from day to day? This will be the initial step in developing an operational manual further down the line; but at this stage, the purpose is to enable you to think clearly and comprehensively about the underlying mechanics of your project.

- **Capabilities / skills / knowledge required**: what human expertise is required to deliver the activity successfully? These may or may not be the same as your own areas of expertise – this is an important first step in working out where you will need the support of others. This is discussed further below.

- **Key inputs**: what other things need to happen for this activity to be successful?

Here, you are trying to define the inter-relationships between your activities – within a single organisation, the success of any single activity will usually be dependent on one or more 'upstream' activities, as well as on external inputs. For example, successful marketing would probably be a key input to your sales activity; and successful product delivery is likely to be influenced by a robust manufacturing operation, which in turn will require a reliable, external (ethical) supply chain to deliver raw materials on time.

Human resources – identifying core capabilities and skills needs and gaps

As discussed above, the process of mapping out your operations will enable you to start to think about what human expertise you need within your organisation. This expertise can take many forms, all of which reside inside people's heads: skills, capabilities, knowledge and experience – let us refer to them collectively as skills. Having identified which skills you need in the mapping exercise above, it is likely that you will 'tick the box' on some of them; for the rest, it is worth starting to think about how you will fill the gap. For each skills gap you identify, work through the following issues:

- How important is the skill to the success of the overall activity? Give a simple overall rating on importance (high, medium, low)
- How well could you learn this skill as you go along?
- Do I know someone / can I find someone who has the right skills and will be willing to give me some advice / guidance?
- Can I find third parties who have this skill and who might want to work in partnership?
- Can I buy in this skill from a third party reliably and affordably?

Use this process to help you identify potential solutions to filling your skills gaps. There are a few words of advice here:

- As a social entrepreneur at the early stages of set up, you are likely to have a limited budget and will not have an established track record yet. As such, it is advisable to take an open-minded approach to assessing which skills you think you could learn on the job or through self-tuition. As discussed earlier in this theme, the role of the entrepreneur is often diverse and broad at the early stages and this will give you an opportunity to learn a lot about and refine / improve your business and your operating model. In areas such as sales and marketing activities, it is your vision and the way you communicate that which are likely to be most important at this stage anyway. One area that social entrepreneurs often shy away from is financial management of the organisation. It is highly recommended that you commit to developing a minimum level of financial management skills and understanding and actively use this to manage your organisation's finances at the very early stages.

- You will notice that the final obvious question is absent here. That is, if the skill is essential and no other options exist, does this mean you need to recruit someone into the organisation? This may, ultimately be the right way forward if you identify a group of essential skills gaps that naturally fit together into a single role within your organisation and a realistic profile for someone to have. But remember that you are just starting out here, and bringing an employee onto your books at this stage may be a high-risk approach. What often happens is that you may be able to find an 'entrepreneurial partner' who buys in to your vision, mission and values, has key skills that complement your own, and is motivated to join your project. In many cases, entrepreneurial partnerships will split their formal organisational responsibilities between internal operations-focused areas versus strategy / business development / sales, reflecting a common division of skills and interests; however, in reality their work will overlap regularly in the early stages. The next section in this theme addresses recruitment more generally.

Working with your suppliers

A supplier is an organisation or individual that will deliver you some sort of product or service – using the terminology above, an external input to your organisation. Your suppliers will themselves have suppliers, and so on – this is the **supply chain** of which you (and your customers and beneficiaries) are a part. Generally, product supply chains are more complex than service-based supply chains.

Managing your suppliers is a key part of ensuring that your own operations are successful. In large organisations, procurement departments do just this all of the time. For you, however, reliable and on time supplies will be dependent on good choice of suppliers and a strong working relationship with them.

The use (and marketing) of ethical supply chains is common in the social enterprise sector and may have an impact on what you consider to be a 'good' supplier. Make sure that your work is not compromised by association to suppliers that may have dubious working practices – note that the hurdle of safety in terms of protecting your own organisation's reputation in this regard is probably higher in the social enterprise space than it is in the commercial sector. Be prepared to discuss values and ethics with your suppliers and investigate their accreditation with relevant standards / regulatory bodies.

However, don't forget also that a good supplier is one that can deliver reliably, to the right standard, and on time. These are more boring aspects of the supplier relationship, but equally important.

Working with suppliers effectively means having a common understanding of key aspects of the relationship. For each of your major suppliers, make sure you have a good understanding of / are happy with the following:

- Price
- Delivery terms
- Quality / standard of delivery (ask your suppliers if you can talk to some of their other customers)
- Payment terms
- Termination procedure / timeframes
- (For long term supplier relationships) Their capacity to supply you – be clear about how much of your future growth can be accommodated before you would need to start looking for a second supplier

Working with partners

When two or more parties work together to achieve a single, common objective, their relationship is no longer one of customer-supplier; they are working in partnership. Partnerships can be an effective way of filling your skills gaps, but should be thought of much more broadly and strategically than that.

At the time when you are setting up, however, you may find that partnership opportunities do exist specifically to help you bring a specific skill to what you want to offer your customers or beneficiaries. It is likely that such partnerships will be with individuals who may share your vision and values and have a desire to create the same types of changes you are. These early partnerships (e.g. where you share responsibilities for product or service delivery and share revenues accordingly), if successful, can be valuable for both parties later down the line – it may lead to a decision to streamline your efforts into single, more effective, social enterprise venture as you grow and become more established.

UNDERSTANDING YOUR TARGET AUDIENCE AND DEFINING YOUR VALUE PROPOSITION

Now that you're ready to turn your idea into a reality and begin defining your business model, it's time to think about how you will market your products or services. Marketing is a much broader topic than many people imagine. Most people would probably define marketing as advertising, PR and sales; but the true concept of marketing is much broader and a key part of any organisation.

What is marketing and why is it important?

At the most simplistic level, marketing is the activity, which connects your organisations 'offering' with the target audience(s). Marketing is therefore the key 'enabler' to growing your business and achieving success. The principles of marketing are commonly understood around the following core '**components of marketing**':

- **The offering**: the products (e.g. ethically sourced clothing) or services (e.g. counselling) your organisation will offer.
- **The value proposition:** Articulating your offering to the target audience- *'the solution to their needs'*.
- **The marketing strategy:** Your strategy for connecting with the target audience (e.g. deciding to target a specific geographical audience).
- **The marketing plan**: The objectives, budgets and tools that will be used to deliver the marketing strategy.
- **The target audience:** The stakeholders who will be 'sold' your value proposition.

Underpinning all of these marketing pillars must be comprehensive **understanding of the target audience** (e.g. who they are, where they are, what are their needs and their typical characteristics). The relationship between these different components is illustrated in the diagram below:

Your understanding of the target audience should inform your organisations; offering, value proposition, marketing strategy and marketing plan

In this section, we will discuss the value proposition and understanding your target audience. Marketing strategy and marketing plans are discussed in the next section of this theme of the toolkit; note that it's also worth reading the corresponding section of the Business Model theme - in particular, the importance of defining your offer and the introduction to stakeholders.

Defining your target audience

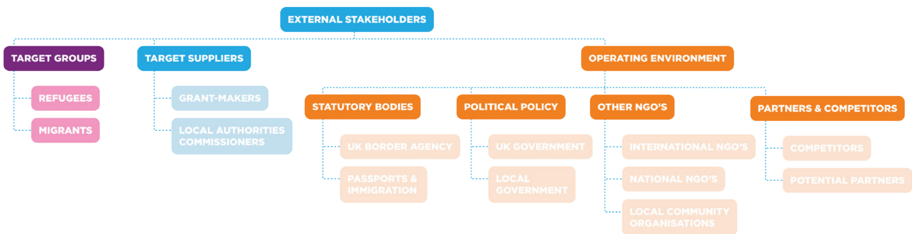
The relationship between your organisation's value proposition and the target audience can be slightly more complicated for social enterprises due to the **range of external stakeholders** often involved. External stakeholders are typically defined as the people or organisations either affect or are affected by your organisation.

Identifying your external stakeholders will allow you to define your **target audience**(s), thereby allowing you to define your **value propositions** to these audiences. When identifying external stakeholders, it may be helpful to use the following categories, which will often cover the typical stakeholders for a social enterprise. Your particular project will have emphases on different groups, depending on what it is you will be doing and how you will be doing it:

EXTERNAL STAKEHOLDERS CATEGORIES

TARGET GROUPS	TARGET SUPPLIERS	OPERATING ENVIRONMENT
- *Target Beneficiaries*	- *Grant -makers*	- *Local Community*
- *Target Customers*	- *Investors*	- *Statutory Bodies / Agencies*
	- *Suppliers (trading)*	- *Regulators*

Let's look at an example of how this works in practice; Social Enterprise 'D' is providing advice, information and support to refugees and migrants in city 'y'. Due to the nature of its offering, the target audience consists of stakeholders identified from all the categories introduced above. The diagram on the following page provides an example of an 'external stakeholder map' for this organisation:



Taking this into consideration, although your offer may be constant, you may need to develop different value propositions to each respective stakeholder within the target audience. For example, the **target groups** for social enterprise 'D's offering (refugees and migrants) will be interested in how the services will benefit them personally; whereas the **target suppliers** (grant makers and local authority commissioners) may need to know how the activities and services will addresses their priority criteria and targeted outcomes for their funding/ contracting requirements.

Understanding your target audience

As introduced earlier, understanding your target audience is a vital step in enabling your organisation to define its value proposition(s). Once you have defined your external stakeholders within your target audience, the next step is to examine the key features of each stakeholder group or audience.

Understanding **target groups** (e.g. beneficiaries or paying customers) will probably require the most in depth analysis. For this target audience you will need to understand:

- **The size of the target audience**
- **The structure of the target audience** (this will often involve trying to segment the audience into a number of core groups)
- **The trends associated with the target audience** (e.g. growth)
- **The needs and characteristics of the target audience** (this is vital to allow you to develop a strong value position that addresses the needs and demands of the target audience)

For the **target suppliers** (e.g. grant makers, local authority commissioners etc) and **operating environment** (regulators, statutory services, local community etc) categories, you will need to focus on understanding the core needs, characteristics and trends of these stakeholders.

Using the example of social enterprise ‘D’ discussed previously, let’s explore some of the questions you might set out to answer when trying to understand the target audience for this organisation:

AUDIENCE	STAKEHOLDER GROUP	SIZE	STRUCTURE	TRENDS	NEED/CHARACTERISTICS
TARGET GROUPS	• Refugees • Migrants	• Number of refugees/ migrants in target region? • Number of refugees/ migrants by origin?	• Where are the refugees/migrants from (origin)? • Where do they live?	• How is the refugee/ migrant population changing (growth/ decline)?	• What are the core needs or refugees/migrants? (e.g. Employment, education etc). • What are the main problems that prevent refugees from addressing these problems?
TARGET SUPPLIERS	• Grant Makers • Local Authority Comissioners	• How many grant makers fund the refugee/ migrant sector? • What budget is available from the local authority to support refugees/migrants?	• Who are the grant makers? • How is the local authority budget for these activites structured?	• What are the key trends in this sector for the grant maker funding? • What are the key trends in this sector for the LA spending?	• What are the key priorities and objectives for grant makers in this sector? • What are the key prioritie and objectives for LA spending in this sector?
OPERATING ENVIRONMENT	**Statutory Bodies** • UK Border Agency • Passports and Immigration **Political Bodies** • UK Government • Local Government **Other NGOs** • International NGOs • National NGOs • Local Community Organistions **Competitors/Partners**	• How many other organisations are providing similar services to your offering within the market landscape?	• Who are the exisiting organisations and what do they offer to the target audience	• What are the key trends from statutory bodies in this sector? • What are the key trends in political policy? • What are the key activities and policies from NGO sector? • What are the key trends of competitors and potential partners?	• What are the key priorities for statutory bodies in this sector? • What are the key priorities within political policy? • What are the key priorites for other NGOs?

The term 'market research' is often used as a collective term for working through the analysis and questions outlined above. Market research consists of two core methodologies; **primary research** and **secondary research**. Primary research involves the collection of data or information that does not already exist. Secondary research involves the summary, collation and/ or synthesis of existing research; government reports, local statistics or trade journals, for example.

Secondary research would usually be used to understand the size, structure and possibly the trends within the different target audiences; whereas primary research would be used to understand the more qualitative elements such as the needs and characteristics of the target audience. In reality, it is primary research, through the development of your networks and relationships, which will usually give you the best insight into how your stakeholders think their needs and their expectations. As you learn more about them, try to maintain a 'map' of what this is telling you about how best to communicate what you do to them.

The process of understanding of your target audience(s) will enable you to define a strong value proposition (or positions), whilst also helping you to identify the opportunity for your offering in the market landscape.

Defining your value proposition

The next step is to define your value proposition(s). As discussed previously, your value proposition is the way in which you articulate your offering to the target audience(s) - *'the solution to their needs'.* In addition to addressing the target audience needs, your value proposition should be grounded in the strategy and objectives outlined in both the business model and the social model for your organisation.

There are typically three types of value proposition:

- **Efficiency**: delivering your product/ service at a better price than the competition
- **Leadership/ Innovation:** delivering a unique or leading product/ service to the target audience
- **Audience Intimacy:** creating an intimate relationship with your target audience, beyond that of the competition

An **efficiency** value proposition will usually be reliant on high volume, low value (cost) services or products. In contrast, a **leadership/ innovation** and **audience intimacy** value proposition will usually focus on delivering high value products or services, but at a lower volume.

Due to the number of stakeholder / target audiences that you may need to be 'selling' your ideas to, the value proposition may need to be adapted from audience to audience. For example, the value proposition to the **target beneficiaries** of social enterprise 'D' (discussed previously) will probably be one of **audience intimacy**- building strong relationships and trust with the beneficiaries through a comprehensive and targeted service offering focused on their identified needs. Whereas the value proposition to a **local authority commissioner** is more likely to be focused on **efficiency** and / or **leadership/ innovation**.

Your value proposition should aim to differentiate your offering from other organisations in the market landscape (often described as your **USP: unique selling point**); therefore it will be important to consider the value propositions of the key competitors/ potential partners defined in your analysis of the target audience. Think about what type of value proposition each of your competitors are offering, and how you are different – this will help identify the things you need to highlight through your value proposition and your marketing more generally. This is a key part of thinking about your marketing strategy, discussed in the next section of this theme of the toolkit.

Once you have defined your value proposition(s), you will use this as the foundation for your entire **marketing strategy** and your **marketing plan** – see the next section in this theme of the toolkit.

DETERMINING THE RIGHT LEGAL STRUCTURE FOR YOUR SOCIAL ENTERPRISE

This section of the tool kit explores the typical legal structures that are used in the social enterprise sector, the core advantages/ disadvantages of the respective structures and the key issues for consideration when deciding on the right legal structure for your organisation.

As there is no legal definition for what constitutes a social enterprise, there is considerable scope for choosing from a variety of different legal forms (although there are numerous viewpoints of what constitutes the 'best' social enterprise legal structure, often driven by vested interests). Before getting into the detail, it's worth bearing in mind two fundamental principles:

- It is not the legal structure that makes an organisation a social enterprise – it is its activities.
- Your immediate and future funding and income generating opportunities will have a major impact on the structure you choose.

An individual operating a social enterprise without a legal structure is usually regarded as **a sole trader** or **self employed**. Organisations that are operating as a membership body without a legal structure are typically regarded as an **unincorporated association** (also known as voluntary association and community groups). There are a number of reasons why you might consider adopting a legal structure for you organisation:

- A requirement by stakeholders that you are planning to engage with
- A requirement based on the type of activities you plan to undertake
- To enhance your credibility with customers, funders, suppliers and employees
- To protect individuals involved from personal liability.

As a sole trader, self employed individual or unincorporated association (i.e. not recognised as a separate legal entity), the individual or management committee of the association is directly liable for any debts or legal actions affecting your organisation- a risky position. For example, if the organisation generates a financial deficit, it will be the responsibility of the individuals involved to find the money to pay any creditors. Adopting a formal legal structure can protect individuals (e.g. members/ trustees/ directors) from personal liability, therefore limiting this type of risk.

The variety and diversity of the possible legal structures for social enterprise complicates matters. However, there are a number of over-riding principles that should be considered; thinking through these should help you decide the best legal form to adopt for your project. After looking at the different possible legal structures, we'll address some of these considerations.

Common legal structures

The most common legal structures used in the Social Enterprises sector are:

- Unincorporated Association (which may also be a Registered Charity)
- Company Limited by Guarantee (which may also be a Registered Charity)
- Company Limited by Shares

- Industrial & Provident Society
- Community interest company- CIC (Shares or Guarantee)

The following tables examine these legal structures in more detail, along with a summary of the key advantages and disadvantages associated with the respective structures:

LEGAL STRUCTURE	KEY FEATURES	PROS	CONS
Unincorporated Association (Voluntary / Community Organisations)	• Most voluntary and community organisations are unincorporated associations • The governing method for unincorporated associations is usually the constitution or association rules. • The term 'unincorporated' means that, in law, the association has no existence apart from its members as individuals.	• Governed by a simple constitution. • No regulation (eg. through Companies House) • Easy to set up and administer • Can hold property	• No legal identity separate from the individual members; can only enter into contracts through its members. • Management committee and/or members are responsible for any debts the association incurs • Despite lack of legal personality may still have to pay corporation tax and file a tax return
Registered Charity (unincorporated association)	• To become a registered charity, an organisation needs to register with the Charity Commission. • The activities of a registered charity must fall into one or more of 12 pre-defined charitable objects which are of benefit to the community. • A central feature of a registered charity is a board of trustees, ie a group of people who volunteer to run the charity. • Charities may qualify for a number of tax exemptions and tax reliefs on income and capital gains and sometimes on profits.	• Can make it easier to raise funds from trust funds and companies • Directors cannot be paid • Tax exemptions and reliefs.	• More active regulation in return for the tax benefits • More responsibility for people involved - become charity trustees. Charitable law does not allow trustees to be paid for being trustees although they may be reimbursed for out of pocket expenses. • Charitable rules as enforced by the trustees may impact on entrepreneurial aims. • Significant restrictions on trading.

Company Limited by Guarantee	• Company Limited by Guarantee is the most popular form of incorporation for organisations in the social sector. The governing body in this model is called a 'Board of Directors'.
	• 'Limited by guarantee' means that each member's liability for the company's debts is limited to an amount written into the governing instrument: often as little as £1 each.
	• The organisation has separate legal identity and can be liable separately from its members and directors, reducing the risk for members and directors. However, directors can still be liable for negligence and / or fraud.
	• In return for limited liability the company must register its incorporation with Companies House and regularly provide them with certain information:
	  • Annual accounts; annual return
	  • Notice of change of directors or secretaries and their particulars
	  • Notice of change of registered office
	• Companies can be incorporated with a single member
		• Possesses legal personality separate from members
		• Can own property and hold contracts
		• Directors can be paid
			• Regulation (from the Companies Act)
			• More responsibility for people involved - become company directors
			• May be difficult to raise philanthropic donations / grant aid
			• Unlike with a CIC, assets are not protected with an asset lock

Note: information source: UnLtd 'Built to Last' Toolkit

LEGAL STRUCTURE	KEY FEATURES	PROS	CONS
Registered Charity (company limited by guarantee)	• To become a registered charity, an organisation needs to register with the Charity Commission. • The activities of a registered charity must fall into one or more of 12 pre-defined charitable objects which are of benefit to the community. • A central feature of a registered charity is a board of trustees, ie a group of people who volunteer to run the charity. • Charities may qualify for a number of tax exemptions and tax reliefs on income and capital gains and sometimes on profits.	• Can make it easier to raise funds from trust funds and companies • Possesses legal personality from members and directors • Can own property and hold contracts • Combines advantages of registered charity and Company Limited by Guarantee • Tax exemptions and reliefs	• More active regulation in return for the tax benefits • Must also continue to comply with company regulation (e.g. Companies House filings) • More responsibility for people involved - become charity trustees. Charitable law does not allow trustees to be paid for being trustees although they may be reimbursed for out of pocket expenses. • Charitable rules as enforced by the trustees may impact on entrepreneurial aims

Company Limited by Shares	• Most frequently adopted corporate legal structure.
	• The governing body in this model is called a 'Board of Directors'.
	• There is no limit on dividends that can be paid to shareholders.
	• Member/shareholders' liability for the company's debts is limited to the amount of their contribution: this can be as little as £1 each.
	• Organisation has separate legal personality and liability from that of its members and directors, reducing the risk for members and directors. However, directors can still be liable for negligence and/or fraud.
	• In return for limited liability the company must register its incorporation with Companies House and regularly provide them with certain information:
	  • Annual accounts; annual return
	  • Notice of change of directors or secretaries and their particulars
	  • Notice of change of registered office
	• Companies can be incorporated with a single member
		• Not subject to the additional regulatory requirements of a CIC.
		• Good investment model - ability to pay dividends may make it easier to attract private investors
		• Embeds entrepreneurial drive; shareholders benefit from Company's success.
		• Directors can be paid.
		• Has a separate legal identity from its members.
		• Can own property or enter into contracts in its own right.
			• Regulation (from the Companies Act)
			• Potential conflicts of interest between individual social entrepreneur and broader shareholder constituency
			• More responsibility for people involved - become company directors.
			• Cannot generally raise philanthropic donations/grant aid, therefore need to be entirely self-financing or financed through private investment
			• Unlike with a CIC, assets are not protected by an asset lock.

Industrial & Provident Society	• Essentially these are co-operatives, run and owned by their members, but which may operate for the benefit of the community in addition to benefiting the members. • An IPS can own property, enter into contracts, issues shares and take out loans. • It has to be registered with and regulated by the Financial Services Authority ("FSA"). The aims of the society and the way it is run must comply with certain conditions in order for the FSA to accept and maintain the registration. • An IPS must have at least three members.	• Good for promoting democratic ownership and control through co-operative structures. • Has a separate legal identity from its members. • Can own property or enter into contracts in its own right.	• Less fit for purpose for organisations with hierarchical structures. • Not as well recognised as some of the other legal structures such as Company Limited by Guarantee or Registered Charity. • FSA registration entails formalities (eg. keeping and filing of accounts)

LEGAL STRUCTURE	KEY FEATURES	PROS	CONS
Community Interest Company (CIC)	• CICs can be private companies limited by guarantee or by shares, or a public limited company. • They can adopt the co-operative, not for profit or general commercial company model. • There are number of obligations that a CIC has to meet and continue to meet in addition to those imposed on an ordinary company: • Must satisfy a community interest test (looks at the underlying motivation of the company in terms of what it will do, who it will help and how, if it makes a profit, or surplus, what the company will do with it) • Must adopt certain statutory clauses in its constitution (asset lock and preventing the CIC falling under control of non members) • Must deliver an annual community interest company report with its accounts. • A CIC limited by shares may pay dividend, if agreed by a resolution of its members but dividends payable to private shareholders (non-asset locked bodies) will be subject to a dividend cap.	• Distinct brand for social enterprises • Embraces democratic ownership, not for profit and commercial models • Combines freedom of entrepreneurial activity with protection of 'asset lock' • Directors can be paid. • Light touch CIC regulator • Has a separate legal identity from its members. • Can own property or enter into contracts in its own right.	• Dual regulation from Companies Act and the CIC Regulator, but work seamlessly together. • More responsibility for people involved - become company directors. • Not relevant for non social enterprises • May be difficult to raise philanthropic donations/grant aid • Cap on dividends ("asset lock") could depress demand from Investors

Considerations for choosing the appropriate legal structure

This guide gives you a general overview of some of the major considerations when choosing the legal structure for your social enterprise. **It is not intended as any form of legal advice** – this can only be given with reference to the facts relevant to you and your project. You should always seek professional advice, including legal advice, if you are not certain as to what legal structure is appropriate for you; this is important to get right from the beginning, since it can be both complex and expensive to change from some legal forms to another later on down the road.

The issues to consider when deciding on a legal structure for your social enterprise include:

1. Personal liability
2. Ownership
3. Funding, both short and long term
4. Governance
5. Profit distribution

1) Personal liability

Having a legal structure that separates the members / guarantors / owners from the enterprise will limit their personal liability if the enterprise suffers financial loss or if financial loss is caused by the enterprise. Please note that if the management and members / guarantors / owners have acted negligently or fraudulently they forfeit this protection.

Generally, most social enterprises that intend to operate long term will seek to use a legal structure that offers the owners / guarantors / members limited liability. This could be in the form of a **limited liability company** (including a **CIC**) or a **co-operative structure** such as an **Industrial and Provident Society.**

Charities can also have a limited liability structure. Some charities behave like social enterprises. However, because of legal restrictions on trading for companies with charitable status, this is not a popular choice for social enterprises. Charities seeking sustainable and diversified income tend to set up captive trading companies that operate as social enterprises. Most charities are registered with the Charity Commission but charities with a particularly low turnover, or some charities operating under the umbrella of a larger charitable organisation, may be exempt from the requirement for registration. Such organisations can apply directly to HMRC in order to receive the tax exemption and reliefs available to charities.

2) Ownership

If the structure you choose is a **company limited by shares** then you have a shared or outright ownership of the company. The more shares you own, the more votes and influence you have over the strategy, management and operations of the enterprise (to the extent that these are not delegated to the directors). Normally, companies of this type will distribute profits to the owners by means of a dividend. The founders will usually be directors and are paid for their employment. The board may be enhanced through the appointment of non-executive directors.

A **company limited by guarantee** by definition does not have shares. The company has a number of **guarantors**. The liability of the guarantors is determined by the amount of guarantee they have committed to. There is no legal minimum or maximum guarantee amount. If each person guarantees the same amount, they will usually have one vote each. This gives a much flatter, equal voting structure. The majority of social enterprises in the UK choose this form of legal structure.

Companies limited by guarantee are free to distribute their profits to members in the form of dividends. Social enterprises with this structure may also embed within their constitution that profits will not be distributed but will be reinvested in the company, although some may choose to distribute profits to charities or to the community they serve. The constitution will also govern the distribution of any assets if the company closes down / is liquidated. Such assets may be distributed to other companies undertaking similar work, or to the guarantors. This protection is of particular appeal to grant making trusts and to public sector contractors.

In the **co-operative model,** i.e an **industrial and provident society**, ownership is shared with other members of the co-operative. In order to be considered as a co-operative, each member will usually have only one vote, however much they invest in the co-operative. The maximum investment by any one individual is restricted to £20,000.

Therefore if control and ownership are important to you, a company with shares may be more appropriate for you than a non-profit company or a co-operative. However, this structure will most likely preclude you from receiving grants from grant-making trusts.

Most social entrepreneurs are happy with sharing decision-making control with other members on the board. This is discussed elsewhere in the toolkit.

3) Funding

Your legal structure will determine the types of funding that you are able to access.
Grant making trusts will only fund companies that do not distribute profits or their assets on dissolution. This precludes companies limited by shares and companies limited by guarantee which provide for assets to be distributed to members on winding up. On the other hand, a company limited by shares can sell shares and so receive investment. Companies limited by guarantee do not have shares to sell and so cannot attract equity investment.

Choosing a structure that allows you to receive grants in the short term may prevent you from accessing investment when you want to scale up your activities later on. Therefore, you should first establish what the most likely form of funding you will rely on in the long-run is and choose a legal structure that enables you to access it.

There are also a number of different types of co-operatives and most cannot access grant funding. There is a type of co-op however, which is charitable in nature, known as a co-op established for the Benefit of the Community, (this is a type of Industrial and Provident Society which is also an unregistered charity). Because of its charitable aims this type of co-op can access grants. However, as it is not in the nature of a co-operative to distribute dividends, it is unlikely to attract significant private investment.

All types of social enterprise can access loans; in the case of debt funding, the considerations of the lender will centre on the organisation's ability to repay the loan (including interest), regardless of the legal form of the organisation. If the social enterprise does not have a legal identity separate from its members (for example in the case of an **unincorporated association**) the individual members may be liable to repay the amounts borrowed.

4) Governance

All organisations should have someone who sets the strategy, ensures that the strategy is delivered, makes sure that the organisation meets its legal obligations and operates within the law. This function is undertaken by a **Board of Directors**, **Management Committee** or **Trustees** depending upon the legal structure of the organisation. The people who constitute this group will be referred to in this section as **Board Members**. A **co-operative** can be run by all the members collectively or by a management committee provided that the managers are appointed by the members and can also be removed by them. This may depend largely on the number of members of the society (a **co-operative** registered **as an industrial and provident society** must have at least three members).

A shareholder or the guarantor of a limited liability company is known as a **member** of that organisation. It is common in start-ups for a member to also be a director of the company. However as a company grows directors may not necessarily be members as well. Members have the right to elect directors to manage the company on their behalf. The directors are accountable to the members for their performance. Members can change directors at annual general meetings, or at extraordinary general meetings, if they are dissatisfied with their performance.

Limited companies are only legally required to have one member and one director (who may be the same person). However, as most social enterprises claim to be operating for the good of stakeholders, the community or society, in general it is good practice to have at least three directors and five or more members. This demonstrates that there is a wider involvement by the community in your enterprise. This also allows the enterprise to have a wider set of complementary skills on the board as well as demonstrate wider stakeholder involvement and understand the needs of the community that the organisation aims to support.

Grant funders are also more likely to fund an organisation with wider membership. By and large, a greater number of board members improves the level of oversight held by the management, and ensures that there is transparency in what the enterprise is doing. Also, it ensures that the way grant money is being spent is overseen by more than one person. A setup where an individual founder does not have the sole power of decision-making may be more attractive to grant funders. However, you should bear in mind the practicalities; the more board members that you have the more difficult and time consuming your organisational decision-making will be. You need to strike the right balance in terms of enabling diversity of viewpoints and perspectives whilst maintaining a nimble and decisive business.

Governance is discussed in more detail in a separate theme of this toolkit.

5) Profit distribution

By definition social enterprises should be generating profits. How the profits are used is determined by the legal structure. If you have external investors they will expect some profit to be distributed to them – even if they have agreed to a restricted amount of profit distribution. Profit distribution will also happen in co- operatives. Social enterprises that are constituted as a '**company limited by guarantee'** will tend to reinvest the profits in the company rather than distribute it to the guarantors. The idea is that the company will use the profits to grow the enterprise and increase its social impact. Registered charities and to co-ops that are of charitable nature are not permitted to distribute profits to their members so they will usually also reinvest them in the business.

Social enterprises that are constituted as a **'company limited by shares'** have the option to distribute profits to shareholders; these profit distributing structures can often provide an attractive proposition for private investors. However, profit distribution can often create conflict of financial interest between the individual social entrepreneur and broader shareholder constituency, and will rule out the opportunity of securing funding from grant makers.

One alternative legal structure that still allows profit distribution is the '**CIC limited by share**' structure. A CIC limited by shares may pay a dividend, if agreed by a resolution of its members. Dividends payable to private shareholders (non-asset locked bodies) will be subject to a dividend cap. The cap is currently 20% of the paid up value of a share in the company and a maximum aggregated dividend of 35% of the distributable profits. Unused dividend capacity can be carried forward for 5 years. There is also a cap on performance-related interest of 10% of the average amount of debt or the sum outstanding under debentures issued by the company.

Key features of the typical legal structures

The table below provides a summary of the key legal structuring considerations discussed above:

	Unincorporated Association	Registered Charity (unincorporated association)	Company Limited by Guarantee	Registered Charity (company limited by guarantee)	Limited Company (Share Capital Company)	Industrial & Provident Society	CIC – (Limited by Shares)	CIC – (Limited by Guarantee)
1) PERSONAL LIABILITY: LIMITED LIABILITY FOR MEMBERS?	No	No	Yes	Yes	Yes	Yes	Yes	Yes
2) OWNERSHIP / GUARDIANSHIP: (MEMBERS, GUARANTORS OR SHAREHOLDERS?)	Members	Members	Guarantors	Guarantors	Shareholders	Members	Shareholders	Shareholders
3) GRANT FUNDING: IS THIS STRUCTURE ATTRACTIVE TO GRANT MAKERS?	Possibly	Yes	Yes (but may be restrictive in some cases)	Yes	No	No	No	Yes
4) GOVERNANCE: BOARD MEMBERS	Management Committee	Board of Trustees	Board of Directors	Board of Trustees	Board of Directors	Management Committee	Board of Directors	Board of Directors
5) PROFIT DISTRIBUTION: ESTABLISHED TO GENERATE PROFIT	No	No	Possibly	No	Yes	No	Yes	No

Your choice

The structure you decide should be determined as much by what it is you are hoping to achieve through your enterprise as the immediate funding requirement. Remember to think of the longer-term requirements and how these may be adversely affected by choosing a structure to meet short-term considerations.

Stage 3: Set Up and Start Up

Theme 8: Governance

MAKING GOVERNANCE WORK FOR YOU

What is governance?

Governance relates to the decision-making and accountability structures, procedures and systems of an organisation. Social enterprises exist to make positive changes to people, communities and the environment. Their funding and support is based on this understanding. It is therefore important for them that they can demonstrate good governance to the stakeholders that they serve, work with or support.

The stakeholders can include:

- Employees
- Beneficiaries
- Clients/customers
- Funders
- Investors
- Regulators

Stakeholders will need to be continuously convinced that the social enterprise delivers what it says it does, that it does this effectively, and that its activities are accountable to the wider community.

The issue of governance is strongly related to the choice of your legal structure, if any, for your social enterprise. Generally, governance becomes an essential part of your project if you decide to operate through a legal entity, which exists separately from its members like a company. We strongly recommend you read this theme of the toolkit in conjunction with the Legal Structures theme.

Creating governance structures

The starting point is that the enterprise has a stated vision, mission, values, strategy and policies and procedures. The management needs to ensure that the strategy is adhered to and that the enterprise stays true to its vision also that policies and procedures are consistently applied.

Governance duties may be segregated from day to day duties of management by the creation of a separate **governing body** but the people managing the company will usually also be responsible for providing good governance. The name of the group performing the management function depends on the structure of the enterprise; **Board of Directors**, **Management Committee**, **Board of Trustees** are examples – once again, see the Legal Structures theme of the toolkit. We shall refer to this governing body throughout this theme of the toolkit generically as the board and those sitting on the board will be referred to as **board members** or **directors**.

Note that organisations also have **members**. A company member is a shareholder or guarantor of the company, shareholders may also be referred to as owners of the company. Members have the right to elect directors to manage the company on their behalf. The directors are accountable to the members for the performance of the company. In the case of a company, members can change directors at a general meeting.

Other structures, such as co-operatives, may not necessarily hold formalised meetings but the members will still have a say in management. In a start up situation it is common for the owner(s) i.e. members, to also be directors. This may change with growth of the company. Many social enterprises require directors to be members as well.

At start up, the board often will comprise the founding entrepreneur(s) in their role as founding directors. The question then is who are they accountable to? For this reason best practice is to appoint additional, non-executive, directors who are not dependent upon the enterprise for their livelihoods and so are able to challenge the founders and ensure that good governance is practiced as well as preached.

Resistance

Many enterprise founders are visionaries and innovators. They have a total self-belief in their vision and goals. In pursuing this vision, they will often be influenced by the principle that the end justifies their means. For a social enterprise this could be to the detriment to the implied social compact and can also lead to mission drift when initial projects prove difficult to deliver. The entrepreneur acts instinctively and opportunistically. They often do not have the time or inclination to communicate their thinking and they are likely to dislike being questioned.

In the extreme, this can be greatly detrimental to the social enterprise, its employees, funders and other stakeholders. It could lead to inefficiencies and the wastage of resources. If the funding for the enterprise is other people's money then the perceived misuse of it can be a great concern.

Good governance aims to avoid such a scenario, ensuring that the social enterprise works effectively and that the founders or the executive team are held accountable by others who are independent of them and the organisation. Good governance serves to act as a safety valve for the entrepreneurial spirit (without constraining the positive aspects of that spirit).

Social entrepreneurs should realise the value in this and embrace governance positively.

GETTING STARTED WITH FINANCIAL MANAGEMENT

The financial management function

The financial circumstances of any enterprise have a fundamental impact on its success. For commercial organisations, success is measured very directly by financial return alone. For a social enterprise, its financial situation will be a key enabler for it to achieve its social mission.

Financial management is the process of planning, monitoring and evaluations all financial aspects of your organisation or enterprise. At its most basic level it is about anticipating and tracking how money comes into your organisation (revenues, funding, investment), how it is invested within your organisation (operating costs, staff costs, purchasing assets, etc.) and how it is invested or leaves your organisation (paying operating suppliers, paying staff, purchasing assets, paying investors, etc.).

Social entrepreneurs will often lack any formal experience in finance. This is not surprising, since entrepreneurs, especially social entrepreneurs, usually have experience in a field relating to their vision, which is rarely based purely around finance. So don't let a lack of financial experience or expertise worry you; however, that does not mean you should avoid or pay insufficient attention to financial management. If you want to succeed, having a firm grasp of the financial mechanics and economics of your business will be critical. Many social entrepreneurs will tend to avoid getting to deeply into the 'numbers side' of the business and sometimes this can be fatal for small businesses – running out of cash is the ultimate death knell for organisations, and very often active financial management could have anticipated the problem and provided time to find a solution.

One important principle to introduce early on is that financial management is about both looking at your historical financial performance (financial reporting) as well as looking at how you want to perform financially in the future (budgets, projections, forecasts, etc.). Both elements are important; they are discussed individually later.

This theme of the toolkit aims to introduce some of the key principles, models / frameworks and issues relating to financial management. As such, it serves as a 'taster' of what is a very broad subject. As you start operating, you will learn much through hands-on financial management of your business. However, this is a technical (but not difficult!) area where it is highly recommended to invest time and perhaps event money to build some of the essential financial management skills.

Financial statements

The first framework worth introducing relates to the 'standard' set of financial statements that enable organisations to report / forecast their finances. Depending on your legal structure, you will use different forms of these statements and will be required to comply with different regulations. We will not address the differences in detail here, but provide a 'generic' overview that will be relevant whether you are incorporated as a company limited by share, a company limited by guarantee, a CIC or a co-operative. Even those organisations which have charitable status will use analogous financial statements.

There are 3 general financial statements:

- **The income statement:** this statement (also known as your profit and loss account for some organisations) relates to your operations over a specific period of time and will generally capture all of your regular income and expenditures relating to your enterprise.

  Irregular income are one-off receipts such as equity or debt investment; similarly, one-off payments such as investing in assets that have a useful life of more than a year or repaying a loan are not seen on the income statement. These irregular receipts and payments are recorded on your balance sheet. *See below.*

  If your organisation is dependent on some level of on-going grant income, then you will record grant receipts in your income statement (you are likely to be incorporated as a company limited by guarantee or a CIC limited by guarantee).

The difference between your total income and your total expenditure is your surplus or deficit for the period, also known as your profit or your loss (depending on your legal form).

- **The balance sheet:** this statement reflects your overall financial position at any one point in time. Generally speaking, your organisation's financial position will be reflected as a set of assets and liabilities.

  Typical assets include:

  - Property and equipment
  - Stock you haven't sold yet
  - Customers that you've invoiced but that haven't paid
  - Cash (if you're overdrawn at your bank, this becomes a liability)

  Typical liabilities include:

  - Suppliers that have invoice you but you haven't yet paid
  - Reserves of grant funding not yet spent
  - Investments by equity / debt investors
  - Profit / surplus that you generated (see income statement above) but haven't distributed

  The 'balance' element of the balance sheet is the feature that at any one point in time your total assets must always equal your total liability. You see here a key feature of financial reporting for organisations – they are seen as stand-alone entities, recording liabilities towards anyone who invests in them such as funders, equity investors or debt investors.

- **The cash-flow statement:** this final statement shows you the relationship between your 'book' profits (i.e. what's shown in the income statement, above) and your actual cash position. Your income statement surplus or deficit (profit or loss) is adjusted to account for 3 elements:

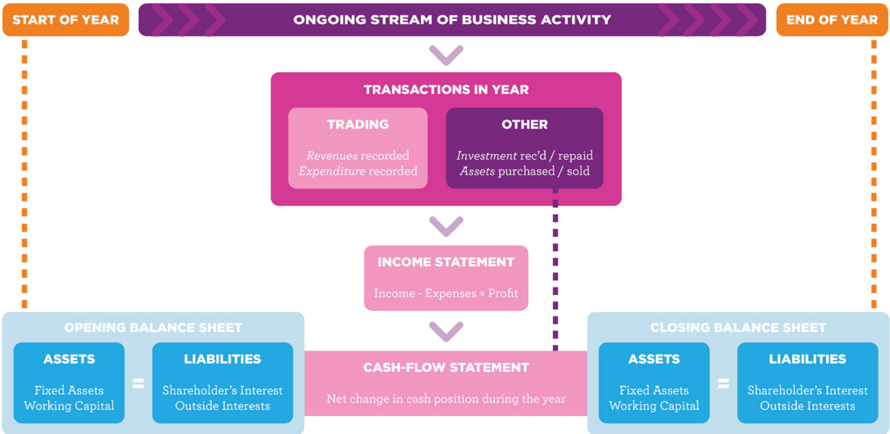
    - Items recorded as income or expenditure in the income statement but for which cash has not yet changed hands. This would include things such as sales that you have recorded in your income statement but where you are yet to receive payment from your customer.

    - Receipts and payments in relation to investment (equity investment received, loan repaid, etc.).

    - Investment in / sale of assets that have a useful life of more than one year.

  The purpose of the cash flow statement is to give you an clear view of how your cash balance (which, ultimately, is the thing that determines whether you can continue to operate) increases or decreases over a period of time. It is of critical concern to start ups, when cash is usually very tight, and often new social enterprises will use the cash-flow statement (or some version of it) as their only relevant financial management tool.

As you may be starting to see, these 3 financial statements are linked together in a well-defined way. In particular, the cash-flow statement is clearly a mix of elements that would come from the income statement and some that would come from the balance sheet. The diagram below shows the inter-relationship between the 3 statements:



At a very broad level, the relationship between the statements is summarised as follows:

- The opening balance sheet sets out the financial position at the start of the year
- All transactions of the organisation will impact the income statement and /or the cash-flow statement
- The 'output' of the income statement and cash-flow statement will provide the information for adjusting the opening balance sheet to generate the closing balance sheet.

As a start in getting to grips with financial statements, take a look at publicly available financial statements of organisations (websites are a good source).

Looking back – financial record-keeping

Recording your historical financial performance will more often than not involve you generating some version elements of the financial statements outlined above.

Financial reporting is important for various reasons, for example:

- It allows you to see whether you have met your (financial) objectives
- It will enable you to analyse your organisation's performance and understand the economics of your business. This can help you consider ways in which you can improve your performance or boost your growth.
- It provides one component of any discussions you might have with current and potential funders, investors and other stakeholders who may be influenced by the financial position of your enterprise. Bear in mind that you may need to report in specific ways when communicating with some financial stakeholders. Grant-funders, for example, may wish to see a financial report relating to the specific area of your organisation that they are funding.

The key thing to bear in mind here is that you cannot afford to generate these financial reports from scratch at the end of your financial year. Successful record-keeping will be very much dependent on the day-to-day systems and processes that record your transactions as they happen (or on a regular basis, typically monthly). Booking-keeping practice is discussed later in the next section of this theme of the toolkit.

Looking forwards - financial projections

The other critical form of financial management relates to looking to the future and thinking about how you want to develop and grow financially. Many names are used for this activity – budgeting, forecasting, projections, etc. Again, the terminology is driven by the form of your social enterprise, but the goal is the same: to allow you to set targets in relation to revenue, funding, investment, etc. and to allow you to plan for the expenditures and other costs associated to your organisation. We recommend you use a spreadsheet application, such as MS Excel, to build your financial projections.

The two sides of the equation – money in and money out – should be inter-related. For example, if you are aiming to grow the size of your service 3-fold during the year, what does this mean for your staffing requirements and costs? If you are aiming to grow your customer base significantly, what scale of investment might this need in terms of PR, marketing and sales?

Your financial projections should reflect the ambition of your organisation. Therefore the financial targets should be driven by the social impact and operational targets that you have for the next period of operation. So, going back to the service provider social enterprise, it is about setting your targets in the first instance in terms of number of people served (for example) and working through all of the operational and financial implications of that, for example:

- How much revenue will it generate?
- How many staff do we need?
- What size of office will be necessary?
- How many computers do we need?
- How much grant income will I need to find in order to bridge the funding gap?

Note that your financial projections should generate financial statements in line with those introduced earlier. However, these statements should be seen as the outputs of your financial projections. They are likely to be driven by the targets you set in terms of social outputs / outcomes and the assumptions you make about your operations and other costs. Your financial 'model' should generate your financial statement outputs based on these targets and assumptions.

The Excel-based financial tool presented here provides a fairly simple framework for building a financial projection model for your organisation. Note that it is very difficult to create a generic tool that will serve a diverse range of social enterprise business models effectively. You are likely to need to have a minimum level of comfort with Excel in order to be able to use the tool successfully and tailor it to your needs.

SECURING START UP FUNDING

Funding

Funding is all about getting the cash for your social enterprise. Funding is a requirement for enterprises throughout its lifecycle. For clarity it should be mentioned at the outset that here we are focusing on funds you raise from outside of the core mission of your social enterprise. The generation of revenues and income that you receive as part of the products or services that you sell are the main focus of the Marketing theme of this toolkit. Here, we are concerned with the function of raising finance from third parties who believe in your vision and mission, and your ability to deliver them. Access to different forms of third party funding and financing will be closely inter-woven with the legal structure that you choose for your social enterprise – we recommend you read the Legal Structures theme of this toolkit for details of this inter-relationship.

Funding from third parties may be required for several reasons, including:

- Getting you started
- Purchasing equipment
- Starting a new project,
- Scaling up your activities

Start up funding can be the hardest funding to secure. The perceived risk from the perspective of the funder is the greatest since the enterprise has no track record. At this stage you may have a business plan but there is no guarantee that this will translate into a sustainable business.

Sources of funding

The sources of funding are predicated by a number of factors:

- The amount of trading income you expect to generate
- The level of expected profitability

- Your enterprise's legal structure

If your social enterprise is likely to generate only or mainly social or environmental outcomes with little or no trading income then you need to consider grant funding. Strictly speaking if you are not going to generate trading income it is questionable whether you can be regarded as a social enterprise.

You may generate trading income but the profitability may be comparatively low compared to what a commercial business would be expected to generate. Typically social enterprises also operate in markets that are high risk – e.g. environment, health, social care. Both these factors may exclude you from being funded by many commercial funding entities that are looking to invest in businesses with a higher profit potential and with a lower market risk.

You need to think through all these considerations before approaching sources of funding. You need to devise a strategy and also consider carefully what the implications of obtaining the funding sources may have on you personally and on your enterprise.

You will need to have a convincing story and outcomes to get the financial support that you need. This means that you need to have undertaken your marketing and created a business plan that explains what you intend to do, how you are going to create the social and financial returns (contained in financial forecasts) and how much you are looking for. As a start, we recommend you work through the frameworks and actions set out in relevant sections in the Business Model, the Marketing and the Financial Management themes of this toolkit.

You may need to plan for staged funding – you may not be able to secure what you need immediately and from one source. This is normal. You should plan to get what you can and build on that. So you need to be looking to, and approaching, all potential sources of funding.

Set out below, are a number of funding options that one could pursue.

Personal

It is inevitable that the initial funding comes from you. The funding may be in actual cash outlay to pay for equipment, marketing, advice etc. and it will be in the time that you have put in yourself, sometimes labelled "sweat equity".

Though the time input may be considerable it is unlikely that you have enough cash to fund your enterprise to the point that it is financially self-sufficient. (i.e. generating enough income to cover your costs).

If you are thinking of starting an enterprise it is worth saving money so that you have cash reserves for you to look after yourself and meet the requirements of the enterprise until such time as you can attract other funding or reach financial sustainability. Ensure that you keep a record of what you have spent and also the time you have devoted to the enterprise. The cash and time is your investment into the enterprise. If the enterprise structure is not share based then the cash should still be viewed as investment, but in the form of a loan, that should be repayable to you when the enterprise can afford to do this.

Friends, family, angels and fools

Often entrepreneurs turn to people that they know to support their enterprise. You may have total belief in what you want to do and what you believe you can achieve. Can you convince those around you? Is your business plan convincing enough to entice those that you know? Are you confident enough to put friendships at risk? Can they afford to part with the money? Are they only able to support you in the short term - that is, will they start demanding their money back just when you can least afford to repay them?

Having initial financial support from someone other than you makes it easier to get funding from other sources as someone else has taken the initial risk. An individual who is not part of your friends and family network, but who believes in your vision and in you enough to invest at this very early stage, is known as an angel investor. Even if friends, families and angels invest a small amount, their confidence in your enterprise may help considerably in attracting other funding.

Regardless of who your investor is, recognise that the 'sell' to them will be about your vision and your high level social and strategic objectives. This will be as much about selling yourself as an individual as it is about the project that you have in mind. This is a high-risk investment opportunity that you are offering, with no track record of success at this stage, and so your passion, commitment and maturity in how you discuss your plans will be crucial in convincing people that they would be backing a winner.

Finally, consider in what form this funding will take place – will it be a loan or are you willing to give shares to these initial funders? Both considerations have an impact on your enterprise. A loan is repayable and you will also need to pay interest, so it can affect your cash flow. An equity investment is only possible if you have a company with shares. The early investors may have their equity holding diluted by future investment or they may want to be bought out when someone else invests. You need to make sure you know what your investors' motivations and repayment / exit strategies are.

Working capital / overdrafts

The most common external source of start up funding is bank finance. Usually this is in the form of an overdraft. An overdraft is a short-term form of funding for meeting an enterprise's **working capital requirements** - the cash you require to pay liabilities whilst you wait to receive the money you are owed. Working capital / overdraft facilities are important for organisations that are profitable but have periods when their cash balance is close to or below zero due to the nature and timing of their payments and receipts. Many new social enterprises will fall into this category.

Banks, as is well known, are not great risk takers. The bank needs convincing that the overdraft facility given to you is not an unacceptable risk. They will want a business plan. They will want to have some form of guarantee of repayment in case the enterprise fails. You may be required to give a personal guarantee. Also beware banks can recall an overdraft at any time. They often do this at a time when you need their support the most.

The amount of overdraft facility that will be available for a start up is likely to be small and so it may only be part of the solution to your funding requirement.

There are an increasing number of social banks who understand social enterprise and are more supportive of them than the high street banks. They also bring contacts and networks that can help your enterprise. The prominent social banks are listed below:

- Unity Trust Bank
  www.unity.co.uk

- The Co-Operative Bank
  www.co-operativebank.co.uk

- Triodos Bank
  www.triodos.co.uk

Loans

Loan finance is an option when you want a larger sum of money to start your enterprise. Loan finance is appropriate only where there is a good possibility that the loan can be paid back. You will need to repay the loan plus interest. So you must be sure you can manage this as well as convince the lender of this. Once again your business plan and financial forecast are going to be of great interest to the lender.
The advantage of loan finance is that it is contractual agreement with the lender. The lender can only demand the money back early if you do not keep up your agreed repayment schedule. Usually business loans are repayable over a number of years. Again consideration should be given to social lenders, as they are more likely to work with you to overcome any repayment problems. In many cases they will also not require personal guarantees to secure the loan. They are more open to managing the risk of lending to social enterprises than are commercial banks.

Research the lenders and ensure that you meet their lending criteria and that they can accommodate the amount you want to borrow. Some of the lenders have changing criteria as to sectors they support so you will need to check this as well.

The following lenders have a national presence:

- Unity Trust Bank
  www.unity.co.uk
- Triodos Bank
  www.triodos.co.uk
- The Co-Operative Bank
  www.co-operativebank.co.uk
- The Social Enterprise Loan Fund
  www.tself.org.uk
- Big Issue Invest
  www.bigissueinvest.co.uk
- The Social Investment Business
  www.sibgroup.org.uk
- Various local and regional community lenders (CDFI's) can be accessed via the umbrella body's website:

  Community Development Finance Association
  www.cdfa.org.uk

Grants

Grant funding is an attractive option for many social enterprises. There is no repayment required. However grant funding needs to be carefully navigated. Grants from grant making trusts are often restricted to organisations that are non-profit making. So many social enterprises may be excluded because of their legal structure, i.e. a company limited by shares, or if the constitution states that the company is profit making. The social benefits that the enterprise will generate need to be explicit and probably measurable. The grant funders are also more demanding about wider community involvement in the ownership and governance of an organisation as well about the adequacy of governance structures.

Grants also tend to be project-specific. That is they cover the costs of delivering a project but not an enterprise's central administration and management costs. For a start up enterprise it is exactly the administration and management costs that you need covered so that you are in a position to start delivering projects.

Grants are usually made available to organisations and not to individuals. The exception is UnLtd (www.unltd.org.uk), which supports individuals involved in social enterprise activity. The grant is for projects at the pre-start up or early start-up stage. Grants of up to £5,000 (Level 1) are available. The grant is given specifically to assist the individual to realise a project, such as a one-off event, or to launch a longer term and sustainable project. UnLtd also offer the budding social entrepreneur other support in terms of workshops, networking, seminars etc.

The starting point for seeking appropriate grant making bodies is to research the following web resources:

- www.trustfunding.org.uk
- www.governmentfunding.org.uk
- www.grantsonline.org.uk
- www.J4b.co.uk
- www.fundingcentral.org.uk
- www.grantfinder.co.uk
- www.grantsnet.org.uk

Equity investment

Your enterprise can only accept equity investment if it is a company limited by shares. This means you are able to sell shares to the investor. The investor could be individuals or institutions. Many institutions have minimum amounts that they will invest and tend to invest in social enterprises that are looking to grow rather than start up. As introduced earlier, the so-called **angel investor** may be a more likely avenue. Angels are generally successful individuals who are looking to support social enterprises and are more likely to invest in start-ups and invest smaller amounts.
Though equity investors will look to get a financial return for the money they have invested (i.e. a share of future profits), investors in social enterprises will also recognise that they are investing in the enterprise for it to generate a social return (and perhaps an environmental return too, depending on the business). Ensure that you understand the motivation of each of your equity investors (they will be different), including their **exit strategy** (i.e. how do they expect to realise the financial returns of the investment made in your enterprise?).

The social banks can either invest themselves or will be able to guide you to other sources of investment finance. More specialist investors are listed below; ensure that you have researched them before approaching them:

- Social Investment Business
  www.sibgroup.org.uk
- Venturesome
  www.cafonline.org
- The Big Issue Invest
  www.bigissueinvest.co.uk
- Triodos
  www.triodos.co.uk
- Nesta
  www.nesta.org.uk/investments
- Bridges Community Ventures
  www.bridgesventures.com

The investment landscape – an overview

The following diagram provides an overview of some of the key players in the social enterprise investment landscape. Once you have established your funding requirement and start to require more detail, try visiting the websites of these organisations directly or using one of the web-based funding search facilities mentioned above.

Organisation	Typical Investment	Investment Type				Sector					Stage		
		Organisation	Loan	Equity	Quasi	Education	Environment	Health	Social	Other	Start-up	Pilot	Sustainable
UnLtd www.unltd.org.uk	£0.5k- £20k												
Big Lottery Fund www.biglotteryfund.org.uk	£0.3k-£500k+												
Eismee Fairburn Foundation www.esmeefairbairn.org.uk	£1k-£250k+												
Comic Relief www.comicrelief.com	£25k-£40k												
Social Investment Business www.socialinvestmentbusiness.org	£3k-£10m												
Big Issue Invest www.bigissueinvest.com	£50k-£500k												
Venturesome www.cafonline.org	£20k-£350k												
Triodos www.Triodos.co.uk	£250k-£750k												
Charity Bank www.charitybank.org	Up to £1m												
Bridges Ventures Ltd www.bridgesventures.com	Up to £1.5m												

UnLtd

SOCIAL ENTREPRENEURSHIP AWARDS TOOLKIT

STAGE #4: PILOTING

KEY TRAITS OF A SUCCESSFUL ENTREPRENEUR

Social entrepreneurs are entrepreneurs with a social mission. The social mission is central to what they do and everything they do is proscribed by this considerations. For entrepreneurs, wealth is a measure of their success; for social entrepreneurs, wealth is only a means to an end, the end being social change.

The characteristics described below are idealised and will rarely be found in their entirety within any one successful social entrepreneur. We should also point out that these characteristics have been identified from the authors' experience of working with, mentoring and supporting (successful and unsuccessful) social entrepreneurs over a number of years, rather than being based on any formal academic research or study. They try to capture some of the practical traits that can help contribute to successful entrepreneurship; many of them can be developed over time as you enhance your capabilities and build experience and skills.

Solution orientated

Social entrepreneurs are constantly striving to create change with limited resources. This can best be accomplished through innovation and creativity. These are constant themes – innovative or disruptive solutions, creative imagination, unconventional ideas and solutions. To be effective, the solutions need to be practical.

Strong self-belief

Enterprise is not for the shrinking violets of the world. You need to have a strong belief in yourself and what you are doing. This will arm you against all the rejections and setbacks that you will encounter. The self-belief is what inspires and often frustrates others, but without it no enterprise would take off.

Tenacity

You need to refuse to give up. You need the ability to keep going against the odds. You should be able to b able to pick yourself up after every knock down and continue as if nothing has happened.

Innovative

Entrepreneurs have the ability to challenge the status quo and come up with new and better solutions to address social or environmental problems. They have the ability to shrug off constraints and are not tied down to specific ideologies or disciplines.

Opportunistic

Entrepreneurs often see and exploit opportunities that others miss. You need the ability to challenge everything and every way things are done – the questioning often generates an opportunity possibly a new way of delivering a service or creating a product. The successful entrepreneur will pursue an opportunity regardless of the resources currently available to them.

Passionate

By their very nature social entrepreneurs are passionate about what they do. Entrepreneurs are driven people. It is this passion, which engages and motivates people around them. Successful social entrepreneurs are infectious with their ideas. They have a zeal for what they do and they carry others with them. They are naturally optimistic. They believe in the vision they have created.

Calculated risk takers

Entrepreneurs tend to be risk takers. Generally, the existence of risk does not deter an entrepreneur, where others may well decide to walk away. However, blind risk taking is normally a recipe for disaster in an entrepreneurial setting. Successful entrepreneurs understand how to measure (intuitively or formally) the balance between risk and reward and, on the basis of this, will make their calculated decision.

Expertise

Social entrepreneurs are usually experts in their field. This allows them the ability to know when there is a time for change and also allows them to spot the opportunities.

Focused

Successful entrepreneurs remain focussed on the change they want to create. They do not give up. They are constantly seeking to improve the system.

Good communicators

Entrepreneurs influence the people they meet to get them helping them with their enterprise. They inspire and motivate people so that they willingly support the entrepreneur's vision. Entrepreneurs are good networkers.

Impatient

Social entrepreneurs are impatient. This is normally why they challenge the status quo and want to change things.

Strong leaders

Social entrepreneurs are able to lead and inspire others. Their energy and work ethic borders on heroic and challenges others to keep up with them. They know how to get the best out of others by getting them excited about the big vision, whilst making sure everyone stays focused and on mission.

Resourceful

With limited resources social entrepreneurs know how to make the most of what they have or influence others to help. They are good at mobilising human, political and financial resources.

Stage 4: Piloting
Theme 2: Social Model

DEFINING SOCIAL IMPACT INDICATORS, SETTING TARGETS AND REFINING YOUR SOCIAL MODEL

We have already introduced a process for developing your organisation's social model in this theme of the toolkit. In the piloting phase you will need to begin testing this model in the real world. This should include some definitive targets (operational and social/ environmental) you aim to deliver during your piloting phase.

Setting clear social/ environmental impact targets, along with your method for measuring success towards these targets, will enable you to critically assess the success of your social model. This will enable you to prove that your social model works and refine the model based on learning's from the piloting process.

This section will introduce a method for defining social impact indicators and setting targets.

What is social impact and what are social impact indicators?

At a very simplistic level, 'social impact' is the social change that an organisation creates through its actions- i.e. *the impact of its interventions*. Depending on the nature of your interventions (defined in your theory of change), the social impact of your organisation may include things that happen sometime after the actual intervention and / or affect a wider group of individuals than just your chosen target population. Let's use the example of the interventions outlined in Social Enterprise D's theory of change:

The intervention *'Support provided to M&Rs to enable access to employment and civic participation rights and entitlements'* has a number of defined, immediate interventions and results (these are often referred to as **outputs**). However, the real impacts and changes (usually referred to as the **outcomes**) are likely to happen later down the road and may also be more diverse in their nature. For example, *'M&Rs becoming economically active'* may have a positive impact on the health of the local economy.

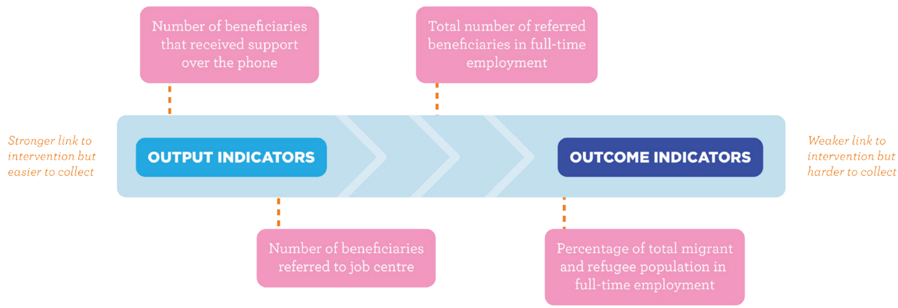
Social impact indicators are the specific, measurable things that you plan to track and which will allow you to assess the effectiveness (the impact) of your interventions. The indicators defined for a specific organisation will be dependent on the access/ ability to collect certain information and the audience to whom these indicators will need to be communicated. For example, the indicators you communicate to a Local Authority commissioner may be very different to those that you might want to communicate to the general public.

How to define social impact indicators

The best way to define your organisation's social impact indicators is to refer back to your social model's **theory of change** and **theory of action**. These elements of your social model should outline the key activities and interventions that you might wish to measure (**outputs**) and the corresponding **outcomes** you are aiming to achieve. The purpose of your social impact indicators is to measure the outputs and outcomes achieved by your organisation, creating a clear evidence base for your social model.

Defining and collecting data for **output indicators** is usually easier, often requiring your organisation to monitor interventions and results of these interventions. Although this information is often valuable, it does not necessarily measure whether the organisation is achieving its desired outcomes or 'goal state'. Progress towards these goals must be measured through **outcome indicators.** Outcome indicators are often hard to collect and will usually have a weaker link to your organisations specific intervention(s) – often this is due to the fact that the real outcomes (benefits) happen elsewhere to the place you deliver your interventions and / or they happen sometime after you deliver your interventions. However, these indicators (if you can measure them somehow) will be of fantastic value to you in communicating the real overall social impact of your activities and progress towards your organisations mission statement.

The diagram below demonstrates the '*output to outcome continuum*' using the example of Social Enterprise D and demonstrates the increasing difficulty in capturing outcome-type data versus output-type data:



Remember, when measuring outcome indicators you should be measuring the **incremental social impact** you have delivered above the 'norm'; i.e. you should discount '*what was happening anyway*'. For example, if the proportion of M&Rs in employment has been increasingly steadily by 1% per year for the last 3 years, your organisation should look to measure any **difference** above this 1% trend. For more detail on finalising and measuring your social impact indicators see.

Refining your social model

As introduced above, setting clear social/ environmental impact targets, along with a method for measuring success towards these targets, is one of the best methods for assessing the success of your social model. As you monitor and evaluate the impact of your organisation's interventions, it is likely there will be an on-going iterative refinement of your social model. This process should be tightly aligned to the business planning and evaluation cycle outlined in the Business Model theme.

It is important to exercise caution when considering changes or refinements to your social model. During the pilot stage, aspects of your work may suggest new or alternative types of social impact that you had not anticipated. If you feel that this may justify changing your core social model, it may be worth testing first with stakeholder (e.g. beneficiaries and / or customers) before implementing any significant changes. Try to avoid basing major strategic decisions around changes to your social model upon anecdotal, untested and potentially unrepresentative evidence.

Refinement of your social model is typically driven by an increased understanding of the needs / problems you are trying to address (usually for a target population – your beneficiaries). Typical refinements usually involve:

- **Addressing needs / solving problems more effectively** – improving the quality of the outcomes

- **Delivering your product / service more efficiently**- allowing the organisation to increase the scale of its impact

- **Prioritising your interventions** to focus on more specific, higher ‘quality’ outcomes

Any significant changes to an organisation’s social model should be evaluated using the social change model (introduced earlier in this theme), to document and articulate the expected outcomes in relation to the changes and set appropriate indicators and targets.

PROVING YOUR SOCIAL MODEL: COLLECTING YOUR EVIDENCE BASE

Introduction

Like any new business, the 'piloting' phase is the opportunity for you to prove that your idea can work in practice. In a commercial business, this is usually demonstrated by proving the commercial viability of your business model. The proof or 'evidence base' required for demonstrating the commercial viability of an organisation is typically defined by a number of key financial indicators that measure the success of your business model (e.g. profit and cash flow position).

A social enterprise must demonstrate more than simply commercial success; it must also prove the viability of its social model by demonstrating its social impact. However, whereas the viability of a business model can be tested and proven by a set of readily quantifiable financial indicators, the social model must be proven by demonstrating the social impact generated by the organisation. Social impact indicators were introduced in the Social Model theme of the toolkit; this section should help you to define the most suitable indicators for measuring your organisation's social impact (i.e. the impact of your interventions). The difficulty in defining common indicators for measuring social impact has created a wide range of proposed solutions and methodologies to measuring social impact.

This section of the toolkit will introduce a typical framework for setting out and documenting your social impact, along with some suggestions and tips for collecting data for social impact indicators. Remember; building a robust evidence base for your social impact will put you in a far stronger position for communicating the success of your organisation.
This will help with marketing you product or service to the customers and beneficiaries, obtaining financial support (e.g. grant making or investment) and making strong

evidence-based decisions for your enterprise.

Social impact- building your evidence base

The Social Model theme of this toolkit introduced a process for deciding on the most suitable social impact indicators for your organisation and the challenges of obtaining data for **outcome** indicators *(weaker link to intervention and difficult to measure)* versus **output** indicators *(strong link to intervention and easier to measure).* Once you have defined your social impact indicators, the next step is to set specific social impact goals for the pilot period.

You should aim to set clear goals across all you social impact indicators; both outcome and output based. This will often require you to establish 'benchmarks' for each indicator, enabling you to set goals based on a change from the benchmark, thereby measuring the impact you have generated through your interventions. Remember, you must also consider any 'natural change- *what might have happened anyway*' that may occur during the pilot period and deduct this from your identified impact.

To complicate matters further, in some cases your organisations intervention may have a **delayed outcome; t**his may require you to monitor and measure the indicator(s) for a period after the original intervention.

Once you have defined your social impact indicators, your benchmark measurements and your goals for the pilot period, it's worth pulling this information together into a simple table. The diagram below provides an example of how this table might look for Social Enterprise D that provides advice, information and support to refugees and migrants in city 'y'.

ACTIONS	OUTPUTS			OUTCOMES		
	INDICATOR	BENCHMARK	GOAL	INDICATOR	BENCHMARK	GOAL
TELEPHONE, DROP-IN AND REFERRAL SERVICES	Number of beneficiaries that received support over the phone.	Year 0: n/a	Year 1: 4,500 (+4500)	Benefit survey to clients (sample)	Year 0: n/a	70% of clients report better access to welfare and other social services
	Number of beneficiaries served at drop-in clinic.	Year 0: n/a	Year 1: 325 (+325)	Benefit survey tracking clients over 6 months	Year 0: n/a	85% of clients report better access to welfare and other social services
	Number of beneficiaries referred to job centre.	Year 0: n/a	Year 1: 250 (+250)	Tracking access to jobs for referred clients	Year 0: n/a	Year 1: 85 clients are in full time employment within 6 months of referral
	Number of beneficiaries referred to job placements.	Year 0: n/a	Year 1: 125 (+125)	Tracking access to jobs for referred clients	Year 0: n/a	Year 1: 70 clients are in full time employment within 6 months of referral

If you wish to build from an established framework for collecting defining your key indicators and collecting your data, have a look at the Strategy and Impact section of the National Council for Voluntary Organisations (NCVO) website (http://www.ncvo-vol.org.uk/advice-support/funding-finance/planning); they provide an introduction to a number of established tools and techniques for developing your monitoring and evaluation framework.

Tips for collecting and recording social impact

- **Start early:** Integrate social impact measurement into your planning process. Don't wait until after you have started your pilot period; it will more difficult to implement the recording systems and process.

- **Collecting and interpreting social impact data:** collecting data is never an easy job. It requires time, commitment and the appropriate systems and processes. However, whenever possible you should always aim to make sure your data is:

    - **Robust:** from a quality data source/ robust collection of internal data

    - **Relevant** to the social impact indicator you are trying to measure.

    - **Up to date:** for the period you are trying to measure.

    - **Objective:** whenever possible the data should be collected in an objective manner or obtained from an objective source.

Be careful interpreting data patterns- try not to make untested assumptions or generalisations based on small samples of data. When measuring outcomes, be sure to consider the 'cause and effect' of the outcome you are measuring. The change or outcome you are measuring will usually involve a number of contributing factors; i.e. not just your intervention. At this stage, don't get too bogged down in worrying about proof; i.e. 'it was your intervention that causes the outcome', it's fine to say that your intervention contributed to the overall outcome; just make sure you identify the other contributing factors.

- **Look at what others do:** it's worth spending some time looking at how some organisations approach social impact measurement and define indicators. Some examples include:

    - Outcome stars (http://www.homelessoutcomes.org.uk/)

    - SOUL Record (http://soulrecord.org/)

    - Measuring soft outcomes and distance travelled (http://wefo.wales.gov.uk/?lang=en)

    - Social Return on Investment (http://www.cabinetoffice.gov.uk/third_sector/news/news_stories/090512_sroi.aspx)

    - Social accounting and audit (http://www.socialauditnetwork.org.uk/)

  The NCVO website summarises a number of these tools and techniques (http://www.ncvo-vol.org.uk/advice-support/funding-finance/planning)

- **Types of information/ data you could collect:** there are a number of different data/ information sources you might consider using, depending on the nature of the social impact indicator you are trying to record. These sources of information are typically split into two categories:

    - **From data sources:**

        - **Internal**: e.g. products sold, number of beneficiaries served.

        - **External**: e.g. Departmental of health statistic, local authority records, market research data.

    - **From people:** external stakeholders e.g. beneficiaries etc.

   - Questionnaires
   - Interviews
   - Focus groups

- **Less is more:** don't try and record everything. Work out the best indicators for measuring your impact and focus on those- *less is usually more.* Ask yourself the question- *'will this provide me with evidence of our social impact'.* It's far better to record a small number of robust, relevant and up-to-date sources of data. It is also worth considering the audience that you will communicate this information to- what level of detail will they need? Try and keep it simple as possible.

- **Set up some simple systems and process:** depending on the social impact indicator, you may need to record the data or information at different points in time. With this in mind, it's worth setting up some simple processes for recording these indicators, making sure you capture the right data, at the right point in time. When measuring outputs from your activities (e.g. products sold, number of service beneficiaries etc.) it may be worth setting up a simple spreadsheet or database to help you record data on an on-going basis.

- **Allocate some resources:** social impact measurement and evaluation is fundamental to proving the viability of your idea or concept. At this early stage, it is worth considering how much resource (time or money) you may need to allocate to this activity, making sure you consider the potential associated costs such as; internal data collection systems, purchasing external reports, setting up beneficiary questionnaires/ interviews and statistical analysis. Just as many organisations chose to buy-in financial accounting skills to produce financial reports; it may be worth appointing a professional from outside the organisation to evaluate your social impact. Ultimately, the choice of external or internal assessment is usually determined by the organisation's resources, conditions set by funders, or internal capacity (skills) to carry out the evaluation.

- **Ethical considerations: o**nly ever use fair, accurate and honest data. Fictitious data is nearly always found out, risking the credibility of your organisation, and potentially damaging its future. Due to the sensitive nature of some information that you may be collecting, always refer to data protection laws to make sure you manage and use your data legally (see http://www.ico.gov.uk/for_organisations.aspx).

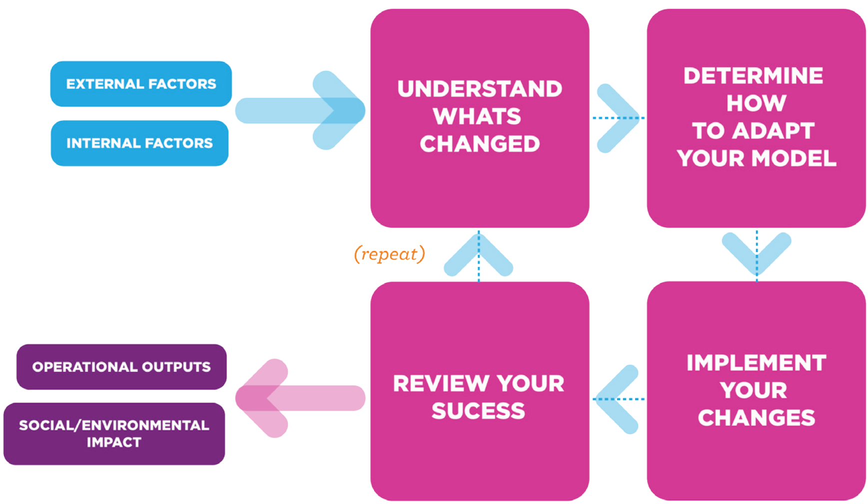
Stage 4: Piloting
Theme 4: Business Model

REFINING YOUR BUSINESS MODEL

Introduction

As you build a track record of operation and impact, there will be an on-going iterative refinement of your business model. This is an important philosophy to highlight at this stage of your organisation's development – your business model should be viewed as a work in progress, often for a considerable time after start-up. As you learn from your operating environment, internal and external factors that you didn't know about or changes and trends that take place post start-up will affect where and how you should operate for maximum impact.

To this end, the diagram below aims to provide a simple overview of on-going business modelling and planning activity, highlighting the iterative nature of this function:



Formal adoption of this model is often reflected by an organisation's business planning and evaluation cycle, typically 3 or 5 years (or perhaps set to be the expected duration of your pilot phase); however, within each of these cycles, your role as the leader of your organisation should include using a framework such as this on an on-going basis, enabling you to react to changes in your operating environment flexibly and quickly. Note that this approach can be applied at the level of the entire organisation as well as in relation to an individual component of your operations (e.g. service delivery or marketing).

The inputs to the initial cycle in this framework are a clear understanding of any key changes to your internal and external operating environment. Your review step at the end of each cycle should enable you to understand what's working and not working in your existing operation in the form of delivering operational outputs and social and environmental impacts. These in turn will form inputs (together with any new changes in internal/external factors) for the next iteration.

It's again worth stressing that this is more of a philosophy of business planning rather than a hard and fast framework. For example, the duration of each cycle is never set in stone, and at any one point in time you may be at the start of the process in relation to one aspect of your business model and at the review stages in relation to another.
Adopting an on-going approach to reviewing and enhancing your business model can be a valuable asset for you as an entrepreneur and business manager. However, we should highlight a few issues:

- Reviewing and refining your business model does not mean changing it just for the sake of it. Changes should be driven by the goal of creating enhanced impact, however that is defined for your organisation. Often, if a business model is not functioning as desired, entrepreneurs will start extending the model to encompass a broader range of services/products, for example, thereby making the business less focused and more complex. Try to avoid this (common) path for your start up; you are much more likely to succeed if you define a narrow, well defined and focused business model that really addressing the needs of those you serve and plays to the specific strengths of your organisation. As introduced earlier in this theme, **focus** should be the over-riding principle when designing or refining your business model.

- Don't underestimate the time required for this type of analysis. Planning for your business can be a long and time-consuming process, and can easily be pushed down the priority list since there are always more urgent things relating to the here and now of your business.

- When reviewing your business model and its effectiveness, it can often be helpful to hear the perspective of someone with appropriate experience, but who is outside of the day to day running of your organisation. If appointments have been made well, your board / management committee / advisory group should ideally be able to advise and guide you with certain aspects of your strategy and business model. Mentors and advisors can also be very valuable in this regard.

Some typical drivers for changing your business model

We've already mentioned that refining your business model should be something you do within the context of maintaining a focused approach to delivering the social impact you're aiming for. However, a business also needs to have the flexibility to react to changes in the environment in which it operates, maximising opportunities and mitigating threats. The bullets below set out some typical examples of developments that may lead to you refining your business model:

- Working with customers and beneficiaries, you may learn that certain adaptations to the way in which you might deliver your product or service can help meet their needs more effectively, or meet a broader range of their needs. Modifying these aspects of your business (and operating) model may enable you to grow more quickly.

- You may identify new ways of 'packaging' what you offer to your customers or new ways of making your customers aware of what you offer. Although these are marketing relating issues, they may sometimes lead to a broader refinement of your business model.

- Changes in your external environment may necessitate a change to how best you should operate in that environment. For example, changes in the way in which social care services are funded and commissioned may require you to build relationships with a new set of stakeholders and customers.

- Another driver for change is also stakeholder-related. As you begin operating, you may realise that your selling might be much more effective if you can sell to 'meta-customers' that are able to make decisions that will, in effect, deliver multiple sales in one go. For example, if you're selling a workshop personal development service to schools, is it possible to work with a local authority to secure their commitment to delivering your service in 20 schools across the borough?

- Once you have started-up, your day to day work will bring you into contact with a wide range of organisations and individuals that are directly or indirectly involved in your work. As you learn more about what your organisation does well and where there might be value to adding further capabilities, you may uncover partnership opportunities that enable you to grow quicker by focusing on a narrower part of your business model or building a broader, more attractive, offering to your customers. Partnerships are a fundamental feature of many social enterprise models and this topic is discussed further below.

- Conversely, you may discover that some element of your business model could be completed more effectively or more efficiently by out-sourcing it to a third party supplier, enabling you to focus on the core elements of your business (i.e. the ones that really create value for your customers and beneficiaries). Note that this may sometimes also work in reverse; you may decide that you should bring a function in- house in order to control the quality or reliability of its delivery.

Intellectual property

Once you start operating and engaging in the marketplace, any **intellectual property (IP)** that you use in your organisation will be visible to competitors and other market players.

All organisations have intellectual property - 'a form or original creation that can be bought or sold' – Intellectual Property Office: (IPO) definition, 2010 [1]. The IPO categorises intellectual property into four groups:

- Brand identity
- Inventions
- What a product looks like
- Music, art, film, literary works and broadcasts

As highlighted by the IPO's 'Intellectual Property Explained' (www.ipo.gov.uk/myip.pdf), IP can be one of your most valuable assets. It can increase your competitiveness in the market and significantly contribute to your success. Note that if you are developing your organisation and IP from within a higher education setting, you may be using IP that strictly is owned or partly-owned by the institution itself. You should discuss access to and use of such IP with the institution at an early stage – more detail on this is provided in Theme 11 of this toolkit.

If your organisation's success is driven by some form of intellectual property, then you should probably think about protecting it; otherwise you may put your organisation at risk by allowing others to copy your ideas without your permission and replicate the things that differentiate your offering.

The IPO defines four areas of IP protection rights, structured around the four types of intellectual property defined earlier:

- **Trademarks**: A trademark is a sign which can distinguish your goods and services from those of other traders. A sign includes, for example, words, logos, pictures or a combination of these.

[1] *The Intellectual Property Office is the official government body responsible for granting Intellectual Property (IP) rights in the United Kingdom (www.ipo.gov.uk)*

- **Patents**: A patent should be used if you develop a process or a product that is new or inventive and could be used in industry, i.e. it can be made. A patent can protect your invention by making it unlawful for anyone, apart from you or someone with your permission, to produce, use, import or sell it.

- **Registered Design Right**: relates to the physical appearance of an item or part of it, and can apply to industrial as well as handicraft items. This IP right is not concerned with how the item works, but concentrates on the appearance resulting from the features of the product or the way it looks. Contributory features to a product's appearance include: lines, contours, colours, shape, texture and material.

- **Copyright**: Copyright is an IP right, which relates to the expression of an idea, not the idea itself. For example, anyone can write a story based on the idea of a boy-wizard, but they cannot copy text or illustrations from other books about the same subject. Copyright can protect a drawing from which you make an item and could protect the item itself (e.g. a sculpture), but will not protect the process by which you make it.

(**Source**: www.ipo.gov.uk, also see IPO website for details on other less typical legal frameworks)

The table below give a simplified overview of the IP rights system in the UK (this is taken from the IPO website- see reference above). This table should help you to decide which of the IP rights might apply to your organisation:

IP RIGHTS: LEGAL FRAMEWORKS

	Patents	TRADEMARKS	REGISTERED DESIGN-RIGHT	COPYRIGHT
TERM	Up to 20 years (subject to annual renewal)	Rights can last forever (renewals every 10 years)	Up to 25 years	Life plus 70 years (Broadcast and sound recording copyright lasts for 50 years, typographical arrangement for 25 years)
PROTECTION	Throughout the UK	Throughout the UK	Throughout the UK	Throughout the UK and much of the world
PROTECTS AGAINST	Your idea being used, sold or manufactured	The use of your trade mark by others without your permission	Your product being manufactured, sold or imported	Your work being copied or reproduced in communication or performance
WHAT IS PROTECTED?	Inventions	Brand identity, including words, logos and other signs.	What the product looks like	Music, art, film, literary works and broadcasts

(**Source**: www.ipo.gov.uk)

Working in partnership

Partnerships are built when two or more organisations work together to deliver a single product or service for customers and / or beneficiaries. They are common in the world of social enterprise, and there are multiple drivers for entering into a partnership, all of which may lead to a change in the original business model that you had in mind. Examples include:

- Increasing your capacity so that you can deliver at a scale that is more attractive to customers.
- Creating a broader (and more attractive) offering to your customers (e.g. providing your service in tandem with a related service, or the same service targeted at a different set of beneficiaries).
- Enabling you to deliver your product / service in a way that creates enhanced social or environmental impact.
- Increasing your chances of securing funding or achieving sustainability.
- Accessing new and valuable resources and skills

Partnerships can take many forms, according to the scope and scale of the relationship. You may find partners in those who you previously thought of as suppliers, competitors, customers and even beneficiaries. Partnerships can be built for a specific period / event or can be on-going and long term in nature. The level of formality, and the degree to which partnerships need to be defined through legal documentation, for example, will vary from case to case. The main advice here is to avoid making any assumptions about your expectations for the partnership and ensure you agree (and document) the major aspects of the relationship clearly. At the minimum, you should think about the following:

- Clear definition of the roles and responsibilities of each partner.
- Working out the ‘nuts and bolts’ of how you will work together on a day-to-day basis.
- Assigning accountabilities, especially accountability towards your customers and beneficiaries, who are likely to expect a ‘seamless’ experience, without needing to deal with separate

providers. Ultimately, for example, who is going to be accountable to your customer if something goes wrong?

- The way in which you present yourselves and the nature of your partnership to your common stakeholders.
- The way in which revenues / funding / finance will be split between the partners.

Bear in mind that for some partnerships you may need to take on legal advice in order to translate your agreements into the appropriate legally binding documents. As well as enabling you to have a common reference with your partners, defining your partnerships in this way may be expected or preferred by your customers / beneficiaries. And finally, remember that partnerships are likely to require management and time commitment even after they have been set up; try to agree a review process with your partners to assess how you are getting on and agree on what / how you could improve.

Managing risk

Managing your business model is closely related to managing the risk of your organisation. Managing risk is the process of anticipating issues, both internal and external to your organisation that may jeopardise your success, and taking the necessary steps to avoid them, or at least minimise their impact.

Risk can take many forms; typical risks in a social enterprise context relate to the following areas:

- Your operating environment
- The general economic, political and social environment
- Your internal operations
- Your financial position / circumstances
- Your legal position / circumstances
- Your reputation / brand

Remember that managing risk is not just about identifying risky issues in advance – it's also about taking mitigating actions. Businesses should maintain a **risk register** that defines the major risks, provides some assessment of those risks and documents the steps that are being / will be taken to mitigate them. The risk register should be reviewed and updated regularly, remembering that some risks will need to be monitored and reviewed more frequently than others. Any formal documentation of the organisation's business model and / or business plan will usually need to include at least a summary of your current risk analysis (many funders will expect to see a risk register as part of a funding application or business plan, for example).

In terms of assessing risk, two measures are normally used. First the probability that this risky event or issue will be realised; and second, the (adverse) impact this would have on the organisation if this happens. Risk is notoriously difficult to quantify, and so these 'measurements' are normally made broadly using a 'high- medium-low' scale, for example.

By considering the combination of probability and impact, you can assess how to act. For example, if a risky event has a low probability of happening and a low impact on your organisation if it did happen, this is unlikely to cause you much concern. Conversely, a highly probable risky event that would have a high adverse impact on your organisation is likely to require a quick and determined mitigating response. Generally risks can be dealt with in the following ways:

- **Avoid the risk**: if a risk is highly likely and can have a significant impact on your organisation, you may wish to avoid the activity or issue that creates the risk in the first place. This may mean, for example, deciding not to take on a large contract due to concerns about working with a particular customer. Or it may

- **Minimise the probability**: there are often steps you can take to reduce the likelihood that the risk is realised. The use of anti-virus software on your organisation's computers and the use of ergonomic computer equipment for your employees are simple examples.

- **Minimise the impact**: again, steps can often be taken to mitigate the impact of a risky event if it happens. Again if we look into the the workplace

- **Transfer the risk to someone else**: if the risk is unacceptable to the organisation, perhaps because it is out of your control, you could seek ways to transfer the risk to another party who may be better placed to control it. But be aware that you may well have to pay for this benefit - insurance policies are a classic example of this. In the example above where there are concerns over a customer, you may be able to assign the risk to the customer through contract negotiations and agreements.

- **Accept the risk**: remember that risk is the flip side to reward – this applies to social enterprises as well as to commercial business, except that for the former reward is measured as a combination of social, environmental and economic returns. Some risks will be part and parcel of your organisation’s work and others may (due to low probability and low impact) be cheaper and easier to accept than to try to avoid.

RECRUITMENT, LEADERSHIP AND MANAGEMENT

In the previous section in this theme, we highlighted the importance of identifying key skill gaps and outlined some potential avenues for addressing them. As your pilot phase progresses, you may come to the point where you need to recruit staff to the organisation. This section discusses some of the key aspects of finding, organising and motivating others as they join your social enterprise: recruitment, management and leadership.

Recruitment

The first recommendation to make in terms of recruitment is, as far as possible, try to anticipate it and plan for it in advance. This will maximise the chances of you defining exactly the right role you need and finding the best person for the job. Last minute recruiting when you are desperate to find someone to enter an overloaded organisation increases the chances of a poor recruiting decision.

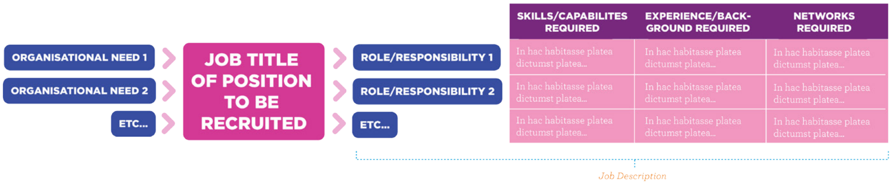
One point worth making at the outset is that an entrepreneur is very often a jack-of-all-trades during the early stages of an enterprise, being actively involved in selling, delivery, marketing and promotion, and back office operations and finance. Once you reach a certain stage, it may be time to consider transferring some of those roles to a new member of the team; but bear in mind two things:

- You will lose some element of control over the running of the organisation, which can sometimes be difficult for entrepreneurs to accept. There's no point recruiting someone if you don't give them the scope and space to do their job properly.

- Many entrepreneurs will have certain roles that they dislike or feel out of their depth with. In and of itself, this is not enough to justify recruitment. You should only seek to recruit someone when you are sure that your organisation will be able to absorb the incremental fixed cost of salaries and other staff- related expenses. Early recruitment for social enterprises must usually be accompanied (or followed soon after) by a minimum level of top line revenue growth.

So, assuming you have the luxury of time, the first step should be about defining the role and requirements (skills, background, networks) for the job. Try to derive these from the actual needs of the organisation, as shown in the diagram below:

The job description you end up with needs to be realistic – can you really expect to find the skills, background and networks you've identified in a single person? If the description requires too diverse and unrealistic a set of requirements, then you may need to break the role down into two (part-time?) posts.



Once the job description has been drafted, the normal recruitment methods (advertising in appropriate media, employment agencies, your website, etc.) should be augmented by leveraging your networks and those of your organisation. Your friends and colleagues may have friends and colleagues who have the necessary skill- sets; the fact that you move in similar circles may mean that they may be aligned to your vision and goals, compared to someone reading a job advert.

Once you have shortlisted your candidates, it will be time to interview – think about interviewing at least 3 people and at most 10, depending on the role and the quality of the applications. In preparation, you should document the qualities that you will be looking for in a candidate (values, motivations, passion, etc.) and a set of criteria against which you will assess each of them – these should be closely aligned with the requirements documented in the job description. Many recruitment processes will go one step further and translate these criteria into set questions that will be asked of each candidate.

Once you are engaged in recruiting it is important to remember that there are practices and procedures you should follow to ensure transparency and compliance with law. Firstly you should keep a record of the content of the interview and how you came to your decision for each candidate – this should be based on the criteria mentioned earlier and present an objective account of the interview and decision; specifically, avoid including any comments in this record that relate to your beliefs about or attitudes towards the candidate. Secondly, it is important that you are aware more broadly of the law regarding discrimination in the workplace (including recruitment).

Once you've successfully recruited a staff member, make sure you carry out a formal induction with them, addressing issues such as health and safety, legal and compliance requirements, wage / salary payment arrangements, working practices, organisational norms and culture and administrative items.

The subject of employment has many facets, including training, legal / compliance / contractual obligations, employee taxation. It's worth getting a broad understanding of these areas once you make the decision to recruit. A good place to start is the Business Link website at Business Link - employment and skills.

Management

Once you have people working within your organisation, you are likely to need to manage them. Effective management is a skill that you can build over time as you learn from your experiences. Some of the important aspects of management are set out below:

- **Maintaining organisation and operational oversight:** ultimately, the accountability for the success of the organisation lies with you as its leader. As such, you will be responsible for managing people to ensure they deliver against their roles and responsibilities and support them where necessary. This role also extends to establishing processes and procedures, as well as managing / monitoring the finances, working with your board and dealing with / overseeing administrative duties.

- **Delegating**: whilst accountability might lie with you, good managers will be able to delegate work to members of their team. The aim here is to delegate work / roles to team members that give them responsibilities that are aligned with their skill-sets whilst ensuring that they are stretched and motivated to deliver. Delegating responsibilities should be done by agreeing at the outset on the target outputs / deliverables and the associated timeframes.

- **Clarity and communication**: successfully doing these first two bullets will help you to manage a team where all members understand the roles, responsibilities and what is expected of them in terms of delivery. Management interventions are usually on-going, however, due to the dynamic nature of an organisation and teamwork. An open approach to communicating with team members is valuable here, providing support, direction where necessary and seeking feedback on a regular (but not overly frequent) basis.

- **Review and appraise**: management duties don't finish once a team member has delivered the end product. Depending on the nature of the work, you should think about regular appraisal processes to review performance. For most roles, this might be done twice a year or annually; for some project-based enterprises, appraisals might be completed after each project. The appraisal should be an open, two-way process (you should be appraised as a manager too) that documents what has worked well and what hasn't, all with a view to doing it even better next time round.

- **Reward good performance; confront poor performance**: finally, a manager should ensure good performance is recognised somehow. This might not always be a financial reward; it could be by taking the team out to dinner or by increasing the responsibilities of a team member next time round. Similarly, poor performance should be discussed in the same open manner. The appraisal should be used as a basis for agreeing on how things should work differently next time – be prepared as a manager to accept that you may need to change some of your practices or approaches here too, it will help ensure you avoid a defensive and unproductive discussion.

Leadership

Whilst management is a skill, leadership is more of an art. As such, this section doesn't highlight the characteristics of a good leader, since these will vary from person to person and from one environment to another. However, here are some pointers that, more than anything else, highlight the differences between leadership and management:

- The leader is ultimately responsible for ensuring that the organisation's vision takes centre stage in terms of direction and that it remains on mission and true to its values. Whilst the manager will looks after the business model aspects of the organisation, the leader will be, first and foremost, the guardian of the its social model. The importance of this role becomes most relevant if and when management and leadership become separated into two positions within the organisation.

- As the guardian of the vision, mission and values, the leader is responsible for communicating these to other staff – the goal here is to provide 'motivation with boundaries' for others working within the organisation, enabling them to keep in mind the bigger picture and the broader objectives as they engage in their day to day work.

- As well as internal communications, the leader will most likely be the external face of the organisation and the main point of contact for external stakeholders, especially in the early stages. The passion and clarity with which the leader communicates the vision and mission, as well as their ability to talk about the more operational delivery elements of the product / service the organisation offers, will be critical in getting stakeholder buy-in and winning customers (at a time when you will have a limited track record of success).

- Beware the fine line between being a leader and being a colleague or workmate. Since at the early stages you are likely to be leading a very small team (perhaps just one staff member initially), you will probably have a close day-to-day working relationship. It may be difficult sometimes to separate your leadership role from your manager / team player role and this may lead to tensions from time to time. The recommendation here is to be open about this dual role with staff and try to delineate your communications clearly so that you can operate effectively at both levels.

DEVELOPING YOUR MARKETING STRATEGY AND MARKETING PLAN

We have introduced the core components of marketing in the previous section of this theme: defining your target audience, understanding your target audience and defining your value proposition. This section will look at the final two core components of marketing; your **marketing strategy** and **marketing plan.**

What is a marketing strategy?

The marketing strategy of your organisation should define how you plan to communicate your value proposition to the target audience. It should therefore consider:

- Your **brand identity** – how you communicate your value proposition / offering to the market
- Your **position in the market landscape**- how does your value proposition compare to your competitors?
- Your '**routes to market'**- how will you reach the target audience with your value proposition?

Your marketing strategy should be seen as an integral component of the overall business strategy and will be play fundamental role in delivering your organisation's mission and overall strategic aims. Once you have defined your marketing strategy, you will then be able to develop a marketing plan – i.e. the objectives, budgets and tools that will be used to deliver the marketing strategy.

Marketing strategy – brand identity

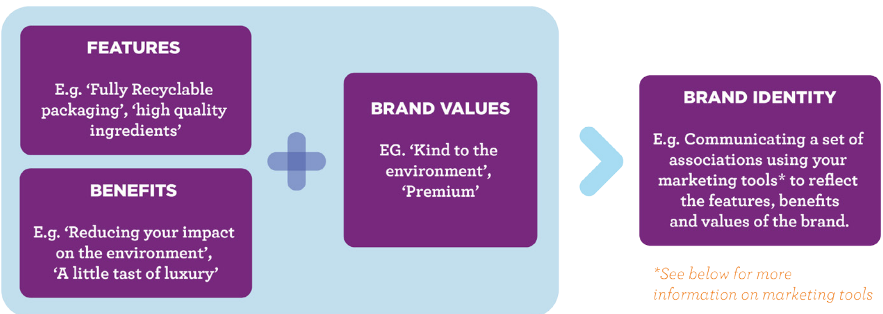
In some cases you may need to communicate your value proposition in different ways depending on the target audience or route to market. For example, an organisation providing information and advice services to the homeless is likely to communicate very differently with beneficiaries versus Local Authority commissioners.

Features are factual statements about your product or service, whereas the benefits should answer the target audiences question ‘how does this benefit me?’ The example below demonstrates the use of features and benefits within a value proposition for an organisation supplying its products in fully recyclable packaging:

Fully recyclable packaging - reducing your impact on the environment

FEATURE **BENEFIT**

The core features and benefits of your value proposition should be used as the basis for your **brand identity**. **Brand identity is a visual representation of your features and benefits, built upon a set of values that represent your organisation.** Brand identity is much more than just a logo; it is a way of bringing together a specific set of values to help differentiate your offering in the market place and achieve competitive advantage. Developing your brand identity will require you to define a set of brand values. These values should be closely aligned with values defined in your business model, and will form the foundation of your ‘message’ to the target audience. The diagram below illustrates the relationship between features, benefits and values in creating your organisation’s brand identity.



Your brand identity needs to work effectively with all segments your target audience, and through all routes to market. However, the specific features and benefits you decide to emphasise may vary depending on the audience segment/ route to market in which you are communicating your value proposition (see marketing plan- next section).

This section of the toolkit has only briefly summarised the key components of brand identity. The **Design Council UK** has produced a number of excellent guides on this topic, including some comprehensive case studies around developing brand identity and the process of brand design (see www.designcouncil.org.uk/resources- and-events/Business-and-public-sector/Guides)

Marketing strategy – your positioning in the target market

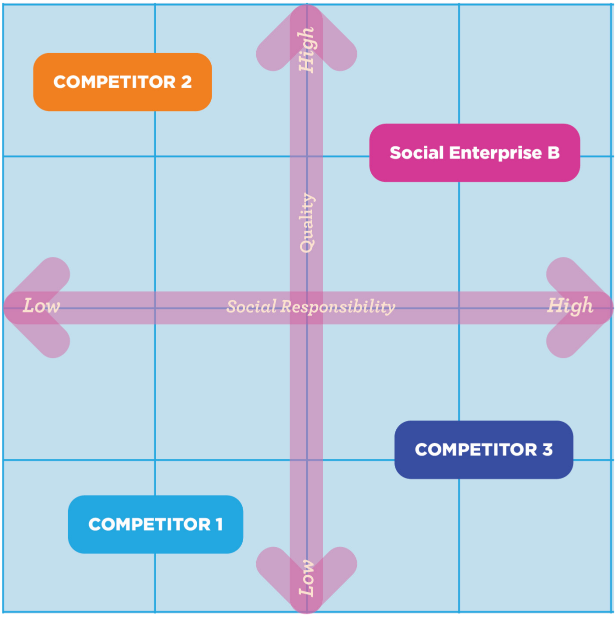
Once you have defined your value proposition, the next important step is to evaluate how you want to position yourself within the market. Your target market is generally defined as the area or sector in which you are planning to operate. For example, if your organisation's value proposition is 'high-end ethical fashion clothing for women', your target markets might include the 'ethical fashion market' and the 'high end fashion market'.

Understanding your market position will require you to compare your organisation's value proposition to those of the competitors in your target market landscape(s). Understanding your market position will then enable you to define and communicate your 'competitive advantage' or 'unique selling point'. This in turn will help you define the key features of your product or service that you should be communicating to the target audience.

This process usually involves assessing your core competitors across a number of common variables. For a social enterprise, typical variables might include:

- Scale of social or environmental outcomes
- Quality of social or environmental outcomes
- Price
- Innovation
- Potential for replication / scaling up
- Social / environmental responsibility and ethical values

The diagram below illustrates how you might assess yours and others' market position around two key variables, in this case **quality** and **social responsibility** (in reality, you are likely to need to think about this across a larger number of dimensions):



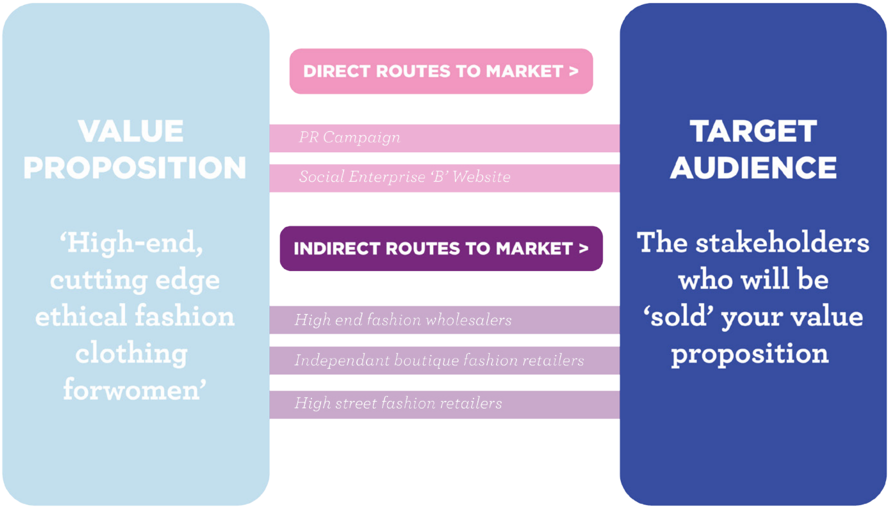
The diagram suggests that social enterprise B's *(value proposition: high-end ethical fashion clothing for women')* is positioned in a unique place within the target market, focusing on both quality and social responsibility. Assuming that this value proposition addresses the needs of the target audience, this organisation should have a competitive advantage within the target market (although in reality, other factors such as price are also likely to be important).

Marketing strategy- your routes to market

The final step required in developing your organisations marketing strategy is to define the 'routes to market'. 'Routes to market' are the different routes or channels that your organisation will need to use in order to access the defined target audience with your value proposition. When assessing your 'routes to market', it might be useful to consider the methods you might be able to use to reach your target audience; direct, or indirect.

For example, the ethical fashion company may chose to communicate its value proposition directly to a consumer target audience through a

PR campaign, signposting people to their website. However, it may also consider the indirect routes in may need to use in order to reach more people and generate greater sales. The diagram below illustrates ‘social enterprise B’s’ routes to market:



Your marketing plan (discussed later) will require you to consider how you will prioritise the different routes to market. For example, different routes to market may generate different levels of profitability for your organisation, therefore you may decide to prioritise you organisations focus on these routes to market.

Developing your marketing plan

Your marketing strategy should define your strategy for connecting with the defined target audience. Consequently, your **marketing plan** should identify practical steps and tactics to deliver the marketing strategy. This section will look at the key elements of a marketing plan:

- **Objective:** Each objective of the marketing plan should be focused on enabling the organisation to deliver its mission and strategic aims. Marketing objectives are typically focused on achieving one or more of the following results:
    - Generate new customers/ beneficiaries from within your target audience.
    - Retaining your existing customers/ beneficiaries.
    - Existing customers/ target audience purchase more products or services from your organisation.
    - Creating systemic change to change the way in which your product or service is delivered / paid for.
- **Tools:**
    - **Price:** how much will you need to charge for your product or service?
    - **Place:** which audience segment & routes to market will you focus on for delivery of this objective?
    - **Promotion:** your communications plan- which features, benefits and values will be communicated to this specific audience segment and through this specific route to market?
- **Plan:**
    - **Goals:** what goals will you need to meet to make sure you deliver the objective?
    - **Time frame:** when will you need to achieve these goals?
    - **Resource/ budget:** what will you need to invest in to achieve these goals?

Note: If your organisation has a number of different products / services, you may need to develop a number of marketing plans for each respective product / service.

The following table illustrates how these key elements of the marketing plan can be brought together in one summary table. The example shown below summarises the marketing plan for ‘Social Enterprise D’- an organisation providing advice, information and support to migrants and refugees in city ‘y’:

OBJECTIVE	PRICE	PLACE		PROMOTION	GOALS	TIME FRAME	RESOURCE BUDGET/ REQUIREMENT
		TARGET AUDIENCE SEGMENT	ROUTE TO MARKET				
Renew service contract with Local Authority Increase the number of migrants/ refugees that access our advice and info services by 25% (5000+)	• 12% reduction in price from existing contract • Full cost recovery of direct service costs. • 25% cost recovery of central costs.	• Local Authority Commissioners	• Direct contact with commissioners • PR & media campaign	"Social Enterprise D will improve the social inclusion of migrants in city 'y' and reduce demand on traditional statutory services through our comprehensive advice and information service"	• Establish commissioning goals for new service contract tender. • Develop a high quality, evidence based bid.	• Bid finalised Jan	• 20% of CEO time • £4k for business planning support
Increase the number of migrants/ refugees that access our advice and info services by 25% (5000+)	n/a	• Migrants • Refugees	• PR & media campaign • Website • Statutory services	"Social Enterprise D provides free advice, information and support to refugees and migrants, helping you adjust to life in city 'y' and providing you with a place to discuss any problems you may have"	• Launch new website • Launch new PR & media campaign. • Organise Statutory service workshop day.	• Website- March • PR & media Campaign- Feb • Workshop- July	• Website- £10k • New role: Comms Officer
Campaign for refugee and migrant rights at the local level	n/a	• Local MPs • Local Councillors • Statutory bodies: Border agency, Passports and Immigration • National Government	• Research paper & press release • PR & media campaign • Website • Other NGOs	"Social Enterprise D: campaigning for a 'fair deal' for migrants and refugees in city 'y'.	• Commission research paper. • Launch new PR & media campaign. • Attend local council integration steering group.	• Research Paper: Commission- May, Release- Aug. • PR & media Campaign- Feb • Steering group- ongoingl	• Research- £7k • New role: Comms Officer • 1 day p/m C

Stage 4: Piloting
Theme 8: Governance

APPOINTING INITIAL BOARD MEMBERS

What is a board member?

All organisations should have someone who sets the strategy, ensures that the strategy is delivered, makes sure that the organisation meets its legal obligations and operates within the law. This function is undertaken by a Board of Directors, Management Committee or Trustees depending upon the legal structure of the organisation - we will refer to this group generically as the board, with the people who constitute the board known as **board members**.

If the enterprise is structured as a company, board members are called **directors.** Directorship of a company carries with it various legal obligations and responsibilities. The directors must always take decisions in the best interests of the company. They must be very careful when there is a conflict between what is in the best interest of the company and what is in their own best interest. They can also be held personally responsible for any harmful actions, illegal activities or actions outside of the defined internal policies and procedures (governance). The board should therefore act as a way of monitoring and managing the risks and actions of the company.

Being a director of an organisation brings with it a number of legal and fiduciary responsibilities. Directors of companies are legally required to:

- Use their powers only in accordance with the company's constitution, and not act outside of the powers, which the company gives them.
- Act in a way which promotes the success of the company, this means ensuring the company is well run and solvent, and that its funds are not misused or placed at undue risk.
- Exercise independent judgement; this means not allowing their decision

making to be swayed by concerns which are not in the best interests of the company.

- Exercise reasonable care, skill, and diligence.
- Avoid conflicts of interest.
- Ensure they do not accept money or any other benefits from third parties outside the company in exchange for being a director or doing or not doing anything in her/his capacity as director.
- Inform the other directors if they have any interest in a transaction with the company, for example, if the company is proposing to buy something from another company of which the director is a member.

If a company director breaches any of these duties, the members may be able to bring an action against him/her. If the director has acted fraudulently criminal sanctions can apply. The directors may also be liable if the company does not comply with legal requirements such as preparing its accounts properly and making appropriate filings, having policies in place about staff that fit with employment law, etc.

The above requirements apply to directors of all types of companies. If the company is receiving grant funding, the organisation providing the funding may impose additional requirements on the directors, for example:

- Ensuring that the enterprise remains true to its purpose. The board stops 'mission creep,' which occurs when strategies are proposed that do not directly fit in with the original social aims.
- Has a clear strategy, i.e. objectives and direction, identifies risks.
- Provides updates on how funding is being used to the funding organisation.

If the enterprise is structured as an Industrial and Provident Society, which is a co-operative, it must be registered with the FSA. If the FSA considers that actions of the enterprise mean it is no longer a co-operative, they may remove Industrial and Provident Society status.

Please note that if the company has charitable status, the directors will be subject to the significant duties and responsibilities of being charitable trustee. These requirements include matters such as ensuring the charity produces reports on what it has achieved as well as annual returns and accounts, ensuring the charity remains true to its charitable purpose and does not breach the rules of its governing documents; ensuring the charity's funds are spent responsibly and in the furtherance of charitable aims; avoiding placing the charities funds or reputation at undue risk; exercising due skill, care, and prudence; and others.

Note that the constitution or governing document of the enterprise (whether it is a company or other type of body such as an unincorporated association) may impose further responsibilities on directors or managers, for example, the board may well be responsible for appointing key staff members. We also recommend that the board should also seek to improve its governing skills and stay up-to-date with the work of the social enterprise.

Relevance to social enterprise

Many entrepreneurs do not like bureaucracy. Challenging the status quo is often the driver for entrepreneurs to start their own organisation. They do not enjoy "burdening" themselves with other people that they have to answer to. The entrepreneur sets up a limited liability company and is happy to be the sole director – the "Board". Good governance dictates that this is highly risky for an enterprise. The entrepreneur could find it difficult to distinguish between what is best for the entrepreneur and what is best for the company. There is nobody with authority to challenge, check or stop any actions.

For social enterprises there is a further consideration to take into account. Social enterprises in some way are supposed to be responsive to and act on behalf of a defined community of interest. If the social enterprise receives funding from an outside organisation, the funding may be contingent on this interest being served. That community and the wider stakeholder group need to know that the social enterprise is responsive to their needs in order for the social enterprise to remain credible. This can be done by having a stakeholder representative on the board or at least a presence there that is not beholden to the founder.

Investors in social enterprises, (be they lenders, grant makers or equity holders), want to ensure that the investment is properly spent. In the case of commercial investors or lenders this is to ensure that the loan is repaid or that they receive a good return on investment.

Benefactors or grant making bodies want the entrepreneur to maximise the enterprise's impact. They will be more confident of this if there are additional Board members who will check and support the founder and in some cases may require this before providing funding or investment.

Relevance to the founding entrepreneur

Starting and growing an enterprise is a major task and the demands on the founder are immense. Often you are operating in isolation and it can be difficult to find anyone you can discuss problems with or bounce ideas off. You are often working outside your level of expertise or competence. Having other people who can act as a sounding board, problem solvers and holders of relevant expertise is a very desirable commodity.

Initially it may be that you can use advisors and acquaintances. There is a limit as to how often you can tap into this pool both in terms of patience of the advisor and the cost of using people such as this. You need someone who is more intimately involved in the business to help you. You need the expert opinion, the safe pair of hands alongside you. It is therefore in the founder's best interest to grow the board so that it meets the governance and the investors' requirements as well as their own.

Creating the ideal board

There is no clearly defined model for a small social enterprise board. The most effective boards of directors are generally a group of people who bring a mix of relevant skills, experience, interests and contacts to your enterprise. They should provide strategic leadership and critical oversight and be a sounding board for the management. As your social enterprise grows and changes, you may need to adjust the mix of talents on the board. The board may consist of:

- Members /employees of your social enterprise
- People from the local community
- Successful local business people
- Politicians – both local and national
- People with good networks
- People who know how to access finance
- People with specialist skills such as law and accountancy

Ensure that everyone is clear about their roles and responsibilities, your board members will appreciate this clarity. Your constitution should define not only how the board is run but also how many people will be on it.

Keep the board small and flexible and don't be afraid to change it to meet your own changing needs. You need a board that can deliver its governance duties whilst also acting entrepreneurially, with a willingness to make rapid decisions rather get bogged down in interminable meetings and discussions. As your enterprise grows you can choose to increase the board representation. A good rule of thumb is to start with at least three board members. Make sure that you understand the legal responsibilities of being a director and also what your own roles and responsibilities are within the enterprise. The rest of the board should be similarly aware.

An effective board can be an incredibly valuable way for you to achieve your vision, offering you credibility, resources, a sounding board and strategic support. At the same time, they will also make you accountable to your stakeholder group.

Choosing a board member

At the start up phase it is unlikely that the founder is in a position to be paid by the enterprise. It is therefore unlikely that other Board members can be paid. It may be that the other Board members are fellow founders and are in the same position as you are. At this stage it may be best for the founder to look for directors who are prepared to join the board on a no fee basis. For this reason the Board members are unlikely to be involved in the organisation in a full time capacity and will therefore need to be appointed in a non-executive capacity.

In a company limited by shares directors may offer to take an equity stake in the company in exchange for their services, i.e. to receive shares in the company as payment. Remember that shareholders (members) will usually have voting rights, and that they can use these rights to appoint or remove directors. Therefore you should think carefully about the amount of shares you give your directors if they wish to become members of the company.

Just as your business plan and your enthusiasm will be needed to secure an investment, the same will be required to get the services of Board members – especially if they are unpaid. Remember too that they will be held collectively responsible for actions you take that damage the enterprise. So you owe them the responsibility to keep them informed and to allow them to alter your actions to meet their perception of the risks associated with your actions.

You will need to be working closely with the other directors and there is a great degree of trust and reliance on each other. So you need to choose your fellow board members with care. Though on the one hand you want to be able to get on with them, it is in your best interest that they are able to stand up and challenge you. So you need strong personalities.

You also need to be recruiting the directors for their skills, contacts and networks that they will bring to you.

Identifying skills gaps

You need to make a very honest appraisal of your own skills, experience and likes and dislikes. Concentrate on what you are good at and what you like doing. Do not be afraid to admit that you do not understand or want to tackle finance or production. If you are passionate about marketing or service development then stick to doing this. Seek help in going through this process.

Think about the skills that you need to support you and to give your enterprise credibility and recruit your board with those considerations in mind. You want skills that supplement and complement your own, even though it may be difficult to choose people who will challenge you and are prepared to stand up to you. You may not always be right, and having a robust alternative view will be very useful to developing your enterprise. Try to identify the areas that you need help with; for example it may be that you need political contacts or industry specialisation or understanding of funding. Ensure that they understand and share, your vision, passion and commitment. This is necessary as it is unlikely that you will be able to pay your board at the outset.

Once you have identified the gaps you want filled you can begin to look for the Board members who can fill them.

Finding people

Social enterprise is a growing area of interest across the country. There are large numbers of people who are looking to engage with social enterprises. Often they are retired people, employed people looking to do something for society or grizzled social enterprise practitioners looking for fresh challenges. You need to get networked with these people to meet or get people referred to you for consideration.

For example, if you are a student, a good starting point may be within the University that you attend as many of the skills may already be present there. Ask around, use the intranet, or talk to faculty heads.

Universities are now well networked to business support organisations such as regional Business Links or regional social enterprise networks, Chambers of Commerce, local angel networks, business schools and colleges etc. Approach all of these. Get yourself invited to networking events. Attend conferences and seminars. Make sure that you print your business cards to distribute and that you can clearly articulate your enterprise and your needs in a way that will inspire people to engage with you.

Get your enterprise featured in the local media: they are always looking for good stories. That sort of attention will also potentially bring you to the attention of investors. There are also various web-based forums that you can scour. These could include LinkedIn, The Guardian Social Enterprise Network (http://www.guardian.co.uk/socialenterprise) etc.

Next steps

Once you have identified someone you need to approach them and convince them of the merits of helping you out. They need reassurance about the level of risk that they are talking on. Also you may have to offer the potential director that you will not abuse their help and that as the needs of the enterprise change you will be happy if they move on. You will need different skills as the enterprise grows. You may also want to recruit full time directors once you are able to afford them. Limiting the time involvement is always comforting to potential directors especially as if they have the skills and experience you are looking for then they will be pretty busy people.

- Ensure that you go through the proper formalities of appointment.
- Record the appointment in board minutes
- Issue a contract of employment setting out agreed roles and responsibilities (not always necessary, not needed for non-executive directors)
- Complete the appropriate forms for filing at Companies House
- Agree a format for meeting and contacts
- Agree how you will use their

names to add credibility to and to market the enterprise

- Agree a timetable for deliverables from the Board members

If you are able to secure the services of someone who is particularly well known suggest appointing this person as the Chair of the Board. This adds gravitas to your enterprise and makes the Board member feel more appreciated and important and more likely to give you additional time and resources.

Once appointed get the Board members to help you with future recruitment to the Board using their networks and acquaintances.

Be sure to use the Board to do what they were recruited for. The worst thing you can do is to recruit a Board and then ignore them.

Stage 4: Piloting
Theme 9: Financial Management

KEY FINANCIAL MANAGEMENT OPERATIONS

We have highlighted the importance of actively recording, tracking and evaluating your finances on an on-going basis once you start operating. One dimension that defines the success of your pilot phase should be the adoption and normalisation of financial management activities and systems within your organisation. This section of the toolkit looks at a few of the key elements of the overall financial management function.

Book-keeping

Book-keeping is the activity of recording the transactions of your business and filing supporting documentation to support the financial data you record (receipts, invoices, etc.). It is the system / process that will, ultimately enable you (or your accountant) to generate your historical financial statements. You may use a manual or a computer-based system, although the latter is highly recommended if you intend to operate longer term. Manual, paper-based systems will soon become overloaded as an organisation grows.

Book-keeping will involve you tracking, recording and filing supporting documentations in relation to the following broad areas of your operations:

- **Your sales and incomings**. If your project or business is cash-based, i.e. if you are running a community café as a social enterprise, then you will need a point-of-sale system to record sales, i.e. a cash register. If, on the other hand, the basis of your project or enterprise is non-cash-based, you should issue an invoice for every sale (remember to separate paid and unpaid invoices so that you can keep a track of outstanding debts). You should also record funding receipts such as grant-funding or equity / debt investment. Remember that these forms of receipt are treated differently to more regular income such as revenue in your financial statements, so you'll need to record them separately.

- **Your outgoings.** Record and keep invoices or receipts for every purchase you make (remember to separate out purchases paid and purchases unpaid). Also keep records of any payments made by cash (set up a file labelled ‘petty cash’ for this purpose). You also need to keep records of payments into and out of your organisation’s bank account.

- **Your cash book.** This is the most important record to keep. It forms a summary of the money you receive and the money you pay out. Update your cash book once a week, or once a month if you have just started out and there are not many transactions to record. You should regularly reconcile your cash book to your bank statement to ensure that you haven’t omitted a transaction. Actively managing and monitoring your cash book is an excellent way of ensuring you anticipate and can plan for future cash-flow challenges for the organisation.

The final point to make about book-keeping is that this function can be outsourced quite cost effectively for a small organisation. This should be an option that you consider, but bear in mind that the quality of the book- keeping service can depend on the quality and timeliness of the information you provide. Also, don’t take the out of sight, out of mind approach – even though someone else might be recording your finances, you are the one who should be actively reviewing the outputs as a normal part of your work so you understand the current financial position and financial challenges of your organisation as you make your multiple business decisions.

Legal financial compliance requirements

Once you start operating, you are likely to have a number of obligations in relation to your financial reporting. The complexity of these obligations will depend on your choice of legal structure and will also grow as your organisation grows. You should be aware of your obligations for filing financial accounts, returns and (in some cases) supporting documentation in relation to the following:

- Companies House filing requirements
- Taxes (see below)
- Charities Commission filing requirements (for organisations with charitable status)
- Funders' reporting requirements
- Investors' reporting requirements

In addition to your legal obligations, as your organisation grows above certain thresholds there will be an increasing requirement to complete an independent audit of your financial reports. Auditors are qualified accountants who will review your financial statements and supporting documentation to sign-off your financial reports to confirm they give a **true and fair view** of your business. The NCVO website (www.ncvo-vol.org.uk) provides a good overview of auditing requirements for different legal structures.

Financial management systems

The demands of financial recording can grow exponentially as your enterprise grows in the early stages. The burden should be anticipated (it will be a hallmark of your success), and so you should think about what types of systems you might need to ensure efficient financial management.

There is a variety of book-keeping and accounting software that can help you record your transactions effectively and efficiently. Some providers may offer discounts for social enterprises. Such systems may reduce the workload (for you or for your book-keeper) but it's worth giving some thought to how you want to receive the outputs they generate. Broadly, the software that you choose should enable you to generate:

- (Typically every year) Your financial statements in a form or forms that comply with your legal financial compliance requirements – see above.
- (Typically every month) A record of your operations in the last few months in a form that allows you to analyse how you are doing and help you in your decision making. These 'informal' financial records are often called management accounts. Management accounts are usually more detailed than

financial statements – they may consider separately the income and costs relating to different areas of your business, for example.

Taxes

Your tax obligations will be driven by features such as your selection of legal structure, the scale of your operations, whether you employ staff and how much you pay them. The table provides a high level, layman's introduction to four of the major aspects of taxation that you should be aware of:

TAX	DESCRIPTION	MORE RELEVANT FOR…	LESS RELEVANT TO…
INCOME TAX	A tax charged on an individual's taxable income. Taxable income includes things like: • Earning from self-employment or employment • Interest on savings and income from shares • Rental income There are various allowances and reliefs, such as the personal allowance, that will reduce your tax liability. For social enterprises, income tax will be most important if you are a self employed social entrepreneur. In this case, certain qualifiying costs that you incur as you run your business will be deductible from your revenues in order to calculate your taxable earnings. Note also that as a self employed person, you will also have to account for making your own National Insurance contributions.	• Self-employed social entrepreneurs	• Incorporated organisations
CORPORATION TAX	A tax charged on the profits of limited companies (limited by share or by guarantee) and other organisations. Profits relating to trading and investment are liable corporation tax, as are capital gains in relation to the sale of assets. Various exemptions and specific treatments will exist, depending on the nature of your business and your transactions. It is important to understand your position clearly – speak with HMRC and get qualified advice if necessary. Corporation tax compliance includes: • Paying your tax (9 months after the year end) Submitting your corporation tax return and supporting documentation (12 months after the year end)	• Most incorporated social enterprises • Clubs, societies, associations and some other unincorporated bodies	• Organisations that have charitable status and whose activities are exempt (i.e. profits arise from and are reinvested in charitable purposes)
VAT	A tax charged on by VAT registered businesses on sales of goods or services. 3 rates of VAT exist, depending on the goods or services provided: • Standard - 20% • Reduced – 5% • Zero – 0% Some goods or services are exempt from VAT completely If a business' revenue in the last 12 months exceeds £68,000 then it must register for VAT. VAT that you charge your customers / clients minus VAT	• Self-employed social entrepreneurs or… • ….Incorporated social enterprises … • …That generate over £68K of revenue per year from their trading activities	• Social enterprises that are predominantly funded by grant income (including those with charitable status)
STAFF INCOME AND NATIONAL INSURANCE (PAYE)	Employees with an annualised salary of (currently) more than £4,940 should have their income and national insurance taxes deducted at source when you pay them (Pay As You Earn – PAYE). Your employee's taxes are paid by you direct to HMRC, with only the net amount paid to your employee. In addition, you will need to pay an employer's contribution to National Insurance. Because of this, use a general rule of thumb of multiplying the salary cost of each employee by around 1.1 to calculate the total cost of employment (i.e. including employer's NI contribution) Each staff member will have a Tax code – provided to you by HMRC – that will determine the exact amounts to deduct at source and pay to HMRC. When you register as an employer with HMRC , they will provide a computer package to help you calculate the correct amounts to pay.	• Any organisation that employs staff and pays them more than £X per month	• A social enterprise run by a board and volunteers

We recommend in the first instance contacting HM Revenue and Customs (HMRC) in advance of starting to operate in order to set up your relationship with them (they are one of your stakeholders) and discuss which aspects of tax may be relevant for you. They generally provide a good quality and breadth of guidance, both over the phone and online.

Start your investigations and dialogue with HMRC at http://www.hmrc.gov.uk/businesses/index.shtml

Further advice and tax planning in relation to your organisation should be sought from a qualified tax accountant.

Financial planning

Most of the information provided in this section so far has related to financial management functions / activities that help you report what's already happened in your business. Here, we will introduce a few important techniques that will be useful in doing your forward-looking projections and forecasts as you plan for the future:

- **Reviewing and redefining your targets:** Setting your targets in relation to the impacts and outcomes you want to achieve was introduced earlier as the driver for all of your financial planning. These targets need to be 'translated' into their financial equivalents – e.g. how much revenue will I generate if I am selling 5,000 units of my product per year? How many people will I need to employ / contract if I deliver my service to 300 people per month?

  Target setting may be done at the start of the pilot phase. It is recommended that, as you do grow, you refer back to your initial targets and projections regularly to see how you are getting on. More than likely, the reality of starting to operate will demonstrate that your initial targets were too optimistic or pessimistic. It is worth reviewing and updating your targets (with the corresponding impact on your income and cost projections) on a regular basis, perhaps once every 3-6 months during the start up phase. This will mean that your projections give you something realistic to be working towards; by looking at the implications of your new targets on your income and costs, you will also be able to anticipate and plan for possible problems in the future, such as a period when you might be cash-strapped.

- **Understanding your fixed and variable costs:** in any business, the various costs will behave in different ways as your organisation grows. At the broadest level, it will be of great value to you if you can identify early on your variable and your fixed costs. Variable costs will grow as the scale of your business grows (i.e. as your sell more product, as you deliver your services to more people, etc.); a fixed cost will not.

- *Variable costs include:* raw materials costs, sales commission costs, contracted-in service delivery staff costs.

- *Fixed costs include:* rent, employed service delivery staff costs, administration and fundraising costs, management costs, governance costs.

- However, bear in mind that no cost is 'completely' fixed. You may pay a fixed rent for your current office space, but if you grew significantly it is likely you will need to take on more staff and move to a larger office. So, fixed costs are in reality more accurately thought of as **step-costs**, i.e. only fixed between two 'levels of activity' of your business.

- When thinking about financial projections and planning, it is important to think of how your cost base will grow as you reach your future targets. A good understanding of your fixed versus variable costs will help you calculate your cost projections much more accurately.

- **Break-even analysis:** one of the useful techniques that is available for you to use if you have separated out your fixed and variable costs is break-even analysis. The break-even point of your business is the level activity at which your income (i.e. the revenue generated by your activities) will equal your total cost base. For business generally, and for social enterprises in particular, this is seen as a highly desirable objective – it is the level of activity for your business at which you are sustainable. This technique is perhaps best illustrated by an example:

Social enterprise A is a social enterprise café selling locally produced and ethically sourced products, using its premises to promote local arts projects. Its fixed cost base includes premises and equipment rental, staff and some other regular expenses relating to marketing spending, business rates and administration. The total fixed cost base is £36,000 per year.

After the first few months of operation, social enterprise A has calculated that each customer on average spends £4.50 at the café on various items of food and drink. The (variable) cost of this average order is £1.50.

The break-even point in this case relates to customers – how many of them need to walk into the café each year to be sustainable?

Each paying customer generates £4.50 of income for the business, at a variable cost of sale of £1.50. The contribution per customer is therefore £3.

This 'contribution' is effectively the profit (gross profit) that goes towards paying for the business' fixed costs. The break-even point is calculated as fixed costs divided by contribution per customer: if £36,000/£3 = 12,000 customers come to the café each year, then it will break even (this equates to 1,000 customers per month or 230 customers per week).

- The value of understanding your break-even economics is that you can quantify the value of changing different aspects of your business operations. For example, you can easily understand the impact in the example above of getting a better deal from your suppliers to reduce your variable cost per average order by 25p. Or you can see the impact of increasing the average order size to £5 by changing what you offer at the café.

- A final point is worth making here. The example above is illustrative and therefore very simple. You are likely to have a more complex cost structure, and moreover many social enterprises will have some level of grant-funding to add to the mix. However complex your operations, the break-even technique can be applied (with some modifications where necessary) to help you understand and quantify sustainability for your social enterprise.

- **Full cost recovery:** your organisation is likely to have a set of activities and costs that relate directly to what you offer and other costs (**central costs**) that relate to central functions or support more than one of your offerings. Your central costs will include things like management costs, governance and fundraising costs, administration and compliance costs, general enterprise PR and promotional costs.

When thinking about how to price your products or services, your costs should be an important element of your considerations. Full cost recovery is the process of allocating a proportion of your central costs to your service / product-specific costs in order to consider the appropriate pricing. Again, an example will illustrate the concept best:

Social enterprise B is a social enterprise providing services X and Y to disabled people. Service X is funded by a local authority under a service level agreement to deliver 100 units of the service over the coming year. Based on last year's price of £1,000 per unit, the total revenue that would be generated by this contract is therefore £100,000

The cost of delivering 100 units of service X per year is £80,000.

In addition to service delivery of services X and Y, the organisation has central costs of £60,000 in relation to management staff costs, rent for the whole office, administration, etc.

By considering the relative revenue generating potential of services X and Y, management have determined that £25,000 of the central costs should be allocated to service X and £35,000 to service Y.

Using full cost recovery, and based on last year's prices, the local authority contract is seen to make a loss of £5,000 (= £100,000 - £80,000 - £25,000). Management approach the local authority to use this information to argue for a 5% rise in the price to £1,050 per unit of service X delivered. Note that there should be well documented reasons for the increased price, e.g. increasing unit cost of service delivery; a broader, more expensive service is being delivered this year; etc.

Full cost recovery is advisable when negotiating terms and prices with your customers and / or funders. Expect to face resistance: customers and funders will sometimes be driven themselves to invest only in ‘front-line’ delivery. However, don’t be deterred – full cost recovery is an important element of delivering sustainability for your organisation and, ultimately, long term benefits and outcomes for your beneficiaries, customers and funders. Whilst some stakeholders may not budge, others may understand your long-term view / rationale and be willing to cover a proportion of central costs as part of a longer- term relationship.

STAKEHOLDER ENGAGEMENT AND BUILDING NETWORKS

Stakeholders are all the people that your social enterprise has an impact on or connection to. This could include your funders, your clients, customers, beneficiaries and supporters. The range of different stakeholders is discussed elsewhere in this toolkit.

Your relationships with these stakeholders are of paramount importance in relation to funding and finance. You will, of course, need to develop relationships with potential funders and investors; but in the world of social finance you will also need to demonstrate a strong network and dialogue with your beneficiaries and other key stakeholders in order to build credibility with those funders / investors. This section discusses issues concerned with building your networks and developing stakeholder relationships.

Your beneficiaries are key – engage them

A social enterprise exists to trade and to make a positive impact on a defined community. It is important therefore that this community is aware of what you are doing. For some social enterprises, it may be important that the community is seen to have some active / formal input into what you are doing and how you are doing it. In order to ensure key stakeholders are represented, some social enterprises will invite representatives to become members of the Board or to attend Board meetings. Others may invite stakeholders to be members, or owners, of the company. This ensures that the stakeholders have an understanding and a say in the running of the social enterprise. Steps such as these will help demonstrate that your organisation really addresses the needs of your target community or beneficiaries and will be a valuable selling point as you look for funding.

Building a valuable network

For all enterprises, networks are important:

- A supportive network will enable you to market your services and products more effectively.
- There is a move to use networks as a way of funding social enterprises by getting small sums of money from large numbers of people.
- Networks warn you of impending problems, changes in legislation etc.
- Networks inform you of potential contracts or work opportunities
- Networks can support your cause when funders or local authorities are thinking of no longer funding you or using your services.
- Networks allow you to attract employees and skills that might otherwise be difficult to access.

Networks are particularly important for social enterprises, which are often poorly resourced and need whatever support they can get. Networking gives social entrepreneurs access to information on grant funding, new investment initiatives, access to resources, access to expertise, training, support, advice and political updates and insight. All these things should be viewed as opportunities for some form of investment into your organisation (both cash and non-cash based).

There are numerous networking events, seminars, exhibitions and workshops organised by social enterprise and business support organisations - many that are free to attend. These are excellent opportunities for you to build your networks and add to your knowledge / skill-set in the early stages of your project / organisation.

Similarly, there are numerous online networks that exist with some dedicated to social enterprise, for example:

- www.socialenterprise.guardian.co.uk
- www.linkedin.com (sign on to the social enterprise group)

The social networking model is growing in many aspects of our lives, and social enterprise is no exception. Build your online network and presence; participate in discussions; post updates about your activities.

Your communications

You need to be proactive in informing your stakeholders and your growing network about what it is you are doing and why it is important that you continue to do so. There are numerous reasons to do this and to be seen to be doing it:

- If you claim to be working on behalf of a community and do not communicate with them there may be a suspicion that you do not deliver what you claim you do.
- There may certain stakeholders that demand information from you – for instance funders, investors and those that you have contracts with.
- There are others who, if kept informed, may be able to help you at some point down the road.

Those that expect information from you may dictate the regularity (e.g. funders who will expect an annual report on the 3 year project they are funding). In other cases the regularity of your communications is up to you and will require you to strike the right balance: too often and your message may be ignored; too rarely and your stakeholders will either forget about you or think that you are in trouble. Try and find a pattern that keeps people informed and "on side" without becoming a nuisance!

Remember that what you communicate will depend on the stakeholder and their needs / expectations. The information you provide lenders and funders may be too sensitive or meaningless to other stakeholders. Similarly the micro-details of what you are doing in the community may not be relevant to your funders. Ensure that the information you communicate is appropriate to the audience.

The admin side

The method of communication is also worth thinking through. Attending workshops, seminars and conferences requires that you speak and update people you meet – you may even distribute printed material. Make sure that you take business cards and brochures.

Most organisations now do regular electronic newsletters. This allows for considerable information to be transmitted to growing numbers of stakeholders in a relatively easy and cost effective way. Make sure that the communication has something to say and can be easily read. If you have nothing much to communicate do this every quarter rather than monthly. You can also segment the information to give different stakeholders different information.

Create and use your web site to keep news and events current. This allows people who have heard of you to find out more. Make sure that there is a facility for them to register for newsletters or to contact you if they want your services.

Join and use networking sites – see above. Web 2.0 is rapidly becoming a standard form of communications for many businesses and organisations; it may be worth considering creating a Facebook group and / or using Twitter to communicate your activities.

When you meet people collect their contact information. Ask them to put you in touch with others who could use your services or could be of use to you. Make sure you record the information on your contacts. Ensure that you create a database of these names and details. This could be as simple as creating an Excel spreadsheet or using email address books.

FINDING A MENTOR

A good predictor of success for a social entrepreneur is to have an excellent mentor. But how do you find one? And, gulp; might you have to pay for one?

It all depends on how selective you want to be. You can find a business mentor in your area through a organisations specialising in business support. UnLtd (http://www.unltd.org.uk) run an excellent mentoring programme for the social entrepreneur award winners. Flying Start (www.flyingstartonline.com) offer good on-line support; NESTA (www.nesta.org.uk) and the School for Social Entrepreneurs (www.sse.org.uk) include mentoring as part of their programmes.

Many professional associations are now offering mentoring programmes. If you are looking for a mentor in your sector, this is the first place to look. There are also a growing number of networking organisations providing mentoring services to their members. It is worth asking around and checking online to see what is available. Most organisations running mentoring programmes will spend time asking about your business and reasons for wanting a mentor. They will match you with a suitable mentor from their pool. This will be based on a variety of criteria – for example, what you need specific help with, geographical location and (most importantly) personality. The mentoring relationship will be for a specified period of time and there will be clearly defined boundaries to the mentoring relationship. Some of the programmes on offer will be free and others you may have to pay for.

Another way to find a mentor is to explore your personal network – former bosses, people you meet through professional associations or networking groups and so on. Do not be afraid to cast your net wide: ask friends to recommend someone or to even cold call. It is not a lifelong relationship, so you can afford to try lots of people out.

Ask yourself the following questions:

- Who has created or significantly grown an enterprise?
- Who has a proven track record?
- Who is respected in their field?
- Who has passion for their endeavour?
- Who seems to enjoy helping others?
- Who has already been a role model for you?
- Who has already been helpful to you and who might be willing to formalise a more in-depth relationship?

Notice that 'being established in social entrepreneurship' is not included. It is not necessary, especially in the early stages, to have a mentor with specific social enterprise expertise. The skills you need early on are more generally applicable business expertise. This is particularly true if you come from the Third Sector yourself; it is good to have some commercial sector 'best practice' guidance!

Here are some steps you can take to find the right mentor for yourself:

1. Define a list of your top goals for the mentoring relationship
2. Brainstorm a list of prospective mentors
3. Select those who are aligned with your goals
4. Approach one of the potential mentors and ask if they would consider mentoring you. Clearly define what it is you are needing support with
5. Start by asking for a 30 minute informational interview and see if things click
6. Feel out what their time availability is like

7. Ascertain whether or not they will need you to pay them for their support

8. Establish agreements. This doesn't necessarily mean drawing up a formal written document, although you could. Once you have entered into an implicit or explicit mentoring relationship, you want to define certain things such as what success looks like, how often you will meet, what happens if something goes wrong, and what should stay confidential between you. You should meet with your mentor at least quarterly, to touch base, although you can meet more or less frequently as schedules allow or as the need arises. Set both short-term and long-term goals.

A mentoring relationship can be a significant time commitment on the part of both parties. It is not sustainable to have a mentor who you can never get in touch with, nor will a mentee last long if they call their mentor with a crisis every fifteen minutes.

Keep in mind that while a mentoring relationship generally lasts more than just one or two meetings, neither of you is locked in. The relationship should only carry on if it continues to serve you both well. One of the best ways to make sure that mentoring relationship goes well is if you actually do something with the input you have just received. Mentors do not have time or energy to mentor everyone. The best ones have the least time. They are only interested in investing in people who will actually apply the suggestions and return with further questions.

It is worth remembering that you are absorbing valuable time and expertise. You need to acknowledge that you recognise and value your mentor's support. This does not have to happen immediately, but at some point you should pay, or at least offer to pay – even if your mentor initially agrees to mentor you for free. As your business grows, it may well be that you can afford to pay something for your sessions. This will help your relationship – you, in not feeling shy in asking for help and your mentor in giving you the time and expertise you need. Offering money is simply the cleanest way to signal value and appreciation and will demonstrate a maturity and wisdom on your part that is worthy of mentorship. In the earlier days, you can look out for other ways to show your appreciation of your mentor's value – pick up the lunch bill when you meet, for example!

SOCIAL ENTREPRENEURSHIP AWARDS TOOLKIT

STAGE #5: OPERATIONAL STABILITY & SOCIAL IMPACT

BEING AN ENTREPRENEUR VERSUS MANAGING A BUSINESS

The issue of the transition from being an entrepreneur to managing a business is similar to the transition from being a fired up teenager to an adult who has to adjust to middle age.

At an early stage of a social enterprise, visionary zeal, conviction and passion carry the enterprise forward. As the enterprise grows, or if it wants to grow, the way the enterprise is managed has to change. The passion of the founder is not sufficient to motivate ever increasing numbers of employees and it won't be enough to convince stakeholders that the enterprise is serious about its sustainability or scaling its activities and social impact.

Growth and maturity demand discipline. There need to be systems, procedures and policies in place. These are internal and external reference points and frameworks against which employees and stakeholders can purposefully engage and navigate their own activities. That is not to say that small enterprises do not have processes and procedures - they exist, but usually only in the head of the founder. But this is not a sustainable position when you are seeking long-term operations and impact. Accordingly, we highly recommend you read this section of the toolkit in conjunction with the discussion around establishing operational processes and systems.

In his book "Gods of Management," Handy uses the analogy of the starter enterprise being "Zeus" centric. Everything revolves around the founder – his or her whims, prejudices and ways of doing things are the reference for the other "mortals" employed in the enterprise. Zeus can make snap decisions without reference to anyone else or following any established policy or procedure and indeed in complete disregard of contrary decisions made in the past. The mortals in the enterprise are always a bit scared of making decisions for themselves and all decisions are referenced back to:

"What would Zeus want?"[1]

For many entrepreneurs this way of managing an enterprise is wonderful – they shine – often the enterprise is a projection of their own personality. However to evolve into a larger organisation that needs structure and where the founder's ego and personality starts taking a back seat is a difficult transition. Many entrepreneurs cannot and do not make that transition; those that do not will rarely survive beyond the medium term.

Handy uses the analogy of "Apollo" as the style of management that has structures and order in place[2]. Staff members are defined by their job descriptions. There are set policies and procedures and systems in place. A new employee can quickly understand how the enterprise works and what is expected of him or her. The structure allows growth to take place and for the recruitment of managers with a clear career path to enable this. A Zeus culture stops good managers joining – there is no space for them when they are competing with the fiery energies and passion of Zeus and where strategy can be changed on a whim.

[1] "Gods of Management: The Changing Work of Organisations," Charles B. Handy, 1995 (reprinted 2009)

[2] *Ibid*

Interestingly enough, it is the entrepreneur that has to trigger and maintain the change in structure and culture. This is either because they quickly come to realise their own limitations, or because they are ambitious and impatient for the enterprise to grow. If the structure is imposed on the entrepreneur by stakeholders then it is unlikely that there is a future in the organisation for the entrepreneur.

A successful entrepreneur has to be serious about growth and constant improvement and should not be afraid to be challenged. Similarly, a successful entrepreneur is open to recruiting specialists and indeed clever people

to ensure succession and sustainability of the enterprise beyond the involvement of the founder. You have to decide what is more important; your cause, i.e. the enterprise, or your ego!

A properly managed and structured enterprise will allow the founder to bask even more brightly in its success. One only has to look at Richard Branson. Though closely entwined with the Virgin brand the truth is that his recruitment of a very professional management team has grown Virgin beyond anything he could have done on his own. Yet the structure allows him freedom to chase new ideas and promote himself shamelessly.

A starting point for the transitional journey is to understand what skills are required to grow the enterprise and what systems and procedures need to be embedded so that enterprise can function without reference to the founder. Then go and find the skills and set the recruits to create and embed the policies and procedures. Most importantly, give them the space and scope to grow and progress themselves – this will help create a long term commitment to the enterprise. The trick for any enterprise is to carry this change through without losing the very spirit and ethos that created the enterprise in the first place. That means you need to have a very strong culture established prior to the change and reinforced through the change – this is the responsibility of the founder entrepreneur.

The use of external facilitators such as consultants or mentors can assist you with mapping out the structural changes that are required and then how to implement them. Assistance with change can also be facilitated through the use of non-executive directors.

The founder needs to find a new role or a new way of engagement within the enterprise. The changes will certainly mean different ways of operating – you will be more accountable for your actions.

Your role and responsibilities may change. You may indeed have to step away from being the chief executive in preference to someone better suited to grow and sustain the enterprise.

You have to be brave enough to let go of total control so that your baby can grow in its own right.

REFINING THE MONITORING AND EVALUATION OF YOUR SOCIAL IMPACT

Expanding your organisation's activities and achieving sustainability will require you to refine and develop the way you monitor and evaluate your organisation's social impact. This section of the toolkit examines some of the typical challenges involved in this process:

Collecting the right information

As you monitor and evaluate the impact of your organisation's interventions, there will be an on-going iterative refinement of your social model. The experiences you gain during the piloting process will allow you to identify potential improvements to your social model, enabling you to deliver your solution theory more effectively or efficiently by prioritising or developing the most effective forms of intervention.

Alongside this process, you should also try to ensure that the social impact indicators you use demonstrate your social impact in the most effective and efficient manner. Refining your social impact indicators may involve:

- **Prioritising the most effective indicators**- those which most accurately demonstrate the impact of your organisation's interventions.

- **Prioritise practical indicators** – focusing on data / information that can be collected easily and efficiently.

- **Identifying new indicators**- use your experience from the piloting process to identify new indicators (that you previously weren't aware of) to measure existing or new areas of social impact.

Remember that less is often more – less high quality information will often be far more valuable that lots of poor quality data.

Moving into new markets

Developing your organisation beyond the initial piloting stage and into a long-term, sustainable position is likely to involve either:

- **Extension of you products / services into new target markets-** e.g. changing your service from 'providing advice and information on independent living for adults' to 'providing advice and information on independent living for adults *& children*'.

- **Expansion of your activities into new geographical markets-** e.g. changing from the 'providing services in city X' to 'providing services in city X *and Y*'

Extending or expanding your social model into **new target markets** may require you to adapt your social model to address the specific needs of the new target group. This will require you to work through the process defined earlier to identify and define the most effective social impact indicators for your new target market - this may involve capturing new social impact indicators. However, unless you are entering an entirely unrelated market and / or providing an entirely new product / service, there's likely to be some similarity with old and new target markets – where possible, you should try to use similar indicators, with modifications where necessary. This will enable you to compare the impact you are having across your target markets.

Expansion into **new geographical markets** presents a slightly different challenge. When you expand into new geographical markets, you will often find that the indicators from your original social model will be directly relevant and applicable in the new market. In some cases (e.g. collecting service outputs), this may simply involve using your existing systems and processes to capture the extra data / information. However, more complex outcome indicators may require you to identify new sources of data / information to effectively monitor and evaluate the impact of your activities. The availability of data and information may vary between one geographic location and another and therefore moving into new geographic markets may mean you need to be more imaginative about data collection (e.g. consider collecting you own data if it doesn't exist; or consider using an alternative indicator that is easier to collect in the new geographic market as a proxy to the original one).

Communicating your impact to different stakeholders

The growth your organisation's activities will often be mirrored by a growth in the number and range of your stakeholders; this will be particularly true if you are starting to move (or looking to move) into new markets. You are likely to need to be able to communicate your social impact evidence base to many within your expanding stakeholder set; however, different stakeholders may be interested in hearing about your impact in different ways. For example, local authority commissioners may be interested in total population numbers and outputs, whereas an individual potential beneficiary may be more interested in the personal story of someone who has used your service and how they have benefited from it.

As discussed earlier, a robust monitoring and evaluation framework will emphasise a smaller number of high quality indicators that really demonstrate your impact over a large number of poor quality indicators. Whilst your growing stakeholder set may mean you need to capture new indicators, try to keep this indicator quality- volume in mind, as well as remembering that sometimes a single indicator, communicated in a different manner can speak to the interests and perspectives of different audiences.

Refining your systems and processes

Growth and expansion of your organisation is likely to increase the amount of social impact data / information that will need to be captured by your organisation. This will usually require you to improve the systems and processes that you have developed to capture, manage and analyse social impact indicators in a more systematic way.
Don't underestimate the time, resources and skills needed to manage large amounts of data.
As your organisation grows, you may need to consider bringing in additional skills and capacity to capture and evaluate this information to ensure that you are effectively utilising the information that you collect.

One thing that will help you greatly is putting in place systems and processes to help in collecting, analysing and communicating your social impact data. Systems might involve simple spreadsheets, databases or even more complex products such as customer relationship management (CRM) systems. Processes can help to formalise how monitoring and evaluation activities should be carried out, how often and by whom. Once again, these steps will help ensure you maximise the value of your social impact evidence base, normally a major asset of a successful social enterprise.

OPERATIONAL PROCESSES, SYSTEMS AND INFRASTRUCTURE

Regardless of how much planning you do, from an operational point of view your organisation is likely to have been built with an emphasis on low-cost options and rapid actions focused on establishing the organisation. Your investment in operational infrastructure may have been minimal and the need to document your processes at such an early stage would have seemed unnecessary. However, once you have successfully completed the pilot phase and are starting to look at longer term operating and growth for your organisation, it may be worth investing both time and money in building resources and assets that will help with day to day activities and enhance your operational effectiveness. This section discusses some of the typical areas that are worth thinking about.

Processes

A process defines your approach to completing a particular activity. Even the smallest organisation will have a number of activities that take place concurrently, based on their own time cycles. Whilst most day-to-day activities do not need to be documented as a formal process, once you start planning to operate in the long term, it is worth thinking about whether the major activities that are critical to your on-going success should be articulated and written down clearly. Of course, the main driver for this is taking on new members of staff to your organisation who will now be carrying out some of the activities that you did at start up. Defining processes enables you to get what you've learnt about best practices out of your head and onto a piece of paper to allow others to do likewise. The emphasis should be on formalising the things that help drive excellent delivery in a particular activity, whilst at the same time giving staff the ability to respond to specific circumstances as they carry out that activity. Below are some typical areas around which you might think about defining and documenting some processes:

- Service delivery
- The selling process and customer relationship management
- Financial planning and the financial monitoring / review cycle
- Monitoring and evaluation (capturing and reporting impact)
- Strategy and marketing planning / review cycles

Systems

As you reach operational stability, you are also likely to start to identify areas where systems (usually IT-based systems) can help make your operations more effective and / or efficient. Whilst at start up the onus is likely to have been on simple, cheap, stand-alone systems (e.g. webmail, website hosting, spreadsheet-based stock control, spreadsheet based invoicing, etc.), once you start thinking about operating in the long term it may be worth investing in more functional systems. Many of these systems take a much more integrated approach to information management and will address a range of operational functions.

Some examples are given below:

- Customer relationship and stakeholder management systems
- Financial book-keeping, accounting and reporting systems (incorporating other aspects of operations such as customer invoicing, supplier payment, stock control, etc.)
- An evolved website presence that provides a more integrated and interactive 'touch point' for engaging and communicating with stakeholders, in particular beneficiaries and customers.
- Monitoring and evaluation systems (capturing and reporting impact)

Infrastructure

By infrastructure here we are talking about property (premises) and operating assets (vehicles, office equipment and communications, machinery, etc.).

In the early period of operation, the issue of **office space** may be difficult to manage since the size of your organisation in terms of staff may fluctuate and / or be increasing in an unpredictable manner. To avoid the need to relocate too frequently, many organisations will rent premises that provide 'growing space' for the future. This may be a costly option; one alternative is to use serviced office space where you can effectively rent a space that reflects your current needs (e.g. a certain number of desk spaces) and add further space as you grow. Serviced offices will often provide you with basic office infrastructure such as telephone lines, internet access, fax and photocopying facilities, etc. Whilst this is a well-established commercial service, the thing to note here is that similar services exist in the social enterprise space:

- **The Hub** is itself a social enterprise offering workspace to other organisations seeking to change the world for the better. In addition to providing the basic office infrastructure, The Hub emphasises networking, sharing ideas and developing collaborations between member organisations, adding an additional attraction to joining this social collective. The Hub has office space in London and Bristol and multiple overseas locations.

- **CAN Mezzanine** is another third sector provider offering office space at 3 prime locations in London for social enterprises and charities. Facilities provided include desk space, conference and meeting rooms, kitchens, office and communications equipment and full time reception support.

Finally, a brief word on operating assets such as office equipment, vehicles, machinery, etc.: as you start to think about operating in the longer term, it is likely that investing in your own assets may be attractive or even essential (versus shorter term options common during start-up, such as borrowing the assets of friends and supporters informally, sharing assets with other organisations or hiring / leasing). Operating assets generally will have a useful life of more than a year and therefore if you have a longer term outlook, purchasing assets can make them more cost effective compared to hiring them from one year to the next, for example. The basic rule is to 'spread' the cost of the asset across its useful life to consider an effective annual cost to compare to the cost of an alternative such as hiring or leasing (i.e. consider the depreciation cost per year – see the Financial Management theme of the toolkit). However, don't forget to think about additional costs that are likely to go hand in hand with owning your assets outright, such as insurance, maintenance and repair costs – these should be factored in to your cost-benefit analysis.

BRINGING ON NEW BOARD MEMBERS

The board is not set in stone, and as the enterprise grows and changes you will need to change the composition of the board to meet new challenges and bring in fresh ideas, experience and expertise.

What you need should be determined by:

- Undertaking a skills audit of your board – this should be done on a regular basis.
- Review whether existing skills and expertise are sufficient to meet the anticipated growth, needs and challenges of the enterprise over the next year
- As you grow and your organisation becomes more complex, bear in mind that it may be necessary to grow the size of your board so that it can reflect the necessary range of skills and expertise.
- Remember that it may also be worth considering bringing on board members that bring credibility with stakeholders and funders rather than filling any particular skills gap. This could include recruitment from the local community, beneficiary groups, employees and local politicians.

An effective board will have a mix of relevant skills, experience, interests and contacts – these should reflect the changing needs and circumstances of the organisation. But the mix should also enable the board to work effectively as a single decision making body. This is about striking the right balance between board members working as part of a team as well as being prepared to challenge one another constructively. Board conflict within growing enterprises can be disabling for an organisation and disastrous for its prospects. So ensure that technical skills and experience on the board are balanced with soft skills such as social and communication skills.

The members of a company can always remove a director from their position on the board although certain formalities must be complied with if the director does not wish to resign. However, if the director has a contract of employment, removing them from the board does not automatically terminate their employment. It is important to comply with employment law provisions when terminating an employment contract or the removed director may be able to bring a claim against the company.

The recruitment process

Once you know what you are looking for, document it in a 'job description' setting out roles and responsibilities, time commitment and pay, if any. This will ensure that there are no misunderstandings.

Recruiting new board members may be done in a number of ways. It could be done informally through word of mouth and tapping into networks. Or you may come across potential board members that you feel will meet your requirements through your day-to-day work. You can also advertise board member vacancies on your web site and in newsletters.

Using recruitment agencies may prove expensive but on occasion may be necessary because you have exhausted other avenues or you have an urgent requirement. Once again ensure that you give very clear direction as to what skills and type of person you are looking for and always negotiate and agree the fees with the agency in advance.

When you meet someone whom you believe may be a good recruit, try to get them interested in your business, keep in touch with them, ask about their background and experience to find out their whether they have the skills that you are looking for as well as the commitment to your values. When the time is appropriate you can then approach the individual for the board position.

New recruits need to be inducted in the enterprise's vision, mission and values. They will also need to understand the legal implications of being a board member, which can be onerous.

Ensure that you have contracts in place and, importantly, practical mechanisms for moving on board members who are not effective, don't contribute or have outlived their usefulness. It is generally regarded as good governance practice to give (non-executive) board members limited time contracts, for example a maximum contract of three years, which can be renewed only once. Note that any service contract for a director, which is, or may be, for a term of more than two years, must be approved by a resolution of the members.

Investors / funders taking board seats

There are a number of reasons why investors may wish to take a board seat in an enterprise. Earlier on in the life of the organisation, it could be that the investor is sufficiently impressed by the enterprise to invest their time as well as their money in the start-up. This is quite often the case with angel investors. They bring money, expertise and their contacts to the enterprise. They may also be seen to be safeguarding their investment by taking a board position.

As organisations (and investments) become larger, a similar decision will be taken by an investor to provide a level of security in relation to a substantial investment. From the point of view of the social enterprise, this may be a way of keeping an investor informed and on side; however, in cases where the investor has such a large shareholding that they are in a position to block the enterprise from taking certain actions, it may be a necessity. Either way, it's worth taking a pragmatic view that having a major investor represented on the board will maintain their involvement and commitment to your organisation.

Sometimes, an investor may nominate a representative to takes up the board position in order to provide more relevant skills / experience for the organisation (whilst of course still offering some form of protection and oversight for the investor).

Grant funding organisations may sometimes seek to take a board position either to help ensure that the enterprise utilises the grant correctly or else because the grantor is impressed with the enterprise and wants to contribute more to it than just the monetary investment. Having said this, grant-maker representation on social enterprise boards is not that common.

FINANCIAL ANALYSIS

Your organisation's finances provide a reasonably objective way of assessing how well you are doing. Financial analysis can help you to see how your organisation has improved over time, compare it to your competitors and/or enable you to set targets for future improvements.

Most financial analysis techniques use ratios or percentages as their basis, dividing one financial number by another. Profit margin is a common example: an operating profit margin of 15% (or 0.15 in terms of a ratio) is calculated by dividing an organisation's operating profit by its revenue. The 15% result suggests that every £1.00 of sales generates £0.15 of operating profit. Remember that these measures are useless in and of themselves;

financial ratios / percentages are only useful if you can compare them either to the past and / or to other (comparable) organisations.

Financial analysis generally addresses two key questions:

- **Performance**: how efficiently / effectively is the organisation operating?
- **Financial status**: how able is the organisation to meet its financial obligations?

We provide here an introduction to a few of the performance and financial status ratios / percentages that are often used as part of financial analysis. Depending on the nature of your social enterprise, some will be more or less relevant. Also, don't view financial analysis as a 'set science' – there may be measurements / calculations that are both relevant and unique to your business that you could use. And finally, remember that your social enterprise is not just about the finances; your social and environmental impacts are at least as important to measure and track, as discussed elsewhere in this toolkit.

Note: the following sections assume a minimum level of understanding of the main components of an income statement (aka profit *and loss account, P&L), balance sheet and cash-flow statement. These financial statements were introduced at a broad level earlier in this theme of the toolkit; however detailed construction and components of the various financial statements are beyond the scope of this toolkit.*

Measuring an organisation's performance

1. Operating Profit Margin = *Operating Profit / Revenue*

The most common measurement of performance is the profit margin. The profit margin indicates how much profit has been generated for every £1 of revenue made by the organisation. It is a measure of how 'efficiently' you are earning each £1 of revenue. The measurement presented above focuses on operating profit; but depending on the nature of your organisation it may also be worth measuring gross profit margin and / or net profit margin.

2. Return on Assets = *Revenue / Fixed Assets*

This ratio tells you how well your assets (plant and machinery, office equipment and systems, vehicles, etc.) are working for you. It tells you how much revenue has been generated for each £1 invested these assets. It is most relevant in organisations that are 'asset-driven,' for example a social enterprise that manufactures products. It will be less relevant for those that focus on service delivery and for whom performance is driven by staff rather than the way in which assets are utilised.

3. Stock management = *Stock Value / Cost of Goods Sold*

If your organisation is a products-based business then stock management (i.e. your policy in relation to stock ordering frequency and volumes) is likely to be an important aspect of effective operations. Whilst you will always want to have enough stock to hand to fulfil customer orders, holding stock brings ties up cash and in addition may lead to additional warehousing costs for your organisation. The stock management ratio above gives you an indication of the levels of the stock you keep relative how much stock you are selling on to your customers. If your average stock level is £10,000 over the course of a year, during which time you have sold stock with a value of £120,000 to your customers, then the ratio 1/12 indicates that you are generally holding 1 month's worth of stock.

4. Ratios involving P&L cost items *e.g. Marketing Expenditure / Revenue*

Finally here, we mention a 'catch-all' in relation other cost items that you will see on your organisation's income statement / profit and loss account. Ratios can be used to track and evaluate how effectively you are spending money in different areas of your business in order to generate revenue. The example given provides a metric for assessing the effectiveness of your marketing spend. An equivalent ratio / percentage could be calculated for other areas of cost such as Staff Costs, Distribution and Logistics Costs, Admin and Overhead Costs, etc.

The point made earlier is important to reiterate here: one-off calculations such as those set out above are of little value. The purpose of financial analysis is to compare how you are currently doing to how you did in the past, how you want to improve in the future and / or how you compare to your peers and competitors.

Determining an organisation's financial status

The previous section was about performance; the other major branch of financial analysis considers your organisation's overall financial position, i.e. how well placed are you to meet your financial obligations in the future?

Before discussing the 4 key financial status ratios, it is important to make a note here about **working capital**. Working capital is the day to day 'financial engine' of an organisation. It is a measure of all of the assets of an organisation that are relatively easy to turn into cash (usually stock, debtors and cash at the bank or in hand, collectively known as **current assets**) minus liabilities of the organisation that will need to be paid off soon (i.e. within 1 year – these are the creditors or **current liabilities** an organisation). Working capital gives you a good sense of the availability of cash for an organisation in the near term (sometimes called its **liquidity**). A healthy working capital enables an organisation to avoid a cash crunch which can be fatal for an organisation, however well it might be doing in terms of generating sales and having impact.

1. Current Ratio = *Current Assets / Current Liabilities*

The current ratio indicates to what extent short term (current) assets are adequate to settle short term (current) liabilities. A current ratio of less than 1 would indicate that current assets do not fully cover current liabilities; this may be a cause for concern unless the nature of your business has a strong daily cash flow (e.g. retail). Remember that the current ratio can also be too high, indicating that you are tying up to much money in short term assets, some of which may be incurring a financing cost (e.g. warehousing for stock; opportunity cost of a high level of debtors).

2. Acid Test Ratio = *(Debtors+Cash) / Current Liabilities*

The acid test ratio is an even stricter test of liquidity. Instead of looking at total current assets, the acid test ratio only considers those current assets that are 'very liquid' – i.e. debtors and cash. Stock is not considered when calculating the acid test ratio, since this may take several months to turn into cash. Note that there is no 'right' number to target for either the current or the acid test ratios; however, different sectors will use their working capital in different ways, leading for example to these ratios being markedly different for a successful manufacturing organisation versus a retail organisation. This is one area where it may be worth researching financial information of competitors and/ or industry averages if available.

3. Debt Ratio = *Total Debt / (Total Debt + Equity Invested + Retained Profits / Reserves)*

The debt ratio indicates the amount of money that has been invested in the organisation by debt investors compared to the total amount invested in the organisation. A higher ratio means a greater exposure to debt (aka higher **gearing** for the organisation). This is an important measurement since, of course, debt investment brings with it a cost – interest charges. Any new investor will be particularly interested in your current level of debt and will use the debt ratio as a simple indicator of your position.

4. Interest Cover = *Operating Profit / Interest Payable on Debt*

As indicated, debt brings with it interest. Interest is paid out of operating profits (i.e. revenues less operating costs). The interest cover ratio considers how many times the organisation's operating profit can repay your interest charges. A ratio of 1 would mean that your operating profit just covers your interest charge, leaving you with a profit / surplus of nil. A ratio of less than 1 will mean you end up with a loss / deficit and indicate problems with your financing structure. Organisations will usually be aiming to have an interest cover ratio of at least 3, and preferably much higher.

USING BUSINESS ADVISORS

An enterprise usually starts with a particular idea or process at its core. The founder may have an expertise in this area or a passion for solving a particular problem. This may be enough to get the idea going and even enough to start delivering on the idea. However the demands of starting and growing an enterprise may require, either regularly or from time to time, skills and expertise that the founder and the initial team may not have.

On top of this there are a range of legal and statutory requirements that impact on an enterprise. Just some of the areas that you will need to consider are:

- Choosing the right legal structure
- Accounting and financial issues
- Payroll, PAYE, national insurance
- Annual returns
- Keeping proper records
- Employment contracts and a huge amount of other employment regulations
- Health and Safety issues
- Understanding and negotiating contracts

Inevitably, the fledgling enterprise and even more so the mature enterprise will need to use external advisors to help cope with all the demands of business strategy, operations and processes as well as the extraneous legal / statutory demands imposed on it. Some examples follow:

- An accountant may be engaged to cope with accounts issues, initiating and installing financial management and reporting systems, tax advice, and general business advice. The nature of the relationship is likely to be long term.

- A solicitor may be required for help with contracts, litigation, recovering debts and employment issues. Whilst this may also be a long-term relationship, contact may be less regular compared to your accountant, with a focus around specific needs as they develop.

Finding the right advisors

The starting point in finding the right advisor is to understand what your particular business needs are and the also the type of support you personally need. Professional support may be required for a particular technical issue and in that case you will want to engage with someone with that particular expertise, with the necessary qualifications, who can deliver the required service within your budget.

In cases where you are seeking a longer term relationship, the personal chemistry between yourself and the advisor may be as important, if not more so, than the technical skills that they have. Having a solicitor or accountant with whom you can be open about any particular problems and who will be ready to support you rapidly and expertly requires trust and understanding from both sides. The best way of finding this type of person is through personal recommendation. Ask other people who have been managing enterprises for longer. Often solicitors can recommend accountants and vice versa. Bank managers are also able to guide you on this.

If personal recommendations are not possible than invest the time in meeting with professionals who market themselves as experts in your sector or as acting for enterprises of your size or stage of development. Read the business press for experts who write articles or win awards or are regularly asked to comment on issues. This indicates that these individuals are highly regarded by their peers. Business support organisations such as Business Link may be able to guide you to panels that you can approach. The other avenue is to attend networking events or workshops where you may meet these advisors or other entrepreneurs who will be able to guide you. Use the same methodology to source business consultants and other advisors.

Once you have met with someone who you believe is appropriate, seek references. Meet or talk with others who have used their services - they will indicate to you the strengths and the weaknesses of the advisor. Any decent advisor should happily give you references that you can follow up.

Ensure also that as you grow that the management team in your organisation also meet and develop good working relationships with your business advisors.

Fees

We recommend you have a clear understanding about your business advisors will charge you and whether you can afford them. Many advisors are happy to work at a discount (or sometimes on a pro bono basis) with social entrepreneurs if they feel that the project is worthwhile.

In return for the fees, try to make sure you are both agreed on the commitment they can give you in terms of time and at what level of seniority. Whilst you may have the attention of a senior partner or consultant when they are winning your business, when you need their input you don't want to have to deal with someone more junior who may not have the necessary expertise or experience and / or someone whose personality may not chime with yours.

Develop strong relationships with business advisors

Good advisors bring an ecosystem with them – their networks and contacts – that you can plug into. Ask them about this and try to make the most of this extended network opportunity.

Finally, remember not to get complacent with the relationship. Regularly review whether the service is still appropriate to your needs as you grow and move into new areas of operations. Also keep an eye on fees and make sure that your advisors remain competitive; don't give up a great advisor because of price – but if the advisor isn't that good and is now charging more – look for better value elsewhere.

SOCIAL ENTREPRENEURSHIP AWARDS TOOLKIT

STAGE #6: SUSTAINABILITY

MAXIMISING INCOME GENERATION

A sustainable business model is an often-cited objective for social enterprise, as it is for any organisation. Sustainability relates to the extent to which your income generating activities cover your on-going costs. The exact form of sustainability can differ from one case to the next, since the strategy, area of focus and funding structure of social enterprises vary greatly. For an organisation that delivers community services to vulnerable people, a successful sustainable model might include generating revenues that cover 10% of total operating costs, with the rest sourced from grant-makers. However, a social enterprise that delivers ethically sourced and manufactured products may seek to be 100% funded by its revenue generating activities / sales.

This section of the Business Model theme sets out issues to consider that may help build the 'top line' revenue of the organisation; the sustainability equation, however, is also about minimising your on-going operational costs; this is discussed in the corresponding section in the Organisation, Operations and Infrastructure theme of the toolkit.

Growing top line revenue ultimately breaks down into 2 approaches – growing the **volume** of the services / products that you sell and increasing the unit **price** for each sale.

Revenue growth through increased volume sales

Any ambitious entrepreneur or enterprise will generally seek to grow, and this is most often done by increasing volume sales, whether this means the number of times you deliver your service or the number of products that you sell. Business model strategies relating to major scaling up / replication are addressed in the next section of this theme; here we will focus on shorter-term strategies for incremental growth. In thinking about increasing the volume of your sales, two questions are worth asking:

1. Based on what I've learnt so far, if I make changes to the current product / service I sell will it be more attractive to my existing customer segments / markets?

This is about considering opportunities to adapt your service / product to better meet the needs of your beneficiaries / customers. During the pilot phase you will probably have learnt exponentially more about both these sets of stakeholders than you did when you started out. You may have a number of ideas that you think could help make your offering more attractive to the market. It is recommended that you firstly test these ideas with existing and potential customers to see whether ideas will translate into real, incremental demand; secondly, make sure you scope out the implications of your idea on the cost side – re-designing your service / product will require investment in time and money and may have operational implications. Before changing anything, try to make sure you have a good feel for what the likely cost-benefit outcome will be for your social enterprise.

Another related approach is product or service extension. This is about bolting on new aspects to your existing offer to make the whole package more attractive. For example, a social enterprise that sells a regular magazine publication may seek to build a web 2.0 social networking forum / community to allow readers to interact, give their opinions and generally create more 'stickiness' to and demand for the core magazine product. Once again, it is important to test your new offering first and understand the cost implications before you make any significant investments.

2. Is the product / service I sell relevant to other customer segments / markets that I currently am not serving?

As well as enabling you to understand your existing market better, the pilot and early growth phase may help you identify opportunities for serving new customers and markets. One example of this has already been touched upon earlier in this theme: identifying 'meta-customers' who are able to buy your product / service in bulk on behalf of your existing customer base (e.g. councils buying block contracts of a service to be delivered across multiple schools in the area).

However, you may also learn about entirely new market opportunities. Let's take an example of a social enterprise that provides social inclusion and community engagement services, commissioned by local authorities, for older people. Through its work with councils it may discover that there is an opportunity to provide similar services for learning disabled people in the area. Strong relationships with customers such as local authorities and PCTs, who have a broad remit in terms of the populations they serve, can help to identify such opportunities. If you have established a strong track record of valuable and effective delivery to your existing beneficiary group, this can also add credibility to any proposal to extend your offer to another group.

However, we should include a word of warning again: don't underestimate the operational implications of serving a new market. Continuing the example above, does offering great community services for older people require the same skills, capabilities and expertise needed to offer similar services to learning disabled people? If not, how can the necessary skills gaps be filled? If the differences are significant, then this might be similar to building a whole new business / operating model.

Revenue growth through increased pricing

As well as growing volumes, there may be opportunities to increase pricing; however bear in mind that increasing prices is difficult to do at the best of times; even more so in the social enterprise sector where there may be an assumption that increased prices will just drive increased profits / surplus for the social enterprise.

The core recommendation here is that increasing your pricing will most likely need to be justified by supporting evidence around impact; i.e. you will need to reference / present the value of the impact you are having through your interventions / actions. Well documented outcomes, where possible comparing your results with competitors to illustrate your superior performance, will be an important first step in re-negotiating prices with existing customers. New customers may be more willing to agree on higher pricing, especially if it supported with this type of impact / outcomes data. See the Monitoring and Evaluation theme of this toolkit for more information on capturing your outcomes.

Another avenue for increasing your prices is related to the product / service adaptation and extension points made earlier. If you do re-design your offer, there may be a justification for increasing your pricing (indeed this may be necessary from your point of view if the new offering is more costly). Once again, however, your customers are more likely to be won over by learning about the incremental impact of what you are proposing in the first instance, with your incremental costs a secondary consideration.

OPTIMISING OPERATIONAL EFFICIENCY AND EFFECTIVENESS

Sustainability is an attractive goal for most social enterprises, since it enables the organisation to start looking operating and delivering impact in the longer term. The Business Model theme of this toolkit considers aspects of maximising revenue opportunities in search of sustainability. Here, we will take a look at the cost side of the business and some approaches for helping to identify more efficient or more effective working practices.

However, first it is important to highlight that reducing costs through improving the efficiency or effectiveness of what you do should never jeopardise the quality of what you do. Cutting costs that have a direct impact on the way in which your service is delivered or the quality of your product is a short term solution that can have a negative longer term impact - it can endanger your top line revenue as customers vote with their feet and choose another, higher quality, supplier.

Benchmarking as a cost management tool

As you gain experience and a track record in building your social enterprise you are likely to learn quite a lot about how others operate. These ‘others’ may be suppliers, customers, competitors and, through your network, social enterprises working in different sectors. You should see this as one of the benefits of establishing yourself and your organisation, since learning about how others operate can help influence your own thinking about how to optimise the running of your own organisation.

Benchmarking your operations against those of other organisations is a widely used technique in business and business analysis. Quantitative benchmarking compares cost drivers between organisations to look at relative efficiency or effectiveness. For example, if the accounts of two competing organisations show that the marketing and PR costs of the first equate to 20% of its total revenue, but for the second the same cost equates to just 15% of its revenue, you may conclude that the second organisation has a relatively more effective marketing function. Quantitative benchmarking is closely linked to financial analysis techniques, which are introduced elsewhere in the toolkit.

However, as the entrepreneur it's more likely that benchmarking will be an informal, qualitative management tool for helping to assess how well your organisation is operating. That is, as you develop a deeper sector / industry knowledge you will probably have the opportunity to see or hear about how others manage their operations. Some of what you hear may have some relevance to your own operations; taking an active interest in this form of market intelligence and considering whether and how to adapt and incorporate ideas into your organisation can be a powerful way in helping you increase productivity and reduce your cost base.

Human resource management

A significant part of your organisation's cost base will often be driven by staffing. Improving the efficiency and effectiveness of human resources is not about cutting your headcount; it's about maximising their performance. This can be done in a variety of ways:

- **Recruiting the right people to the right jobs**. This has already been covered earlier in this theme of the toolkit and is perhaps the most critical aspect of human resources management.

- **Striking the right balance between recruiting staff versus using freelance contractors**. Very often in the early stages of start-up, it may not be cost effective to employ staff outright. Many social enterprises will use freelance staff to complete functions that do not justify a full- or part-time staff role. As your organisation grows, it is worth keeping an eye on how this changes. At some point during growth, you may be spending more on freelancers (paid at a daily rate) than you would if you created a full- or part-time staff post. Bringing people on as staff may also enable you to oversee and enhance the quality of the work produced, providing further benefits in terms of quality. On the cost side, don't forget that employing a staff member brings with it additional costs and obligations (e.g. employer's taxes, staff benefits, staff overhead costs, health and safety and other legal compliance requirements) – these should be factored into any cost-benefit analysis around staffing/ contracting choices.

- **Invest in training to improve quality and efficiency.** Regardless of someone's background and experience, all roles have some element of uniqueness to them. Moreover, in a small or growing organisation, roles may be diverse and a staff member may be well-qualified to complete most of their responsibilities but have skills gaps in relation to some other areas. Training (specifically skills-based training) can help fill some of these gaps for your staff and can reduce your need to recruit new staff. It should be seen as an investment in increased productivity in the longer term. Working with a staff member, try to identify training opportunities that speak to the particular needs of both the individual and your organisation.

Supplies, processes and systems

Outside of human resources, there may be other opportunities to reduce costs, some of which have been introduced already.

As you grow and become more established, your purchases from suppliers are likely to become larger in volume and more regular in frequency. As a result, your custom will become a more 'valuable' from the perspective of your suppliers. This is something that you should seek to benefit from in terms of better rates and unit costs. Open a dialogue with your key suppliers to discuss ways in which they can provide better pricing for you. You should view supplier negotiations as an on-going element of managing the organisation; your bargaining position for such negotiations will be greatly strengthened if you can also investigate pricing from your supplier's competitors (who may often be willing to offer attractive prices in order to win new business from a growing customer).

The introduction of processes and systems into your organisation was introduced earlier in this theme of the toolkit. As well as ensuring consistency of quality and delivery, well defined process and well-built systems should also deliver efficiency savings that, in the longer term, can help reduce your on-going cost base.

REFINING YOUR MARKETING PLAN

The Business Model theme introduces the relationship between long-term sustainability and maximising income generation. Although the exact form of sustainability can differ from one organisation to another, the ability to generate and maximise income plays a fundamental role in delivering it for most social enterprises. As introduced earlier in this theme, your marketing strategy and marketing plan are key enablers for maximising income generation and achieving sustainability. This section of the Marketing theme sets out the key things to consider when refining your marketing plan and marketing strategy to maximise income generation.

The business model theme introduces the two key approaches to growing top line revenue- growing the **volume** of the services / products that you sell and increasing the unit **price** for each sale. Both of the approaches (or objectives) will require you to refine your marketing plan, and in some cases your marketing strategy.

A brief word of warning here: successful marketing requires you to provide the target audience with a **consistent message about your offer**. Constant changes to your value proposition or the way you market your offering may confuse your target audience and do more damage than good. Try to make sure that any you communicate the rationale for any changes in what you offer – as a guiding principal, you will ideally want to highlight that your new and improved product or service delivers even more social / environmental impact than before.

Refining your marketing plan

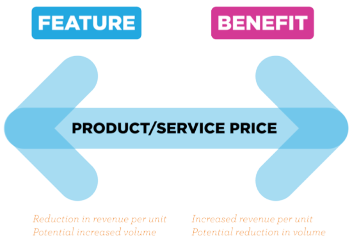
Your **marketing tools** will provide the key 'levers' or variables for refining your marketing plan and helping to maximise income generation, namely:

- **Price**: how much you charge for your product or service
- **Place**: the audience segment & routes to market you decide to target
- **Promotion**: your communications plan- the features and benefits that you communicate to the specific audience segment/ route to market

Price: Increasing your price will enable you to generate greater income per unit of sales, but this can also have a significant effect on volume of sales. Generally, the higher your prices, the lower your volume sales; the exact nature of the relationship between price and volume varies from one market / product / service to another and is known as **price sensitivity**.

Let's take the example of social enterprise B (a manufacturer of high-end ethical fashion clothing for women). Increasing the price of their fashion products may successfully generate increased revenue per unit within a certain price band. However, if the organisation increases the price above the customer or target audience **price threshold** (the price customers are willing to pay for this type of product), this may lead to a step down in volume that may ultimately result in a reduction in overall revenue. This demonstrates the importance of understanding the value of your products / services to the target audience and how price changes (increases) will impact customer demand. Generally speaking in the social enterprise world, you will need to provide evidence of enhanced outcomes and/ or value to your target audiences in order to justify price increases.

The diagram below illustrates the relationship between price, revenue and volume:



Place: As your organisation becomes more established, it is likely that you will start to understand your target market in greater detail than during the initial start up/ pilot stages. In some cases, this may mean that you identify a new target audience or route to market opportunity. Assuming that your value proposition addresses the needs of a new target audience this might provide a great opportunity for increasing your sales volumes. However, we should include a word of warning again: don't underestimate the operational implications of serving a new market (audience or route to market). For example, new markets may require different skills, capabilities or expertise and therefore require significant operational and organisational changes to successfully deliver into the new market.

Promotion: An increased understanding of your target market will often help you identify opportunities for refining the way in which you communicate features and benefits of your product or services to your different target audiences. This may require different promotional techniques to effectively communicate the features and benefits of your value proposition to the respective target audience.

Refining your marketing strategy

The Business Model theme discusses the importance of reflecting on your organisation's original offering using your experiences from the start up/ pilot stages - *what you have learnt so far*. This process may require you to make changes to your original offering (product/ service) to make it more attractive to your target audience.

Significant changes to your offering will require a review of your value proposition to ensure that you are communicating these changes, and using them to reinforce or reposition your place in the market - a core element of your marketing strategy. It may be helpful to refer back to earlier stages in this theme of the toolkit to provide you with a framework for refining your value proposition and marketing strategy based significant changes to your organisation's offering.

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SOCIAL ENTREPRENEURSHIP AWARDS TOOLKIT

STAGE #7: LONG TERM GROWTH / REPLICATION

EXTENDING/REPLICATING YOUR SOCIAL MODEL

Long-term growth is the objective of most organisations. As outlined in the Business Model theme of the toolkit, the ultimate goal for a growing social enterprise is an enhanced **triple bottom line** (social, environmental and financial returns), with the emphasis on increased impact rather than more financial reward. In the social enterprise sector, long-term growth is often referred to as **replication**. This is because it usually involves taking a tried and tested model and **replicating it in a new market**, either in a new geographic area or for a new set of stakeholders (beneficiaries/customers).

Replication will often require you to extend and/or adapt your social model to ensure it is relevant for new markets / new target population groups. For this reason, replication or growth of a social enterprise can be more complex than a commercial business: as well as the challenges of replicating the business model, a social entrepreneur must also ensure that **the extended social model remains relevant and in line with the social mission of the organisation** [1].

Extending your social model

The first step in replicating your social model is to understand whether it will address the needs of the new target population - i.e. testing the suitability of your social model in the new market. This process, as with most elements of the social model replication process, should be grounded in the social change model framework introduced earlier in this theme.

You should look to identify and compare the characteristics of your original target population with the new target population: core needs/ problems; current/ goal state; root causes of the problem. This will allow you to understand the validity of you social model within the

[1] The implicit assumption here is that you and your organisation will take an active role in replication. Sometimes, others may lead the replication of your original concept in new markets – in these cases, it will be their responsibility to understand how to extend / adapt your original social model. See the Business Model theme for more discussion on replication strategies.

new target population and then assess potential outcomes of your interventions using the theory of change framework. Note that even if you are aiming to serve the same target group (but in a new geographic location, for example), there may be differences in their real 'on-the-ground' needs compared to those living in your original location / market.

The framework for working through the needs / problems analysis for the new target group is discussed earlier in this theme of the toolkit. To illustrate, let's take the example of a social enterprise that is commissioned by local authorities to provide recreation and leisure activities for learning disabled people. The organisation's original social model helped to identify a set of activities to offer adults aged 18 and over. Let's assume that the replication opportunity involves extending these services to under-18s. By assessing the specific needs of under-18 learning disabled people, the organisation might end up identifying a subset of its original activities that should be replaced by new ones that speak to the specific needs of younger service users (e.g. more emphasis on outdoor and / or group activities).

Staying on mission

Deciding to pursue replication can have a significant influence on the future impact of your organisation's activities. During the early stages of growth, the mission of a social enterprise is often self regulated, driven by the passion and commitment of the founding entrepreneur(s) to deliver social impact.

Once a social enterprise moves into the replication stage, the introduction of more numerous and diverse stakeholders (e.g. staff, different beneficiary groups, investors, partners, customers) will introduce complexity to the delivery of the social mission. New stakeholders may challenge the direction of the organisation, how outcomes are best achieved, how growth should be managed and how social impact should be balanced with profit motivation.

These diverse perspectives and viewpoints will put a strain on your organisation's social mission. Protecting the mission is about proactively managing this increase in complexity; as well as ensuring your social model is adapted to be relevant to new markets, various other aspects of growth and replication discussed elsewhere in this toolkit can help you manage the change effectively:

- Adapting your approach to management / leadership as your organisation grows.

- Introducing operational and organisational controls, processes and systems to help formalise the way the organisation works.

- Ensuring that your organisation's legal structure protects your social model and your social mission appropriately.

- Finding the right investors to help finance replication strategies.

Defining and agreeing social impact indicators will also play an important role in successful replication of your social model. If used correctly, social impact goals/ targets, set alongside financial aims and objectives, can help create a successful balance between social impact delivery and financial profitability. Social impact objectives should therefore form a fundamental component of and organisations replication strategy – this is discussed at length in the Monitoring and Evaluation theme of this toolkit.

SOCIAL RETURN ON INVESTMENT

As your organisation starts to look towards long-term growth and / or replication, it is likely that you will need to professionalise the techniques you use for monitoring and evaluating social impact.

There are many different methods for monitoring and evaluating social impact. In part, this reflects the diverse nature of the organisations operating in the social enterprise sector. However, one framework / methodology has gained traction within the sector: the **Social Return on Investment** (SROI) has been adopted by the Office of the Third Sector and is actively promoted by many organisations supporting social enterprises. The SROI Network - www.sroi-uk.org – is a membership body that provides information and guidance on the SROI methodology and approach.

Given the emerging importance of SROI, the final section of this theme of the toolkit provides an overview of SROI. The aim is to highlight the scope of data capture and analysis typically required for social enterprises seeking to adopt a more widely recognised and formalised monitoring and evaluation methodology. The discussion around the principles and the key steps of SROI analysis are based on guidelines published by the Office of the Third Sector- **'SROI- an Introduction'**. This guide, along with other information regarding SROI implementation, can be downloaded from the SROI Network website.

SROI is a framework for understanding, measuring and managing the outcomes of an organisation's activities. There are two types of SROI - evaluative SROI and forecast SROI. Evaluative SROI is conducted retrospectively and is based on activities and outcomes that have already taken place. Forecast SROI predicts how much social value will be created if future activities meet their intended outcomes. Forecast SROIs are useful at the planning stage of a project, or if you have not been collecting the right kinds of outcomes data to enable you to undertake an evaluative SROI.

7 principles underpin how an SROI-based monitoring and evaluation model should be researched and constructed for your social enterprise:

1. **Involve stakeholders:** stakeholders should inform what gets measured and how this is measured and valued.

2. **Understand what changes:** articulate how change is created and evaluate this through evidence gathered, recognising positive and negative changes as well as those that are intended and unintended.

3. **Value the things that matter:** use financial proxies in order that the value of the outcomes can be recognised.

4. **Only include what is material:** determine what information and evidence must be included in the accounts to give a true and fair picture, such that stakeholders can draw reasonable conclusions about impact.

5. **Do not over claim:** organisations should only claim the value that they are responsible for creating, not the value that might be the result of external factors.

6. **Be transparent:** demonstrate the basis on which the analysis may be considered accurate and honest and show that it will be reported to and discussed with stakeholders.

7. **Verify the result:** ensure appropriate independent verification of the account.

SROI was developed from social accounting and cost-benefit analysis disciplines. It is distinct from other approaches in that it **places a monetary value on outcomes**, so that they can be added up and compared with the investment made (i.e. the costs of selling your products / delivering your services). This results in a **ratio of total benefits to total investments**. For example, an organisation might have a ratio of £4 of social value created for every £1 spent on its activities. Carrying out an SROI analysis involves the following stages:

1. **Establishing scope and identifying key stakeholders.** It is important to have clear boundaries about what your SROI analysis will cover, who will be involved in the process and how. Often service users, customers, funders and other agencies working with the client group are included.

2. **Mapping outcomes.** Through engaging with your stakeholders you will develop an impact map (also called a theory of change

or logic model) which shows the relationship between inputs, outputs and outcomes.

3. **Evidencing outcomes and giving them a value.** This stage involves finding data to show whether outcomes have happened and then giving them a monetary value.

4. **Establishing impact.** Those aspects of change that would have happened anyway or are a result of other factors are excluded from the analysis.

5. **Calculating the SROI.** This stage involves adding up all the benefits, subtracting any negatives and comparing the result with the investment (e.g. on-going operating costs and / or capital expenditure).

6. **Reporting, using and embedding.** This vital last step involves verification of the report, sharing findings with stakeholders and responding to them, and embedding processes so that the SROI framework can be updated with new data as you continue to operate.

The social model framework outlined in theme 2 is closely aligned to the SROI process. A well-defined social model should provide your organisation with a clear understanding of your key stakeholders, the problem you are setting out to address (theory of the problem), your solution theory and associated outcomes from your interventions (theory of change), and your approach to delivering the solution theory (theory of action). If documented well, your social change model should therefore allow you to move onto stage 3 of the SROI process- evidencing outcomes and giving value.

Stage 3 is the ‘heart’ of SROI since it requires outcomes to be represented in monetary terms. A simple example will illustrate the idea: if a social enterprise provides personal development and life-skills training to teenagers who are at risk of exclusion from school, the longer term outcome may well be about ensuring that these people go on to some form of employment, education or training after school. One way of ‘monetising’ this impact is to consider the savings that would be made in relation to a reduced burden on the welfare state over, say 5 years. This welfare cost saving provides a monetary proxy for the service outcome that can then be used in the SROI analysis. Note that there’s no right or wrong answer as to which proxy you should use in each case; you may have a few options and need to make a decision about which is most appropriate.

As discussed earlier in this section of the toolkit, implementing any new system can take time and resources. It is very difficult to estimate how much time it will take to implement a SROI, as this will depend on the size and complexity of the social model, the quality of data you have collected and the skills and experience in your organisation. Organisations with skills in evaluation, outcomes, accountancy and spreadsheet software will find it easier to complete an SROI analysis.

Finally, it’s worth mentioning that SROI may not be appropriate for all social enterprises. In some cases it may well be impossible or too complex to give a monetary value to an outcome. However, when suitable, SROI provides a useful tool for assessing and communicating the social impact created by your organisation.

Stage 7: Long Term Growth/Replication
Theme 4: Business Model

GROWTH/REPLICATION STRATEGIES

Long-term growth is the objective of most organisations. For commercial businesses, the goal is incremental economic profit; for a social enterprise that has proved its social impact model and has achieved sustainability, the goal is an enhanced **triple bottom line** (social, environmental and financial returns), with the emphasis on more impact rather than more financial reward. Long term growth is often referred to as **replication** in the social enterprise sector, because it often involves taking a tried and tested model and **replicating it in a new market**, either in a new geographic area or for a new set of stakeholders (beneficiaries / customers).

Replication will involve extending and/or adapting your business model somehow. This part of the toolkit sets out a high level framework for thinking about how best to do this:

Step 1: market, organisational and entrepreneur analysis

The first step to take is to determine whether the opportunity for replication is real and whether you and your organisation are ready. For the new market you are considering, try to develop a clear, evidence-based understanding of the following:

- What is the need and what is the size of the new market? How well can our current business model / operations address that need?
- Are there any obvious paying customers? How easy will it be to build relationships with them?
- Who would we be competing with?
- What other barriers to entry exist in the new market?

These types of questions are the same ones that you will have asked yourself during the start up phase of your enterprise, highlighting the cyclical nature of replication planning.

As well as thinking about the market, it is important to think about whether your organisation is ready for replication.

Step 2: identify the 'magic' in your business model

Next we recommend you take some time to work out and articulate clearly your critical success factors, i.e. the 'assets' within your organisation that have enabled you to succeed with your initial pilot and helped you reach sustainability. Whilst you may start with a fairly long list of such assets, it will be important to identify the most important ones that have driven your success. To prioritise, think about questions such as:

- **Complexity**: how difficult would it be to re-create the asset organically (i.e. from scratch)? Will core elements of this asset be as effective in different contexts / markets?
- **Uniqueness**: how easy would it be to find the asset elsewhere?
- **Ongoing maintenance**: how much effort is required to maintain the value of the asset over time?
- **Ease of communication**: how easily can assets be communicated to or understood by a third party?

Some examples of typical assets are given in the table below:

ASSET	EXAMPLES
Information/Knowledge	• Industry and market research; competitor analysis • Business/financial plans • Marketing techniques • Key operating and performance process
Skills/capabilites	• Critical 'in-house' qualification or certification required for legal or reputational reasons • Key expertise required to engage within the organisation's market successfully • Key expertise required for internal operations to run efficiently and smoothly
Intellectual property	• Brand name/trademark • Market reputation (organisational or personal) • Technology IP (internal or external use)
Physical infrastructure	• Buildings • Equipment • Fixtures and fittings
Relationships	• Customers • Suppliers • Funders • Partners and allies • Internal (i.e. organisational culture) • Government/political

Step 3: select your replication model

There are various forms of replication model; they broadly fall into the following three forms:

- **Wholly-owned growth**: new sites, outlets or branches are 100% owned and controlled by the original organisation. Additional staff, for example, would all be employees of the original organisation. External groups – if they are involved – have no ownership of (or responsibility for) the additional growth.

- **Affiliations**: on-going relationships with third parties are used to spread the reach of the organisation to new markets / locations. Whilst delivery in the new market will be the responsibility of the affiliate, the original organisation will support through transfer of its key assets (in return for financial compensation and / or a reciprocal benefit). Affiliations range from the tight and formal to the relatively flexible. Examples include franchising/licensing, joint ventures or partnership agreements.

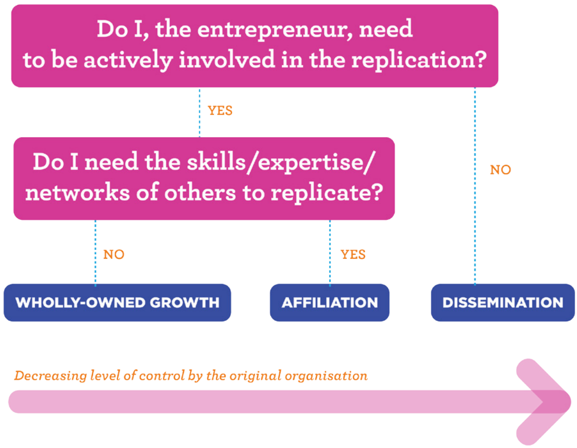
- **Dissemination**: this replication model is characterised by the original organisation sharing or exchanging their information or best practices openly to others in its network, in the hope that it will be taken up and implemented in a new market. The relationship with the network is likely to be informal and loosely structured. Any financial relationships are short term and ad hoc.

Having identified your critical success factors in the previous step, your choice of replication model will depend on a mixture of personal and business-based issues.

- First ask yourself whether you, the entrepreneur, (a) needs or (b) wants to be involved in the replication. The answer to (a) should be driven by your considerations of the critical success factors; for many young enterprises, many of the critical success factors will be found in the experience, vision, relationships and passion of the entrepreneur. You will need to think about whether / how those elements can be separated from you as an individual (i.e. is it practical to assume that can someone else build on them further?). Also, don't forget the more personal consideration (b). Replication will involve many changes for you personally in terms of your ability to oversee the whole organisation and will create pressures on you to delegate and trust in the delivery by others.

- Next ask yourself how critical it is to have others involved in the replication? This comes back to your market analysis earlier, and is about thinking about the skills, capabilities, networks and expertise that you **don't** have and that are critical to success in the new market. In many cases, working with a partner may be the most effective way to fill those gaps.

These questions will help lead you (at the highest level) to the right replication model for you to consider:



Step 4: select your replication model

Now that you've worked out your critical success factors / assets and the replication model you will use, the final step is to determine the appropriate transfer mechanism to ensure that the replicated operation has access to and benefits from those critical success factors. The table below summarises some typical types of transfer mechanism.

As the table and arrows show, more complex assets are more likely to require transfer mechanisms towards the right which require more direct involvement and intervention by the entrepreneur / original organisation. Your choice of transfer mechanism should also be driven by your choice of replication model. For example, written materials will be most aligned with the dissemination model, where there is no day-to-day involvement of the entrepreneur in the replicated entity. Similarly at the other end of the scale, you would expect to see direct engagement of the entrepreneur in the case of wholly owned replication. Transfer mechanisms such as training, consulting and secondment are good transfer mechanisms in cases where you are replicating in partnership with an affiliate (there may be a case for such advisory services to be remunerated).

Books, written materials	Training	Consultancy	Secondment	Entrepreneur manages or implements asset transfer	Entrepreneur retains the asset
Most applicable to 'static' information, knowledge and basic skills. May be used in conjunction with another transfer mechanism (e.g. documents to support a training porgramme).	Various training methods available, e.g. classroom-style lessons; case studies; workshops; etc.	The entrepreneur or the organisation's senior staff act as advisors to the new organisation in areas where directly transferring the skill may not be appropriate or may be too costly.	A person from the new organisation spends time with original organisation to learn specific skills, understand processes and/or build relationships with staff.	Entrepreneur is responsible for asset transfer. Entrepreneur manages and oversees actions of staff in the new organisation, or creates the asset within the organisation.	complex/hard to-find-replicate or valuable assets. The original organisation provides the product or service as a 'supplier' to the new organisation.

Stage 7: Long Term Growth / Replication
Theme 5: Organisation, Operations and Infrastructure

MANAGING THE ORGANISATIONAL CHALLENGES OF REPLICATION

Operations and systems

Once you are at the stage where you are seeking to grow more quickly and / or in a 'multiplier' fashion by replicating your operations in new markets or locations, the weaknesses in an informal, systems-light approach will be quickly exposed. Rapid growth or replication leads to extended lines of communication and complexity of operations and inter-relationships. A lack of systematisation across a growing organisation can lead to mistakes and inconsistencies in the way in which you operate.
This challenge underlines the importance of well-defined processes and systems that will speak to the needs of the organisation as it might look in two or three years' time, not just today. Inevitably, processes have to become more consistent and less dependent on individual choices or performance. We have discussed processes and systems earlier in this theme of the toolkit. Remember that you are likely to want to retain a spirit and culture of innovation and entrepreneurialism in your staff – as such try to make sure that you strike the right balance and avoid over-systematising the business - balance, flexibility, and a consultation with staff are recommended components of the way you would go about defining your processes and systems requirements.

The development of operational systems often does not come naturally to entrepreneurial founders, and might require the social enterprise to hire or contract in someone with special skills in this area. Indeed social enterprises that are looking to deliver accelerated growth on the basis of a successful initial pilot will commonly seek to recruit an experienced operations manager at this stage.

Remember also that systems will also enable you to capture richer and more reliable management information about your organisation, for example costs, staff inputs and activities, sales and customer data and social impact data. These data can in themselves be valuable, since they will add weight to your business case for growth when engaging with stakeholders (funders, investors, potential customers and partners).

For many social enterprises, this work is likely to require investment in information technology systems. During the earlier stages of your organisation's life, you may have been able to use IT support on a pro bono basis or informally through friends, volunteers or others in your network; this type of support is unlikely to be suitable for a rapidly expanding organisation that must support a network of replicated entities. You may need to think about web-based, database-driven technology that can be adapted to and used by each replicated entity – most likely you will need to seek a proper commercial supplier and enter into a formal contractual relationship with a defined service agreement. When thinking about potential suppliers, remember that social enterprises can be attractive clients for larger private-sector suppliers, helping them to support their CSR activities, for example. Your social / environmental focus should be an asset you use proactively in your negotiations to try to secure reduced rates for IT systems and services.

Human resources during growth

Growth and replication will also drive the need for a larger number of staff. Growing from a small, dedicated team (or even a single founder) to a stable, growing business will require you to establish a human resources (HR) function, with associated policies, processes and systems. HR policies should cover recruitment, remuneration, job descriptions, reporting, communication practices, and organisational structure.
As a social enterprise grows or replicates, the challenges of finding the right staff will grow. In many instances, staff joining at the earlier stages of the social enterprise will come from the personal, academic or professional networks of the founder. Replication will often require widening the net to access a larger pool of potential staff. This is an area which might require the support of intermediaries such as recruitment agencies.

As well as the recruitment challenge, a growing number of staff will create management complexity. As a result your role as a manager of people will demand increasingly more time, reducing your ability to perform your role as entrepreneur or leader of the organisation. Growth or replication will shine a light on this dual role, and is discussed further elsewhere in the toolkit. The challenge for the social entrepreneur at this stage will be to have on board a capable management team that can take on managerial responsibilities and accountabilities, in line with their skill-sets and experience. As well as the operations manager mentioned earlier, other management posts that are typically sought at this stage are sales managers, financial managers (sometimes combined with operations responsibilities) and service delivery managers.

A final point worth making here is that as a social enterprise's size and staffing grow in complexity, the specific roles and responsibilities of each staff post will need to be defined more clearly – this goes hand in hand with more well-defined processes, discussed earlier. It is recommended that roles, responsibilities and accountabilities are documented and form part of the organisation's 'operations manual' that would also capture other aspects of operations, such as HR policies, formalised processes and systems.

Organisational culture

Every enterprise has its own organisational culture, which in part reflects the personalities and goals of the social entrepreneur or founding team, but will also be influenced by new staff (and perhaps other stakeholders such as partners) over time. Organisational culture covers a myriad of elements, e.g. language used by staff, (including abbreviations and jargon), office décor, the importance of socialising outside of the work environment, etc.

By its very nature, growth or replication brings outside influences into the social enterprise. Some may be positive influences, others may be negative. There is no single solution to the organisational culture challenges that replication creates. In order for new staff and management to develop an intangible but essential sense of "ownership" over their work, they must feel that they are able to influence a culture to reflect their values and personalities. At the same time, the social entrepreneur or founding team may feel threatened by what they see as "outsiders" dictating or changing their dearly held culture. One of the best ways to avoid conflict is to recruit the right people to the organisation, i.e. those that have the necessary skills or experience and that you feel would work well in and feel an affiliation with the current culture of the organisation. However, challenging existing culture is not necessarily a bad thing - it is also important to be open to change. If you are at the stage where significant growth or replication is a real possibility, this represents a step change in how the organisation is going to look, feel and operate, and the culture is likely to need to reflect these changes. An open mind can be a good thing - new staff can bring new ideas and perspectives that can make a positive contribution to your organisation's culture.

Stage 7: Long-term Growth/Replication
Theme 6: Marketing

MARKETING DURING GROWTH/ REPLICATION

In the social enterprise sector, long term growth is often referred to as **replication**. This is because it usually involves taking a tried and tested model and **replicating it in a new market**, either in a new geographic area or for a new set of stakeholders (beneficiaries / customers). This final part of the marketing theme introduces a framework for managing your organisation's marketing during replication.

Note: This section of the tool kit assumes that your organisation has decided to adopt a replication strategy that retains some level of control over the replication process (i.e.wholly-owned of affiliate-based replication).

Marketing - a framework for replication

We have introduced earlier the concepts of your **marketing strategy** and your **marketing plan** for your original market, and discussed the major components of both. As you seek to replicate and adapt your marketing approach to be relevant to a new market, you will need to think about which elements of both your marketing strategy and plan should be fixed, and which should be adapted / re-worked for the new market.

As seen earlier in this theme of the toolkit, your marketing strategy comprises your brand identity, your positioning within the market and your routes to market. In the main, your organisation should have a single marketing strategy that addresses these elements for all of your markets; however, depending on the nature of your replication, some elements may need to be adapted / refined to make them relevant in a new market, as denoted in the diagram below:

Whilst your goal should be to have a single marketing strategy that is largely constant across existing and new markets, you are much more likely to need to generate separate marketing plans for each market. This is because items such as price, placement and promotional tactics (the major elements of your marketing plan) are likely to be very specific to the needs / circumstances and features of your target audiences in each market (beneficiaries and customers). Moreover, other element of your marketing plan, such as goals / targets, budgets, marketing action timetable, etc., will also be unique to a specific market:

To illustrate the approach to replicating marketing strategy and plans, let's consider a successful social enterprise that manufactures and designs ethical fashion that, until now, it has sold through fashion wholesaler and distributor channels. Now that it has built consumer loyalty, brand identity and a reputation for great clothing, the organisation has decided to seek longer-term growth by opening a retail outlet to sell direct to consumers. In terms of the organisation's marketing strategy, the elements of its brand identity and positioning will most likely remain fixed; however, its route to market is clearly different – it will be offering its products through its own retail store now as well as through the existing value chain partners.

Moving to the marketing plan, this is much more likely to be tailored to the specific needs and characteristics of the organisation's new 'market' – in fact the change in this example is a move towards a direct to consumer (i.e. retail) marketing plan versus the original approach which focused on marketing to wholesaler / distributor intermediaries. So, of course, the marketing plan for the retail outlet will have very different elements in relation to pricing (i.e. retail versus wholesale pricing), promotion (e.g. advertising rather than a promotional stand at trade events) and placement (i.e. the layout / decor / feel of the retail store should reflect / highlight the fashion products on sale).

LEGAL STRUCTURING CONSIDERATIONS WHEN SEEKING EXTERNAL INVESTMENT

We have examined the importance of a social enterprise choosing the most appropriate legal structure earlier in this theme of the toolkit. Assuming that you have chosen to incorporate your social enterprise (as opposed to working as a sole trader or an unincorporated association), the most common structure is that of a company limited by guarantee. For social enterprises that have chosen to become community interest companies (CICs), the most popular underlying legal structure is once again a company limited by guarantee.

There are numerous advantages in being a company limited by guarantee (CLG) – foremost being the accessibility to grant funding. Many social enterprises need grant funding during start up or in the early stages when access to other forms of funding may be restricted due to the fact that the enterprise is unable to demonstrate a viable financial model, or is considered to be too risky or only marginally financially viable.

The restrictions of the CLG legal structure do not become apparent until the enterprise seeks to scale up its activities and needs access to larger amounts of capital. The capital requirement at this stage is usually necessary to build up the capacity of the enterprise, i.e. human resources, infrastructure, operating assets, processes, etc. The funding is not necessarily directly related to a specific project or projects. Grant funding is generally project-based and in the main grant making trusts will not fund a social enterprise's internal capacity building requirements as it seeks to scale up / replicate.

The enterprise may be able to seek bank or other forms of loan finance. However there is a point at which it is probably not safe for the enterprise to borrow further and the lender also will have a ceiling beyond which it is reluctant to lend.

In a commercial enterprise the owners of the business would at this point in the life cycle begin looking for equity investment. That means selling shares in the company and using the proceeds of the sale of shares to invest in the growth of the company. The new shareholders will be rewarded through the distribution of profits generated by the activities that have been financed.

Equity finance can be accessed through a variety of sources including individuals and institutions.

A social enterprise that is a CLG will not be able to attract equity investment. It has no shares it can sell. Furthermore, one of the pre-requisites of being grant-funded is that the funded entity is constitutionally prevented from distributing profits to its owners (note that a CLG is not necessarily limited from doing this; a specific provision must be inserted in the articles). This dilemma of requiring a certain legal structure early on to access grants, thereby potentially preventing access to equity finance later, is a problem faced by many social enterprises.

There are number of solutions to this dilemma. If you are ambitious enough and believe that you can get started without grant funding then you can choose to have a company limited by shares structure right from the start. You can choose to have a CIC which is a company limited by shares. This allows you to sell shares to investors, but at the same time restrict their rights to dividend (profit) distribution, thereby protecting the CIC's underlying social mission. This form has not so far proved popular for investors because of these and other restrictions; however a relaxation of these CIC restrictions in early 2010 may encourage a better take-up of this model.

Other social enterprises that are looking at equity funding have chosen a different route, as follows: the existing CLG creates a subsidiary company limited by shares. A limited number of shares in the company are sold to ethical investors. Part of the investment money received is then used to purchase the business of the CLG, which is then dissolved. In this way, the social enterprise essentially transforms itself from a CLG to a company limited by shares. The new company now has the structure that allows future equity investment. On dissolution, the CLG will distribute the sale proceeds according to its constitution; in the case of a social enterprise, this is usually for some community benefit.

Many companies limited by guarantee have chosen to engage with investors who grant them money and then receive a financial return through royalty payments based on profit performance. These types of investment, often known as quasi-equity investment, are becoming popular but are complex and require considerable professional advice and cost to achieve.

The co-operative legal structure does allow for investment by its members. The amount of the investment in a co-operative, which is an industrial and provident society is restricted to £20,000 per member. The investing member does not enjoy any additional voting rights. Industrial and provident societies with many members can therefore raise considerable sums of equity finance in this way but this is not likely to be attractive to passive investors with not wish to participate actively in the business of the co-operative.

The management and owners of the social enterprise have to understand their future funding requirements and consider the appropriate underlying legal structure appropriately. There are ways of overcoming the restrictions if the legal structure does not facilitate investment but these methods are often both clumsy and expensive.

VALUATION AND INVESTOR DIALOGUE

Implicit in the structure of this toolkit is that, up until now we have by and large assumed an organic growth of your organisation (with perhaps some seed investment / funding secured at the set up stage). Once you reach a stage where you are seeking more rapid growth and / or replication you may require additional external investment. Note here that we are focusing on **social investment** options such as equity and debt investment rather than grant-driven sources of investment. It should be noted that for some social enterprises, grant funding may be the only realistic source of financing for growth due to the nature of their business and / or their legal structure. But for many, one of the characteristics of social enterprise that differentiates it from the charitable sector is access to capital markets and equity / debt investors.

The social investment landscape is covered elsewhere in this toolkit. Social investors are different from regular investors in that they understand that their investment aims to deliver a mix of social, environmental and financial returns (triple bottom line). Typically, they will expect a lower financial return than a commercial investor, recognising that they are also investing to generate social and environmental returns. But be aware that lower financial return does not mean no financial return; most social investors will expect to see some growth in the financial investment they make. This section of the toolkit discusses the dialogue around financial return that a social enterprise will have with social investors. It is likely that you will also need to discuss your social / environmental returns with them – these are addressed in the Social Model and Monitoring and Evaluation themes of this toolkit.

Another important point to highlight is that if you are seeking external social investment, two of the likely criteria for accessing these funds is that you have an **established track record of success** from your pilot stage and that you are **operating sustainably** - these are the minimum features of an organisation that an external investor would expect to see before risking their capital.

Enterprise valuation

Enterprise valuation is the basis for any dialogue you have with investors. It enables both parties to understand whether the investment opportunity is attractive and determine the key financial terms of that investment. Valuation is about trying to find fair view on what an organisation is worth, either now or at some point in the future. Here we present two of the most common approaches to valuation – **discounted cash- flow** and **multiples analysis**. This is by necessity a very high level overview - the subject of valuation is broad and can be technical (particularly in relation to discounted cash-flow and other similar methodologies). The purpose is to give you an understanding of the concepts; we recommend you work with an experienced finance / investment advisor for any specific analysis around potential investment opportunities available to you.

Discounted cash-flow (DCF) considers the forecasted future cash-flows of your organisation. Although you may have a detailed (e.g. 3 year) short term financial forecast, the DCF method will require you to extend these forecasts out into the future by considering long term growth rates (and by from that long term cash- flows). Future cash-flows are then discounted back to today (or discounted back to another point in time) to provide a valuation estimate for the organisation. Discounting of future cash-flows is calculated by using a discount rate that will depend on a number of factors, including the riskiness of the sector in which you operate and the riskiness of your particular organisation relative to others in the sector – the higher the risk, the more future cash-flows will be discounted.

Discounted future cash-flows is perhaps the most ‘rigorous’ approach to enterprise valuation. However, it is complicated and will only ever be as robust as the robustness of your financial forecasts. In many instances, and especially for earlier stage organisations, investors will base their enterprise valuation judgements on a much simpler approach – multiples analysis.

Multiples analysis uses a similar ratio or percentages approach to that introduced in the financial analysis section of this theme of the toolkit. Instead of financial accounts ratios, however, here the focus is on considering comparable valuation multiples to estimate the value of your business. This is a much simpler approach, summarised broadly below:

- **Step 1:** select a comparable or a set of comparable organisations – similar sector, similar operational profile, etc. – they must be publicly quoted companies so that you can access their share price and company market value.

- **Step 2:** work out some key multiples for your comparable(s). Common ones are:

    - Sales Multiple = Company Market Value / Revenue

    - Operating Profit Multiple = Company Market Value / Operating Profit o Earnings Multiple = Company Market Value / Profit After Tax

- **Step 3:** Use these multiples to work out the value of your company. For example, if your comparable(s) shows that the average sales multiple is 1.5 and your current revenue is £400,000 then this would imply your company is worth £400K * 1.5 = £600K

Enterprise valuation using multiples is likely to be a 'triangulation' exercise, using a number of different comparable organisations and a number of different multiples to arrive at a valuation range. Although much simpler than discounted cash-flow, the challenge for multiples analysis is on finding really comparable organisations that publish their accounts and whose share price is publicly available. This challenge is even tougher for social enterprises since most publicly quoted companies are commercial operations geared towards financial returns only.

Using enterprise valuation in your investor negotiations

Enterprise valuation will be an important consideration for investors seeking to take an equity stake in your organisation. For potential debt investors, valuation will also play a role in their investment decision-making, but they may be driven more by your forecasts around key financial status indicators such as those introduced in the previous section of this theme of the toolkit.

To illustrate the role of enterprise valuation, we provide here an example of how valuation might play a role in dialogue with an equity investor:

- Let us assume you are seeking an equity investment of £100,000 to fund expansion (replication) into new geographical markets. You have developed 5 year forecasts for the growth that suggests that 5 years from now your revenue will be £500,000. The question is how much equity should you be prepared to hand over in return for the investment?

- From the investor's point of view, let's assume they are seeking a 5 year investment horizon and they are looking for a financial return of 50% over those 5 years (that's equivalent to an annual growth in the value of the investment of 8.4% per year).

- So the investor want to have an equity stake that will have a value of £150,0000 in 5 year's time (= £100,000 x 150%).

- Let's assume that you do some multiples analysis that suggests that an organisation or your type in your sector earns a sales multiple of 1.5. This indicates that in 5 years' time, with revenue of £500,000, your organisation will be worth £750,000 (= £0.5M x 1.5).

- Your potential investor wants a stake of £150,000 in 5 years' time, which would be equivalent to 20% of the projected enterprise value of the organisation (= £150K / £750K).

- Therefore, using this data and analysis, offering a 20% equity stake for an investment today of £100,000 reflects a 'fair value.'

- Remember this is not necessarily where you will start during your investor dialogue. You are likely to start by offering a lower stake; the investor will start by seeking a higher stake. But the enterprise valuation approaches provide a starting point for developing your investment objectives and your approach / strategy for investor negotiations.

Stage 7: Long Term Growth / Replication
Theme 10: Funding and Finance

FUNDING FOR LONG TERM GROWTH

A funding gap is the difference between the funding required for the on-going operations or future development of your enterprise and the cash generated by the enterprise through its revenues. Funding gaps are filled either by grant income or by external investment in your organisation (typically from a lender or an equity investor).

An enterprise that is financially sustainable should be able to cover its on-going operations through a mix of its income generating activities and some level of relatively secure grant income; as discussed elsewhere in this toolkit, the exact mix will very much depend on the nature of the social enterprise and the market in which it operates.

However, when it comes to longer-term growth and/or replication, social enterprises will often need additional financing due to the fact that expansion often brings with it a need to incur some form of up-front cost. Examples of these kinds of cost include research, product development, property and equipment acquisition, recruitment, etc. – in fact any of the costs that you would typically incur in setting up a new organisation from scratch.

The need to incur up-front costs, plus the fact that it might be a while before these costs can be offset by incremental revenues for the organisation, means that growth and replication may require some form of additional, external funding/investment.

All types of funding/investment come at a cost to the enterprise. This can be in terms of the cost of financing the funding, e.g. interest or dividends, or the requirements attached to the funding, e.g. grants. We discuss some different forms of funding below in terms of the appropriateness for funding growth:

- **Grants** tend to be project specific i.e. they are awarded to deliver a particular social intervention. They do not tend to be offered to help grow a social enterprise.

- **Overdrafts** are used to meet short-term working capital requirements, that is, cash fluctuations. They are renewable annually and are therefore not appropriate for long-term growth.

- **Loans** can be for specific capital purchases such as equipment and property and so can help with long term growth. Usually, the term of the loan - that is the time before the loan needs to be fully repaid - is connected to the life of the asset being purchased. So although loans assist some forms of long-term growth, they are not a general-purpose investment option.

- **Internally generated profits** can also assist with long-term growth. However, profits can be erratic and, particularly for social enterprises where margins can be low, may be insufficient to meet the growth requirements of the enterprise.

- **Equity investment** is a common option for enabling social enterprises access funds for long-term growth or replication. It is discussed in more detail below.

Equity investment in growth

Some form of equity investment is often considered the most appropriate method of funding long-term growth. This could be in the form of the sale of shares for the investment or some other form of funding that has the nature of equity finance, often known as quasi-equity funding. For social enterprises, their ability to access equity investment will be contingent on their legal structure – please read the Legal Structures theme of this toolkit for more details on the link between legal structures and financing options.

Equity finance is specifically aimed at enterprises seeking investment for growth, with financial returns made from the profits generated by the expanded organisation. The distribution of profits is known as dividend distribution, which is approved by the board. Many companies will not distribute profits in the early years to allow the company to grow and to become financially strong. This is done with the full acceptance of the investors.

For social enterprises, securing equity financing from socially motivated investors allows them to achieve growth with a relatively low financial cost. Usually the investor is prepared to accept a low financial return (recognising that they are also investing to make a social and / or environmental return) and also is patient as to when financial returns will commence. This gives the enterprise's management time implement a long-term growth strategy.

The sources of equity (and quasi-equity) finance for the social enterprise are the same as those discussed earlier in this theme of the toolkit. However, it may also be worthwhile at this stage thinking about working with a partner that can identify the most appropriate investors and help to prepare you, your organisation and your growth plans before you start to engage with them. In effect this is a 'brokerage plus support' function, with the emphasis on the level of support varying from one provider to another. Providers such as these (e.g. Resonance, ClearlySo) will generally take a fee, usually a fixed percentage of the equity (or other form of investment) that is eventually raised if successful.

This is an emerging and growing area of social enterprise support.

Theme 11

SOCIAL ENTREPRENEURSHIP WITHIN HEIs

Introduction

This toolkit has been designed to support students and staff (both academic and central services staff) within higher education institutions (HEIs) with the development of a social enterprise concept, from initial idea through to piloting and then longer term sustainability and growth. Most of the themes covered in the toolkit are relevant to any social enterprise, whatever the setting; in this theme we focus on the major opportunities and considerations that should be borne in mind within the HEI/ university context.

This theme is somewhat different to the others in this toolkit in that it is not organised by the life-cycle stage of your project/organisation; instead, we recommend this document is read in its entirety as a single overview.

HEIs are autonomous bodies and their structures, supports and approaches in relation to 'in-house' entrepreneurship will vary from institution to institution. As a result, this overview is kept at an intentionally generic level, focusing on the headline opportunities and areas for consideration from the perspective of the social entrepreneur. In terms of issues such as intellectual property and formalisation of the relationship with the institution, the emphasis here is on defining/flagging the issue and signposting the entrepreneur in terms of how to investigate it further for their project and within their institution.

As a first step, we recommend that you discuss your project ideas and your entrepreneurial plans in confidence with someone close to your studies/work. For example:

- **Students** might discuss their plans with their supervisor, tutor or course lecturer.
- **Academic members of staff** could speak with their head of department or head of their research group.
- **Central services and technical staff** could speak with their managers or heads of department.

Depending on who you are within the HEI will most likely influence how and to what extent you might want to work with the institution.

Accessing HEI-based support and resources

Perhaps the most obvious benefit of growing an enterprise from within an HEI setting is the ability to access support and valuable resources quickly and at a relatively low cost. The issue of cost is an important one which speaks to the nature of the relationship that you have with the institution in relation to your social enterprise project. This relationship is discussed separately below.

Universities and other HEIs offer a very broad range of enterprise support. Increasingly, this support is being extended to incorporate social enterprise, although this remains an emerging area for many institutions. The exact types of support that is available will vary from one institution to another, and the main recommendation here is to be proactive about searching for what is available at yours. Below we set out some of the common sources/forms of support that you can investigate:

- **Incubators** provide support for entrepreneurs at the earlier stages of development (initial idea through to set up and start up). Incubators exist within many HEIs and will generally charge for their services, but many offer 'pro-bono' short-term packages aimed at students. A typical 6-8 week program might include one to one support and coaching in relation to areas such as idea/concept development, business and financial planning, identifying opportunities for seed funding and mentoring. They will also normally offer office space, often using a hot-desk system.

- **Enterprise departments/knowledge transfer departments/innovation units** also offer HEI-based entrepreneurs (including recent graduates) support through the provision of training and workshops, one to one advice and signposting to other resources. They are able to support entrepreneurs across a range of subject areas and they will in the main focus on supporting early stage concepts/start-ups. The area of social enterprise is an emerging sector that these departments/units are beginning to provide more tailored support.

- **Technology Transfer Offices** (TTOs) usually form a branch of the enterprise department mentioned above. They will be particularly important resource and partner if your social enterprise concept incorporates some form of technology whose development has benefited from being HEI-based. TTOs support technology development and ensure that an institution receives an appropriate return for its role in that development. It should be said that social enterprises with a core technology component are relatively rare; however, if this is the case for your organisation and you have benefitted from some aspect of developing the technology within the HEI, then it is important to engage with the TTO early on – see also the discussion on intellectual property below.

- Specific **business support programs** also exist that provide ongoing advice and guidance, as well as access to office space / resources to HEI-based entrepreneurs (including recent graduates). Entrepreneurs will have access to advice over a fixed term, typically a year, after which they may still be able to continue access office infrastructure and resources. Your university/HEI's enterprise office and/or Director of Knowledge Transfer should be able to tell you about the existence of any business support programs.

- **Business schools** may also run business support units, providing entrepreneurship services (mainly for students) around information/data access, enterprise diagnostics and brokerage for funding. Once again, these programs are starting to provide more social enterprise-specific support. We should also highlight here also that business school qualifications such as MBAs are also increasingly offering social enterprise electives. In addition, some institutions now offer qualifications such as PG Certs and Masters in social enterprise.

- **Student enterprise societies** can also be a valuable source of support (student focus). These societies work within HEIs to promote entrepreneurship through the provision of services such as direct one to one support, skills development training and personal development workshops. A good place to start in investigating student enterprise societies is the National Consortium of University Entrepreneurs (www.nacue.com), an umbrella organisation that currently works with over 65 university enterprise societies across the UK, representing over 35,000 entrepreneurial students.

- **Social Students in Free Enterprise** (SIFE) is an international student body with national branches with the same goal – to provide a forum for students to get together to create social enterprises (local, national and international).

SIFE organises national and international competitions around social entrepreneurship. At the institution level, SIFE groups were originally set up as student groups within either academic departments or student unions; however, increasingly they are being set up as separate legal entities (often CICs) in order to operate independently. There are over 35 SIFE groups in the UK, each running anything between 3 and 30 active social enterprise projects. SIFE can offer a valuable resource for growing your network, meeting and learning from like-minded people. See the SIFE UK website (www.sifeuk.org) as a starting point.

- **HEI publicity and communications departments** can be a valuable source for promotional support and profile-raising, especially if you can demonstrate how success of your social enterprise can help boost the reputation and profile of the institution. Be sure to highlight the social impact objectives of your organisation.

As well as access to these forms of support, HEIs also provides a great opportunity for **more informal access to expertise, knowledge** and data. The informal support that you can receive from various sources within the institution is highly valuable, particularly in the earlier stages of your planning. Sources include the following:

- Academic departments and staff can provide you with great **informal expertise, insight and knowledge**, either specific to social enterprise or to a technical area. You should promote the fact that your principal goal is to deliver social impact as opposed to financial reward – this should encourage people to help you out. Word of mouth/ your networks are usually the best ways of finding this type of help. But sometimes you may need to look outside your networks, particularly if you are searching for knowledge in a discipline outside of your field of work/study. In these cases, your supervisor, the library and heads of other departments are probably the best starting points for your investigation.

- HEIs offer easy access to a huge range of **research, journals, papers and data** that a self-starting entrepreneur would be hard pressed to find. Moreover, search functionality makes finding the right information increasingly quick and easy.

    - Libraries and other information resources provided by the university/ HEI are excellent starting points to investigate what is available to you

    - Note that it may well be that your social enterprise idea builds on your own studies or research at the HEI; strictly speaking, your institution has a right to any research or learning that you develop as part of your work there; in the longer term you should seek to agree any formal arrangements with the HEI around the use of information/data or any other benefits – this is discussed later in this document.

- A higher education institution such as a university is also likely to have a great **infrastructure** that you might be able to take advantage of. In the short term, HEI-based entrepreneurs will often be able to enjoy informal access to equipment, IT infrastructure and workspace. Once again, longer term use may have to be agreed more formally, see below.

Testing and piloting

So far we've focused on the benefits that an HEI setting offers in relation to support, expertise, knowledge and information. However, you should also bear in mind that the institution and those that live, study and work within it represents an 'eco-system' that can, for some social enterprises depending on the nature of their business, act as a great testing bed for your idea during its early stages and/or act as your pilot market:

- As well as speaking with peers, academics, staff and students to advise or support you with your idea, they may also act as your consumer/customer market to test whether what you offer is viable from a business point of view – e.g. does my service speak to the needs of these customers? This can be of value as you refine your business model and the product or service that you want to offer.

- The HEI 'marketplace' might also be a great place to pilot your social enterprise – it offers a market that may be pre-disposed to supporting your idea (compared to the world outside) and a relatively low-risk environment in which to make your first mistakes and learn from them.

In addition, the HEI might also offer you human resource opportunities. The student body can be a good source of volunteers (if they buy into your social mission) and/or paid (temporary) staff. The relative flexibility of student life means that they can often offer their time in a way that can meet the needs of your social enterprise.

Intellectual property

All organisations have some form of intellectual property (IP). The Intellectual Property Office's definition of IP is 'a form or original creation that can be bought or sold'. The main types of intellectual property, as well as how you can protect your IP rights, are introduced in the Business Model theme of this toolkit. Here, it is important to highlight cases where your IP includes an element that is rightly owned by the HEI in which you are working. Examples might include:

- Development of a product or item of equipment that uses technology owned by the institution.
- Use of research/data that has been developed within the institution.
- Use of HEI branding/identity to help build credibility of your social enterprise.

Note that it may well be that the IP has been developed by you or a colleague within the HEI; however if this has taken place through the normal course of study/research/work at the HEI then it is most likely that the institution will have a stake in it.

There are no hard and fast rules about how an HEI stake in IP rights is formalised. The process will vary from institution to institution and, moreover, the discussion is likely to be somewhat different in a social enterprise context than in the case of a straight commercialisation opportunity. In particular, the IP of many social enterprises may also include value that has been created through community and beneficiary engagement (i.e. outside of the boundaries of the HEI) – you should be ready to highlight such aspects of your project during any discussions with your HEI around IP and valuations. In addition, be ready to introduce and discuss with your HEI the concept of social and/or environmental returns as being of equal / more importance as economic return within the context of social enterprise.

The main recommendation here is to kick off your discussion on IP rights by **speaking with your institution's innovation unit/knowledge transfer department/enterprise office** (names vary from one HEI to another). Discussions in relation to the use of HEI branding and other communications resources should also involve the HEI's communications/publicity department. These recommendations tie in to the discussion in the next section which considers the general relationship with the institution.

The HEI/social enterprise relationship

This theme of the toolkit has tried to capture the major opportunities and considerations for creating a social enterprise within an HEI setting. As mentioned throughout, at some stage you may need to think about whether you should seek a more formal arrangement with the institution around the benefits that you have already enjoyed and those that you might want to access in the future.

Whilst early stage support can often remain informal, HEIs will normally seek to be rewarded for their role in supporting a successful enterprise (e.g. access to knowledge, facilities or IP). In the commercial world, this will be about financial returns. For a social enterprise, the institution may be looking for other rewards, including social/environmental impact, reputation/profile raising and brand-building. However, as implied earlier, whilst many HEIs will encourage social entrepreneurship on their campus, departments and administrative functions are still in the process of understanding the exact nature and purpose of social enterprise; as a result, be prepared for the need to inform and build buy-in to your goals (and the concept of social and/ or environmental returns) as you formalise any relationship.

Once you move from informal benefits to something more long term, be proactive about establishing a more formal relationship with your HEI. This is particularly good advice to heed in advance of two important (potential) steps in the evolution of your social enterprise:

- Setting up a separate legal entity for your social enterprise; and / or
- Spinning your social enterprise out of the HEI, to operate elsewhere

The exact body/department/ function that you should approach will vary by institution. But there are some common ones that you should consider talking to, depending on the benefits you are receiving:

- A **senior panel of academics** normally assess spin-outs and the value attributable to the HEI. This body/group can have various names (e.g. Principal Steering Group). They are ultimately responsible for approving the formal arrangement with any enterprise that has emerged from an HEI setting. This group may be less used to social enterprise and it may be particularly important to highlight the importance of considering social and environmental, as well as financial value. To help in this dialogue, it is recommended that you first engage with the **HEI's enterprise department or innovation unit** – having them as an ally can be valuable in your negotiations with the panel. As mentioned earlier, this is particularly important in cases where you are using or building on IP that has been developed within the HEI. The focus on this discussion and negotiation will be on any ongoing stake that the institution will retain in the social enterprise. Compared to commercial enterprises, the emphasis here may be more about how the institution can be represented and credited (e.g. board seats, co-publicity and branding, etc.), rather than just the financial rewards. As a result, it may be useful to include the HEI's publicity/communications department in this dialogue.

- An internal **HEI finance function** may also be an important stakeholder in determining any possible reimbursement in relation to infrastructure support such as office space, equipment and IT infrastructure usage. This may also extend to the reimbursement of any significant use of HEI staff time (including overhead allocations).

During any of these negotiations, be sure once again to highlight the 'social' aspects and impacts of your enterprise to avoid over-emphasis on financial rewards. And finally, make sure you seek independent valuations to agree terms of any financial arrangements.