

LONDON'S BUSINESS LEADERS SHARE GAME-CHANGING IDEAS FOR THE PUBLIC & PRIVATE SECTORS

Securing Britain

RESPONSIBLE BUSINESS

3

SOCIAL ENTERPRISE & INVESTMENT



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|| *HRH The Prince of Wales* ||
President, Business in the Community



“Being a ‘responsible’ business goes far beyond concern for the financial bottom line. Running businesses, as you know far better than I, you are very much on the front line. What you do not only drives the economy, it is pivotal in creating healthy, stable and, therefore, resilient communities, without which society really has no hope. If you think about it, that ‘stability’ in society is what attracts so many investors to this country – if you ask them why they want to invest here, as I do from time to time on visits overseas. But to maintain that stability, it has to be invested in and that is why you play such a crucial role in helping to build resilience and skills in many of our more deprived and struggling communities.”

Taken from the address to Business in the Community's Leadership Summit, 6 February 2014

In partnership with



LondonlovesBusiness.com's *Securing Britain* series invites London business leaders to share actionable ideas on how to create a brighter future for Britain with government and businesses. Click on the covers on the right to read previous editions online, and sign up for our free newsletter to discover the forthcoming *Securing Britain: Responsible Business* editions.



The value of social enterprise

One of my core beliefs is that businesses are a force for good in society. They create jobs and wealth. They foster the creativity and innovation that raise living standards. Social enterprises are increasingly becoming a key part of this story. These businesses make a significant economic and social contribution to the UK and that's why we're doing everything we can as a government to create an environment in which they can thrive.

For me, the value of social enterprises isn't just in the jobs and growth they create. They set an example for true responsible business. 38% of social enterprises work in the UK's most deprived communities, compared to 12% of standard businesses; 38% are led by women, compared with 3% of FTSE 100 companies; 28% have at least one person from a black or ethnic minority background on the senior leadership team, compared to 12% of small firms.

There are around 70,000 social enterprises operating as small businesses in the UK. They contribute around £18bn to the economy and employ almost a million people. I'm proud to say that the UK is a pioneer in nurturing social enterprise and providing the investment to support it. This government has set up several initiatives to drive investment including Big Society Capital – the world's first social investment



bank – and Social Impact Bonds, where funding is given on the basis of social outcomes rather than process. We have introduced a new tax relief to encourage private investment in social enterprise and the Social Value Act now means that commissioners of public services must consider social value when making procurement decisions.

The innovation in the social enterprise

sector is impressive, with 56% of these businesses having developed a new product or service in the last 12 months. They play a significant role in UK exports, with 11% of social enterprises exporting or licensing abroad. One of these businesses is Divine Chocolate. Divine's CEO, Sophi Tranchell, recently fronted our Business is GREAT campaign, which aims to encourage business to plan, hire and export. We chose Divine because it is a social enterprise success story that sells its products across the globe and reinvests in the communities that helped it on this journey.

It is for all these reasons that we continue to support social enterprise and are striving to make these businesses an increasingly strong part of the UK economy.

38%
*of social enterprises work
in the UK's most deprived
communities, compared to
12% of standard businesses*

Ideas that inspire action

Welcome to the third in our *Securing Britain: Responsible Business* series, which follows the *Innovation* and *Sustainability, Standards & Supply Chain* editions. In these pages, pioneering responsible business leaders share their insights into how the 70,000-strong social enterprise sector can be better supported, and how social investment can be brought into the mainstream.

These innovative models offer a relatively new way of doing business, where environmental and social aims are as important as increasing revenue. And revenue growth is important, since commercial success enables social entrepreneurs and investors to have greater impact on the world around them.

We hope that by reading these ideas, whether you are a businessperson, politician or researcher, you'll find insights into how to adopt and refine concepts like the triple bottom line, and how to further the social and responsible business movement that is becoming increasingly important to customers, organisations and politicians.



The responsible business leaders who have shared their thoughts have each put forward actions that the government and businesses can implement today – and there's plenty to act on, if you believe that these ideas are as important as we do.

Our aim with the *Securing Britain* series is to galvanise the conversations that inspire action. So we'll be sending this publication to all MPs, all Lords, and tens of thousands of other businesses. Because it's only by sharing ideas that we can make them happen.

My thanks again to all contributors, and to Business in the Community and inmidtown for their support. We hope you find the following ideas useful – and then take action.

LONDON*loves*BUSINESS.COM

LondonlovesBusiness.com is the online newspaper for London's business community. We aim to further the ambitions of London's businesses, celebrate good business and success, and bring you frank debate about the issues facing London businesses. We are fast becoming the must-read website for London's business community through our mix of the latest business news across all sectors, profiles of London's most exciting entrepreneurs, features exploring the trends you can capitalise on, and London lifestyle.

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A master-plan for social enterprise support



The rise of social enterprise in recent years is hard to ignore. Despite a tough financial climate and pervasive austerity measures, many social enterprises are thriving. There are currently 70,000 social enterprises in the UK alone – a number which has risen by 8,000 since the recession hit in 2008. They contribute £18bn to GDP and are fast establishing themselves as an economic force to be reckoned with.

Their growth is in part down to the need to address major social and economic challenges. Trust in capitalism is at an all-time low, while inequality in the UK is at its highest since the Victorian era. Business as usual is no longer good enough. Social enterprises' *raison d'être* – to be driven by a social mission and use profits to benefit people and communities – means they are well placed to lead the mainstream move toward more responsible business.

At Social Enterprise UK, we're working hard to create a more social economy in which businesses can better serve people and the planet. But we won't achieve this alone. Such a major shift in the way the world does business requires a united effort from all sectors – but especially from mainstream businesses and government. Fortunately, I've witnessed a surge in interest in social enterprise from those outside the sector. Politicians and large corporates are waking up to what our movement has to offer.

Social supply chains

Big (and small) businesses can bolster social enterprises by trading with them. Increasing numbers of top corporates are shaking up



their supply chains and buying from social enterprises as a way to improve the added value they create for society. Wates, one of the UK's largest construction firms, has pledged to buy from a social enterprise in every single one of their construction sites by the end of 2014 – boosting the sector with a spend of almost £4m.

Meanwhile Landmarc – a leading supplier of facilities management services to the Ministry of Defence – has gone to great lengths to incorporate social enterprise into its supply chains across its UK sites. These businesses are going beyond traditional corporate social responsibility by meeting social objectives through their core business activities. Billions of pounds could flood into the social enterprise sector if greater numbers of businesses were to procure goods and services differently. If every company in the UK followed suit, the social enterprise sector would thrive like never before. We are encouraging businesses to get involved in the UK's first Social Saturday on 13 September 2014, a national day to celebrate and buy from social enterprises.

A level playing field

Government has an enormous part to play too. Tax, spending and regulation policies must all support social enterprises. Government schemes designed to support businesses are frequently set up with big or conventional businesses in mind – but they often don't account for the unique nature of social enterprises. Our sector needs a level playing field to become part of the mainstream, and this is largely down to

MY KEY IDEA

Social enterprises are on the rise because they address the major social and economic challenges we face today. We must support this growth by encouraging all businesses – big and small – to introduce social enterprises into their supply chain. The government must support this further by forging new regulation policies that don't discriminate against their unique nature, but help them flourish.



£18bn

*Contribution to
GDP from the
UK's 70,000
social enterprises*

how our decision-makers forge policy.

Social Enterprise UK leads the Social Economy Alliance, a collection of more than 400 organisations campaigning for policies that support social enterprise. We've already seen the benefits of 'pro-social' legislation. The passing of the Public Services (Social Value) Act is proof of the impact government can have on the sector. The law requires public bodies to consider the social, economic and environmental wellbeing of an area when they buy and commission services. It is helping to open the door to social enterprises, which have a strong track record of delivering services while benefitting people and communities.

Without a doubt, the contract between business and society is changing. We can no longer overlook the inextricable link between the prosperity of business and society. Creating the kind of economic growth that is sustainable and beneficial to all requires more businesses to work with, and think like, social enterprises.

We need government to encourage businesses to move in this direction. The best and brightest in politics and business are already ahead of the game. Now it's up to everyone to seize the golden opportunity that social enterprises present.

Financial support for social enterprises

Despite a gradual economic recovery since the global financial crisis of 2008, Britain today is still a country of rising inequality and poverty. One in five people in Britain live in relative poverty and 8.4 million people (14%) live in absolute poverty. Over two million people in the UK are unemployed. Being workless is the greatest underlying cause of poverty and can lead to severe mental health problems and family breakdown.

Clearly, Britain has significant social problems to address and social needs to be met. At the same time, both government expenditure and the charity sector continue to face significant constraints.

We believe that social enterprise and social investment are part of the solution to tackling poverty and inequality.

Social entrepreneurs set out to tackle problems that are hard to solve, for people and places with the greatest need. They develop sustainable business models with clear social objectives. Finance and support is critical to their success. Big Issue Invest (BII) is the social investment arm of The Big Issue, the UK's best-known social enterprise. Our mission is to back social enterprises that help tackle poverty and inequality. Since start-up, we have invested over £25m in more than 300 social enterprises, improving the lives of 1.8 million people in the UK's poorest communities.

We also recently conceived and launched a UK Social Bond Fund, in partnership

Social enterprises are challenging the boundaries of charity and business and creating something new

with Threadneedle, as fund manager. This is the UK's first regulated social investment fund, with daily liquidity bringing social investment into the mainstream. It invests in bonds that have social benefits and support Britain's need for more inclusive economic development, including affordable housing, education, employment and training, financial inclusion, health and social care and infrastructure. In the current climate, our work is increasingly relevant. We need to find new ways of scaling up.

Financing social enterprises

Social enterprises face many of the same challenges as SMEs. If you ask an SME if they can get early-stage funding, the often say that the bank won't take risks on them.

The idea of a 'social dividend' can be a big challenge to understand for people not familiar with social investment and social enterprise. They think if you're not profit motivated then you're



MY KEY IDEA

Social enterprises are challenging the normal boundaries of charity and business. We are creating something new in this collision of accepted norms. But social enterprises need financial support. Initiatives such as our UK Social Bond Fund, corporate social venturing and the new social investment tax relief will all help. It's now about demonstrating the benefits of social investment and social enterprise to everyone.



not going to give a return. But often it's the reverse. At The Big Issue, for example, we embrace profit. The more profit we make – in an ethical manner, of course – the more our vendors have earned and the more positive things we can do with it.

There are also structural challenges for social enterprises looking for investment. Most social enterprises are established as CICs (community investment companies), charities or companies limited by guarantee, and each of these structures faces challenges with raising equity further down the line.

For years, I've talked about levelling the playing field by finding a way to support social enterprises similar to the Enterprise Investment Scheme (EIS) and venture capital trusts (VCT). So the announcement in this year's Budget about social investment tax relief (SITR) was really interesting, and it'll be even more interesting to see how that plays out. SITR lets individuals investing in social enterprises deduct 30% of the cost of their investment from their income tax liability for 2014/15, with a minimum investment period of three years, effective from now.

I hope that adding an incentive like this will boost social investment and create an economy where people feel they are really investing, long-term, in the UK.

The government should look at pension

funds too. In France, for example, pension funds offer savers at least one option to put their money into a social fund. But it might not even be about social funds – what if you, as a saver, had the option for your money to be invested in local infrastructure that creates employment for young people, say? Let's look at how we can incentivise and encourage social investment in the UK in more ingenious ways.

It's not just down to the government to support social enterprises. Getting corporates involved with social enterprise is a great way to support it. We run the Corporate Social Venture programme, and we've seen involvement from the likes of Barclays, Experian, Ashurst, and many more. They do more than just invest – they also work with us to make their skills and resources have real impact. They place staff in early-stage social enterprises to help nurture them. The corporates benefit from better employee engagement, as well as seeking a financial return.

The difficulty for some corporates is that it's not always clear where the money for something like this should come from – HR? CSR? Treasury? I think that prevents more from getting involved. We need to find ways to get the corporates more engaged with the social corporate venture model. Corporates can use their skills and resources to help create jobs and get people into employment across all sectors.

We've got to a point now where we really have the opportunity to transform the way we live. It's now about demonstrating the benefits of social investment and social enterprise to everyone.

14%
*of people in
the UK live in
absolute poverty*

|| *Rob Forkan* ||
Co-founder of Gandys

Big businesses should engage with social enterprises



My brother and I set up Gandys two years ago after we suffered the tragic loss of our parents in the 2004 Boxing Day tsunami. We give 10% of our profits to the Gandys Foundation, the charity we set up to support other orphans around the world. This is a real and quantifiable mission we call 'Orphans

for Orphans'.

By creating a product that is genuinely desirable to our target audience, but equally donates a percentage of our profits to The Gandys Foundation, we have been able to create a business that is commercially viable but has a real social impact.

This simple idea has helped us see



*“By supporting socially aware brands,
there is a genuine reason for businesses to
promote their socially responsible credentials”*

exponential growth as an organisation, as well as making a difference to orphans' lives. This model has helped us secure a great deal of positive PR, not just for us, but also for the other brands that have been so supportive in our journey so far.

For large organisations not set up with responsible or socially aware core values, it can sometimes feel like they're jumping on the bandwagon when they try to promote social responsibility to their consumers. We feel that if more of these brands used a proportion of their marketing budget for partnership opportunities instead, they could reap real rewards. By supporting synergistic and socially aware brands that appeal to their consumers, there is a genuine reason for them to promote their socially responsible credentials – providing these organisations with an important competitive advantage.

At the same time, they would be delivering a real impact to their partner brands through generating exposure and awareness – which for a small start-up organisation with charitable links could otherwise be impossible to achieve, due to lack of budgets. A win-win for all involved.

Educating for change

Equally, we have been part of the National Enterprise Challenge for the last two years and have seen the positive impact it has on children and their understanding of socially responsible enterprise. We'd like to see more of these opportunities for secondary-educated children. And we believe that big businesses and the government have the power to ensure that future generations of

MY KEY IDEA

Large organisations should set aside more partnership marketing budgets for reciprocal marketing deals with smaller social enterprises. And with the government's support, they should support social enterprise training within secondary education – offering students the chance to understand the benefits of social enterprise and the impact they can have on the world around them.



school leavers enter their careers socially aware, with ethics at the core of their endeavours. But to do so they must use the expertise of smaller, entrepreneurial brands, and pay for this out of their own funds and budgets.

This can be achieved through encouraging school children throughout to consider how business impacts the world around them through training 'challenges'. These challenges could be an optional part of the curriculum, giving participants the opportunity to be creative and develop their understanding of business practices. This would ensure that a higher proportion of all children in the UK leave secondary education with a greater understanding of how they could drive the next generation of business to impact the world around them in a positive way. This would add valuable experience to a participant's CV, while offering them real life business training they may have otherwise struggled to obtain.

“Some corporates spend over \$100m a year on CSR. How can we not question the value for money they’re getting?”

The need for social innovation

Billions are being spent on corporate social responsibility (CSR) every year. According to a recent survey by Forbes, some large companies spend over \$100m a year – each. How can anyone not question the value for money they’re getting from this expenditure? Meanwhile corporate involvement in social innovation, through social enterprise and investment, is practically non-existent in the UK. This is

despite the fact that social investing is growing by roughly 40% per annum, receiving serious engagement from the financial sector, and is already responsible for £24bn of UK GDP.

At ClearlySo, we work with institutions that wish to create both social and financial value through their investments. We also work with the rapidly growing group of innovative entrepreneurs who are tackling



MY KEY IDEA

Businesses should move away from outdated corporate social responsibility activities into more cost-effective social innovation. By making investments in socially oriented enterprises, corporations can convert an expenditure item into an investment with the prospect of genuine return – while creating positive PR. Through this method, businesses can carry out research and development, provide employees with new opportunities, and ensure that such actions are more closely linked to core business priorities. All of which will benefit shareholders and wider society.



complex social issues. This is not about corporate philanthropy – it's about sensible and socially impactful use of corporate resources to make a difference.

While there are obviously benefits to CSR, social investment offers something in addition to the societal and PR benefits of the traditional CSR programme. It offers a return of capital and, potentially, a meaningful rate of financial return. If a corporate wants to put £2m into education intervention programmes, why not put £2m in knowing you'll get back your principle investment – and in many cases, with returns? Companies like Centrica (through its Ignite Fund), Unilever and Patagonia are already investing in projects, enterprises and funds that create social or environmental change.

And because this is a growing space, impact investment from corporates into innovative enterprises that tackle challenges generates good PR – very often much more PR than donating money to an art gallery or an opera, for example. This innovative approach helps raise significant interest and feels much less like irrelevant “greenwash”.

Social innovation allows for safe

experimentation with existing business models. For example, GSK's recent decision to reduce the cost of anti-diarrhoea medicine in Africa by 90% helped save lives by making the drugs more affordable. It also enabled GSK to experiment with the price elasticity of such medicines without jeopardising their core Western markets.

As with traditional CSR, this approach taps into employees' concerns about the social value of their companies – a value they want to be involved with. And when corporates invest in entrepreneurs creating social change, they're able to leverage highly relevant core corporate competencies and resources, while employees can offer support for scaling such social enterprises.

Social investing is highly active and engaged. A company can directly invest in particular impacts, measure the outcomes, and promote the sustainability of their sector. Centrica's Ignite Fund, for example, focuses on social enterprises in the energy arena, driving innovation throughout the energy chain – from sourcing and generation to supply and service. Similarly, there are the less well-known SABMiller investments in East African social enterprises that drive clean water projects – because clean water is useful if you make beer!

Corporates can choose, like Centrica, to set up their own funds, or they can work with investment partners like ClearlySo to invest in the social enterprises most relevant to their sustainability and supply chain. By integrating social innovation into their business and investment models, companies can look good, do good and do well.

40%
*growth per
annum of social
investing*

The new economy requires new leadership

We need to develop leaders who will create a new economy that is economically, socially and environmentally sustainable.

If we are honest with ourselves, we know that the way we choose to organise our economy is not fit for purpose. Not only are we living beyond our means environmentally, but we are fuelling social inequality, which is highly correlated with a raft of social ills for everyone in society – from the top to the bottom of the wealth distribution.

To develop a new economy, we need to switch to business models that generate net positive impact – taken across their social, environmental and economic activities. Slightly ‘less-worse’ business models don’t cut it.

Social enterprises promise new approaches that rise to this challenge. They are organisations that exist to generate social or environmental benefit and have a commercial business model that doesn’t rely on grants or donations. Innovative models emerging in this exciting field are relevant to what businesses, charities and the public sector of the future will need to look like.

A broader horizon

At On Purpose we help develop future leaders who understand the power of social enterprise and who can contribute to these breakthrough models. Since 2010 we have run a one-year, full time social enterprise leadership programme, which gives us a



unique perspective on what it means to be a successful leader in this movement – and there are some obvious and more nuanced findings.

Most obviously, successful social enterprise leaders need to be comfortable operating across both commercial and social sectors. Not only do you have to run a profitable business, you also need to have a deep understanding of the social or environmental issue(s) you are tackling. Throw into the mix that many social enterprises work closely with government and you realise that their leaders have to be bi- and often tri-lingual, have to speak the languages of government, business and social enterprise.

Leadership skills

Second, if you want to make a net positive contribution to society, you need to have a clear understanding of the system that your organisation works in – you have to operate with a broader horizon and a more refined understanding of the consequences (whether intended or not) of all your activities.

Less obviously though, we believe that social enterprise environments also require more subtle skills, such as an ability to operate with high levels of uncertainty, to make ongoing trade-offs, to motivate self and others through ideas and to work with diverse stakeholders. Like many leadership qualities, these skills are developed not only

*“Re-inventing our economy
is the biggest and most
urgent challenge we face”*

MY KEY IDEA

Our current economic model is not fit for purpose. The next economy, for it to be economically, socially and environmentally sustainable, requires a new kind of leadership. Social enterprises – organisations that deliver social or environmental benefits through a commercial model – are a testing ground, not only for new business models, but for new leaders. The new economy we need requires us to find, understand and develop these leaders now.



through understanding others, but also through deeply understanding yourself.

Leading a social enterprise is a difficult and relatively untested undertaking. Doing so successfully is doubly difficult. Moreover, most social enterprises do not have the means to invest in developing the leaders they need. With time, as the social enterprise movement matures, this will have to change. But for now, an accelerating hand is badly needed. Given that re-inventing our economy is the biggest and most urgent challenge we face, we have to find more ways to discover, develop and support emerging and proven leaders who will bring about the change we so desperately need.

ON PURPOSE runs a one-year, full time, leadership programme that combines paid work placements with weekly training and regular one-to-one coaching and mentoring.

Centre Of London. Front Of Mind.



How Midtown London became the destination of choice for business.

Midtown London, the district that comprises Bloomsbury, Holborn and St Giles, has everything going for it - an ideal location between the West End and the City, excellent transport links and a supply of first-rate commercial property. It's also home to the legal expertise of Lincoln's and Gray's Inns and the academic genius of LSE and the London College of International Business.

All the district really needed to set it apart was some added vision and visibility. That's where **inmidtown**, the local Business Improvement District came in. Their range of innovative and exciting initiatives to boost sustainability, cut business costs and promote investment has made Midtown London a truly inspiring place to do business. And their carbon saving projects are on track to make it the world's most sustainable, capital city commercial hub by 2015 - an altogether cleaner, greener and better Midtown London.

So, if you want to do business in London's best location, now is the time to follow the lead of tech giants such as Google, LinkedIn and Skype and move to Midtown London.

Find out more at inmidtown.org

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