Why some social entrepreneurs are using a for-profit legal form for their ventures, and how they are embedding their social mission
EXECUTIVE SUMMARY

A growing number of social entrepreneurs are choosing for-profit legal forms for their social ventures. This report presents findings from research that explored social entrepreneurs’ motivations for setting up their ventures as companies limited by share (CLS), the ways in which they have locked in and/or demonstrate their social mission within this context, and their experiences around this.

Motivations for incorporating as a CLS

In exploring participants’ reasons for choosing this for-profit legal structure for their social purpose ventures, three key factors emerged:

- Simplicity – the CLS is seen as easy and cheap to set up, with minimal bureaucracy.

- The CLS enables access to a wide range of finance, notably investment finance from diverse investors (including commercial, social and angel investors), while not precluding certain grants. The CLS’s openness to substantial commercial investment was seen as particularly important for R&D-intensive technology ventures that require significant amounts of capital in the initial stages, as well as for those aiming to scale globally.

- The flexibility of the CLS was seen as a major benefit in terms of allowing both an investable structure and social purpose to be built in via various ‘mission lock’ mechanisms. This flexibility also meant that entrepreneurs felt able to adapt their venture to meet the emerging needs of their business model and social purpose as these evolved, rather than a more rigid structure pre-determining this.

Other reasons that emerged were: the CLS simply being the ‘default’ option, given a lack of familiarity with other forms of social business, and the fact that the CLS is the recognised ‘business standard’; the fact that the CLS can provide a return for both entrepreneurs and investors, thus incentivising the growth of the venture; and, finally, the desire to demonstrate that social impact and profit making can co-exist.

More broadly, it was emphasised that the nature of the social impact that social entrepreneurs are seeking to achieve will also determine the optimum legal form they adopt or adapt their venture into; for example a locally rooted organisation would not require the same capacity to scale as a venture aiming for a global market.

Demonstrating and locking in social mission

The social entrepreneurs interviewed made a key distinction between ‘demonstrating’ their social mission through their organisation’s practices, and ‘locking this in’ with legally binding mechanisms. Many felt that demonstrating their social purpose through their venture’s working culture, the quality of its products/services, and the integrity of its founder were more important than legal mission locks.
The majority of those who held this view were in the early stages of their development and less likely to have multiple shareholders and potentially conflicting investor interests. However, most in this group also acknowledged the importance of establishing mission locks in the future to plan for exit strategies and the sustainability of their social mission.

Others saw a strong need to lock in social mission from the start in order to protect their social mission from future shareholder interests and generate long-term stakeholder trust. The founders of later stage ventures with larger teams and turnover were more likely to see this as important, and tended to have a balance between legally binding devices and values-based demonstrations of social purpose.

**Mission locks and their effectiveness**

Those who had legally locked in their social mission, or were planning to do so, described the following ways of doing so:

- Embedding the venture’s commitment to social purpose in the Articles of Association. This was generally seen to work well in terms of protecting the social mission and lending the venture its ‘social’ legitimacy. However, there was some ambivalence about what this actually means in practice, especially as the Articles could be re-written.

- Having an affiliate charity or not-for-profit organisation that the CLS is accountable to, that owns some/all of its shares, has a Golden Share in the CLS, or that acts as the vehicle for the CLS’ social impact. This was seen as highly effective in keeping the CLS ‘on mission’, and more ‘permanent’ than embedding the purpose in the Articles alone.

- Legally committing to a particular treatment of profit, including reinvesting in the venture, donating a percentage to charity/social projects, and capping dividend payments. These were seen as powerful ways of sending the message about the venture’s values both internally and to external stakeholders.

These mission locks were often implemented alongside other ways of demonstrating the venture’s social purpose, a combination of which was present across all ventures. These included, most prominently, a commitment to measuring and being transparent about social impact, which most entrepreneurs already had in place. This was seen as a good way of proving their social value and building further trust and buy-in from clients/users and funders.

Embedding ethical working practices in the everyday culture of the organisation was also a common way for these ventures to demonstrate that they practice what they preach. These practices included distributing a percentage of profits among staff, having a flat management structure, ensuring low salary gaps between the highest and lowest paid, and being careful who they took money from (whether investors or clients). Some were also considering employee ownership schemes.

Finally, several entrepreneurs felt that the nature of their ventures automatically protected their social mission as this was inherently built into the business model and part of their unique selling point; That is there was no separation between the ‘social’ and ‘commercial’ element of their enterprise.
Experiences of being a CLS

In the majority of entrepreneurs’ experiences, their clients, funders and other stakeholders did not query their for-profit legal form. There was general consensus that the quality of the product/service offered was what matters most to stakeholders, as well as the relationships they built up with clients, and the broader reputation they acquired. Overall, the CLS form has enabled their ventures to progress in terms of attracting investment and enabling scalability, which has ultimately fostered their social impact. Importantly, it has also enabled these ventures to compete on a level playing field in often highly competitive markets.

However, some entrepreneurs had encountered a degree of mistrust and negative perceptions regarding their for-profit legal form among certain public sector and institutional clients. It was also noted that being a CLS increased the risk of mission drift and the pressure to demonstrate social credentials. In addition, certain types of funding and some public sector contracts were found to be less accessible, along with the exclusion from benefits afforded to not-for-profit or asset-locked organisations that ostensibly had the same mission.

Despite these disadvantages, there was general consensus that the CLS form had helped far more than it had hindered the social entrepreneurs’ ventures, with the overall view that social mission and a for-profit legal structure can certainly co-exist.

Key trends

In analysing the findings, certain key trends emerged with regard to how commitment to social mission was demonstrated and/or locked in, according to the venture’s sector, size, time in market, and client base:

- Sector-specific considerations – the entrepreneurs of technology-based social ventures in particular emphasised the need for high amounts of seed capital to support research and development before the company can scale and have social impact. As such, venture capitalists and other commercial investors were usually seen as best placed to provide this capital, and the CLS was often seen as the only feasible form to attract them.

- Venture size and time in market – locking in social mission was regarded as less of a priority at the earliest stages; this was seen to be much more important as ventures grow and have new investors coming in. In particular, ventures that had an annual turnover of over £200,000 and/or had been operating for over three years were much more likely to have formally embedded their social purpose.

- Stakeholder/client base – certain stakeholders, notably those in academia and the public sector, such as education and healthcare, may prefer charities or other not-for-profit legal structures in terms of the partners they contract, so ventures working in these spaces may have more perception issues to overcome.
The findings of this research strongly indicate the importance of allowing social entrepreneurs to make informed choices both about the optimum legal form for their venture and how they secure their social mission. These are inevitably based on a variety of considerations, including their stage of development, the sectors and markets they are in, the type of investment they are seeking, and the social impact they are aiming to achieve. These factors differ considerably from one venture to the next, and at different stages of their journeys.

1. INTRODUCTION

Over the past decade, a growing number of social entrepreneurs applying for UnLtd’s award schemes have been choosing to incorporate their venture as a company limited by share (CLS), a form most commonly used by for-profit, ‘mainstream’ businesses. UnLtd supports social entrepreneurs irrespective of the legal form that they choose, focusing rather on the vision and commitment of the social entrepreneur, and the social purpose and social impact of their venture.

As such, UnLtd has tracked this new trend with interest, alongside high-level groups such as the G8 Social Impact Investment Taskforce. While this phenomenon has been acknowledged anecdotally, to date there has been no research conducted into why these social entrepreneurs choose the CLS over other legal forms more usually associated with social enterprise.

In order to explore this in greater detail, UnLtd wanted to understand the perspectives of social entrepreneurs themselves. This report presents the findings from research conducted with a wide range of social entrepreneurs across the UK, aiming to gain insight into their motivations behind choosing the CLS form, and how they have sought to ensure the viability and sustainability of social mission in this context. These aims are driven by four key research questions:

- Why do these social entrepreneurs choose the CLS for their ventures?
- Do these social entrepreneurs see any need to lock in or demonstrate their social mission, and why?
- What mechanisms, if any, have these social entrepreneurs put in place to do either or both of these, and their effectiveness?
- What further mechanisms do these social entrepreneurs intend to put in place in the future, if any?

The next section presents the methodology used to conduct this research, and key definitions. This is followed by an introduction to the social entrepreneurs’ ventures. The findings are then discussed in detail, beginning with an exploration of the entrepreneurs’ motivations for choosing the CLS as their legal form, their perceptions of the importance of having formal ‘mission locks’ to demonstrate and embed their social purpose, and which of these they have applied in practice.

Following this, the report examines entrepreneurs’ experiences of having incorporated their ventures as a CLS, considering the key advantages and disadvantages around this. The report concludes with a discussion of the key findings and trends.
METHODOLOGY, DEFINITIONS AND VENTURE PROFILES

Methodology

In order to gain a detailed understanding of these social entrepreneurs’ motivations and experiences of incorporating their ventures as a CLS, a qualitative methodology consisting of one-to-one, in-depth interviews was used.

The sample of respondents was constructed using a two-pronged approach: contacting Award Winners from UnLtd and the Wayra UnLtd programmes who had incorporated their venture as a CLS; and accessing further respondents via other networks, including social networking spaces such as the Hub Westminster and the researcher’s own contacts. The final sample included 25 respondents, 15 of whom were UnLtd or Wayra UnLtd Award Winners and 10 from other networks.

The interviews were conducted via telephone or Skype. Following the interview process, the data were analysed and detailed case studies constructed of each respondent’s venture and views, with relevant verbatim quotes extracted. Respondents were given the choice of whether to have these showcased and attributed in the study, or to remain anonymous.

Definitions

For the purposes of this research, social entrepreneurs are defined as those setting up a social purpose venture for the benefit of their local or wider community, and/or physical environment. A social (purpose) venture is defined as a business whose primary objective is social (or environmental). This primary objective, or ‘social mission’, is explicit, but may or may not be ‘locked in’, as the paper will describe.

Venture profiles

Many of the social entrepreneurs engaged in this research had set up ventures offering an online product, service or application, using innovative technology. Several of these are focused on delivering better healthcare, social inclusion, educational and employment outcomes. Their users are patients, elderly people engaging with care, or children and adults with particular learning and employment needs. The target customers of these ventures are a combination of individual households and, more frequently, public sector clients such as NHS Trusts, housing associations and schools, sometimes purchasing on behalf of end-users.

Other online technology-based ventures in this study focus on financial inclusion initiatives, environmental and social sustainability through resource sharing, and medical collaboration and research. Both their users and customers are largely individuals with a professional and/or personal interest in the services offered, including students, eco-conscious consumers, academic researchers, and medical professionals; a minority of revenues are also generated via affiliate marketing and online product sales.
Most of these technology-based ventures have had, or are currently planning to take on, mainly commercial investment for research and development (R&D), and for expanding their internal infrastructure. Several have engaged with social investors, taking loans or issuing equity (often starting as options or loan notes that may convert to equity at a later stage of development). A small minority mentioned angel investment.

Some have also received grants, for example from regional innovation funds, and commercial investment facilitated by government tax-relief schemes such as the Seed Enterprise Investment Scheme (SEIS). Most entrepreneurs working in the technology space emphasised that the amounts of initial investment needed were unlikely to be provided by social investors, as commercial investors such as venture capitalists (VCs) were better placed to deliver this. Many of these ventures have scaled globally or aspire to do so as part of their growth plan, as well as to provide additional services within their current offer.

In most cases, the social entrepreneurs interviewed for this research hold the majority share in their ventures, with several also sharing the controlling stake with their co-founder/s, and a few having taken investment from friends and family.

Most of the ventures are in the early stages of development, having incorporated, on average, two or three years ago, with annual turnover under £100,000. A minority have yet to launch their product/service and start trading. Among these start-up or early-stage ventures, staff numbers are low, ranging from two to 15 employees and often including contracted support (which in a few cases included between 20 and 60 contractors). A few of the social entrepreneurs interviewed had established their venture between three and 15 years ago, with turnover ranging from £200,000-£2.5 million, and higher staff numbers ranging from 30 to 46 employees.

Internal volunteers were rare across the spectrum, with some paid and unpaid internships mentioned, as well as pro-bono mentorship in a minority of cases to help the ventures develop and/or deliver some services as part of their social mission. A few of the tech-based ventures had large member bases that could themselves be seen as ‘volunteers’ in terms of the services provided (for example in the case of sharing economy based platforms).

All ventures were incorporated as a CLS, with the exception of one that grew out of a CLG and is today a Limited Liability Partnership (LLP, also a for-profit structure), and another that has a CLS as a subsidiary of a Public Limited Company (PLC). A few also have affiliated not-for-profit organisations that either have specific veto power over the CLS’ purpose or will shortly hold a golden share in it.

The non-technology based social ventures included in this study vary widely, including those working in the clothing sector, construction, housing, social care, consultancy and communications, arts and culture. Their clients include individual consumers, and a higher proportion of (private) corporate clients, social enterprises and charities than those working in the technology space. The public sector is also a significant customer, as are housing associations.

These social entrepreneurs are much less likely to have taken on external investment than the tech-based ventures, with several investing significant amounts of personal start-up capital and more likely to have other social enterprises or not-for-profit bodies as investors. Their geographical remit is typically UK-wide, with growth plans in some cases including internationalisation, but largely based on further product development and diversification.
MOTIVATIONS FOR INCORPORATING AS A CLS

This section explores social entrepreneurs’ motivations for choosing the CLS structure for their ventures, examining these in order of the popularity with which they were mentioned by interviewees.

Simplicity

The overriding reason for incorporating as a CLS was sheer simplicity – as many respondents mentioned, it is cheap to set up, with minimal bureaucracy. Michelle Wright, who founded Cause4, a social business supporting charities, social enterprises and non-profits with fundraising and development, spoke for many in emphasising that becoming a CLS was:

“The easiest way to get us up and running, the quickest way of doing it.”

Access to finance

On a par with simplicity was access to different types of finance and investors – a key factor influencing the decision to incorporate as a CLS. This was of crucial importance to many of the social entrepreneurs, especially those who had a tech-based idea that required high amounts of initial equity investment for R&D. As one respondent commented, incorporating as a CLS was seen as the only option because:

“The way technology investing works, there isn’t money coming in immediately – it’s R&D. It takes a good 12-18 months and a lot of money to set it up, and then it scales. You don’t need more people to reach more markets. It’s a different kind of funding – equity funding. So that’s why there were no other options.”

As another social entrepreneur, who had set up a network to facilitate better collaboration and connectedness among members of a public-interest professional community, stated:

“You need money to grow and either the people using your service or someone else pays until you can scale up. If you want someone else to pay, you either need grant funding or philanthropic funding, or investment from someone who wants to see a return later on.”

There was a widespread preference for equity rather than debt funding for similar reasons, i.e. that the amounts needed precluded loans that could easily be obtained from banks working with start-up ventures.

Another significant factor in accessing finance that prompted decisions to adopt the CLS form was scalability. Several respondents strongly stated that they had big ambitions for their ventures, aiming for global scale and impact. As such, they required a legal form that would enable them to absorb sufficient amounts of capital to facilitate this level of growth, and that would be transferrable within an international context.
For example, Tom Hooper, founder of Third Space Learning, a venture connecting primary schools with affordable one-to-one numeracy assistance to help disadvantaged students, emphasised that:

“My ambitions are very big and I didn’t want to constrain what funding might be available... We’ve got international plans and to do that we’re going to need equally ambitious investors to put risk capital in place.”

The following case study illustrates this reasoning in more detail:

**Case study 1: Compare & Share**

Compare & Share is a technology company set up in 2013 to provide the world’s first online comparison marketplace for the sharing economy, aggregating car sharing operators, accommodation providers, and a global sharing economy directory listing over 7,500 businesses. The social mission is to build a global sharing economy. Benita Matofska, who founded the company, was inspired to do so both in response to the fact that there are £3.5 trillion of unused goods and services in the world that have the potential to be shared, and the fact that there previously existed no ‘one stop shop’ to help citizens access this.

Compare & Share’s customers are two-fold: service users of the sharing marketplace comparison site; and corporate clients, for whom Compare & Share build customised technologies to enable them to harness the sharing space.

Benita stated that the ambition for Compare & Share is “to open up the sharing economy in the same way that eBay opened up the second-hand goods market,” with social impact at the core of all they do. Given the potential scale of this, the CLS was seen as the only option. Benita emphasised that, when initiating the venture, “there was nothing out there that enabled me to do what I wanted to do... to raise investment for the world’s first social impact global technology brand, I need access to huge amounts of capital. That’s not going to happen on organic growth, so therefore I need to have investment”.

The main reason she chose the CLS, therefore, was to generate sufficient amounts of capital that would then enable the development of the technology infrastructure needed at global level - and enable it fast, in order to avoid competitors coming in, as “the sharing economy market is exploding.” She further went on to say that finance at this level is most likely to come from commercial investors, with several VCs and corporate financiers already being engaged. Compare & Share has also recently raised £151,000 on Crowdcube, an equity-based crowdfunding platform for which, as with the commercial investors, a CLS form was the only viable one.
Other specific considerations relating to access to finance being a key driver for incorporating as a CLS included tax-relief schemes available for investors that require an equity-based model, such as the Seed Enterprise Investment Scheme (SEIS), via which a few respondents had accessed initial funding. In addition, several respondents recounted receiving grants and social investment (both loans and equity from the latter), to which the CLS form was not a barrier. For example, one entrepreneur commented that the VC investors his venture attracted (which would not have been possible if they were not a CLS) subsequently ‘leveraged grant funding for us,’ as the venture received a Technology Strategy Grant from the government that then had to be match-funded by other investment. Overall, being a CLS was seen to enable openness to commercial as well as social investment, with the two options sometimes acting in tandem.

**Flexibility: room to adapt and innovate**

Apart from simplicity and access to finance, another key consideration in choosing the CLS was its flexibility and adaptability. Many respondents saw this as the optimum legal form that would enable them to mould their business model as it evolves and, crucially, to build in social mission in a sustainable way. One respondent spoke for many in commenting that:

“If you have more flexibility on the making money side and can make the organisation sustainable financially, you can make more money and create more change.”

Likewise, the following case study emphasises the importance of having a legal form flexible enough to allow the scaling up of social mission at a pace that ensures sustainability, and which also leaves open the possibility of adaptation into another form.
Case study 2: Dot Dot Dot Property Guardians

Founded in 2011 by Katharine Hibbert, Dot Dot Dot Property Guardians is a London-based social venture that allows people who do voluntary work to live cheaply in homes that would otherwise be empty, providing benefit to three groups of people: residential landlords for whom empty buildings present a problem and potential security risk; the guardians who live in the buildings; and the broader community, who benefit from not having the blight of empty buildings in their area, as well as from the positive effects of the guardians’ volunteering.

Katharine was inspired to set up Dot Dot Dot from her previous research on the concept of ‘waste’ and particularly the waste associated with empty housing. She wanted to do something practical in the face of half a million long-term empty homes in England and Wales at a time of housing crisis. She was also inspired by her own situation and that of her friends, seeing what a struggle it was to find affordable housing to rent when working in London.

Thinking about the decision to incorporate as a CLS, Katharine stated that: “the original decision in 2011 was made because this was the most straightforward, and easiest and cheapest form, and also the only one which was not irreversible… I don’t think our current legal structure is the structure we will always have… you can ratchet ‘up’ but you can’t ratchet ‘down’ your social commitment. So you can’t easily go from being a charity to being a CIC, or from a CIC to a CLS, but you can very easily make the journey in the opposite direction. At the earliest stage, I don’t think we were absolutely clear what shape things were going to take in a year or two or in five years’ time, so we didn’t want to make a commitment to a legal structure which we might grow out of but which we then couldn’t change.”

This clearly highlights the importance of flexibility and not having “to make choices before you have to make them,” as Katharine concluded. In particular, the trajectory of later evolving into another legal form was seen as less problematic if a CLS was the starting point. As Paul Miller from Bethnal Green Ventures, a social enterprise incubating social ventures, commented:

“We’ve had trouble before with people taking on different legal forms early on then having to undo them, which is very expensive.”

In terms of later changing their venture to another legal structure, some respondents had considered other models, including a cooperative, community land trust, and CIC (especially once the proposed new CIC regulations come into effect). There was also growing awareness and interest in the USA’s ‘B Corps’ model, specifically the Certified B Corporation accredited by the not-for-profit organisation, B Lab, as ‘having met a high standard of overall social and environmental performance.’ For example, Benita and the team from Compare & Share have been influenced by this in developing their own certification scheme – the ‘Share (or ‘S’) Corps’ – which they are aiming to make available to other social businesses in a similar way as the B Lab does for B Corps.

Linked with the structural flexibility of the CLS was the ‘hassle free’ governance structure that several respondents referred to as a motivating factor for choosing the CLS. This was usually mentioned in
terms of its opposite – that is, being obliged to have a Board of trustees (as would be the case with a charity, for example) – and the fact that not having this enabled the restriction-free decision making and ultimate founder control that were seen as crucial in enabling risk-taking and innovation. Aileen McDonnell who founded B4Box, a social venture that provides training and employment in construction for workless local residents, and which was deemed a high-risk venture when she started, clearly articulated this:

“No-one had ever done it before in a very, very difficult industry... having a Board and a not-for-profit structure would have held me back from innovation, so I was willing to take the risk myself. So I had 100% responsibility if anything happened, and therefore wouldn’t have to account for my innovative foolishness to anyone!”

As Katharine from Dot Dot Dot also commented, having the appropriate amount of control as the founder is what enables the swift decision making that is crucial to being on par with commercial competitors, which being a CLS helps facilitate:

“We needed to have nimbleness as we’re competing with commercial companies.”

This restriction-free nature of the CLS was especially valued in the start-up and early stages of ventures taking shape, when accountability to an additional regulatory layer (e.g. in the case of CICs) was deemed less relevant and a potential hindrance. Crucially, the flexibility also allowed for various combinations of commitment to social mission to be built in or demonstrated, as will be further discussed below.

The default option in a competitive market

For several interviewees, incorporating as a CLS was simply the ‘default’ option when they were first setting up their ventures, largely because they were not aware at the time of other legal forms that could be adopted to deliver their social aims within their business model. In a few cases, the CLS was the default choice because the entrepreneurs did not identify with the concept of having a business labeled primarily on the basis of its social mission (for example, an explicit ‘social enterprise’) – they simply had an idea with a strong social purpose that they wanted to take forward in a sustainable way. As Syed Abrar, who set up Buddy Enterprises, providing a digital solution enabling patients to record a diary of their wellbeing using SMS, commented:

“We just wanted to do something to help others, and the easiest way was to become a limited company.”

This ‘default’ decision making was often linked with another reason for choosing the CLS – the fact that this is the ‘standard’ form most commonly recognised by the funders, clients and other stakeholders the entrepreneurs have worked with, or were planning to at setting up stage. In particular, the CLS was seen as more reassuring for
commercial investors. As Jamie Wilson, who set up Home Touch, a software service enabling care for elderly people in their own homes using technology solutions and helping them remain independent for longer, commented:

“The majority of investors want a more familiar, standard company structure.”

The CLS form was also seen as most beneficial for gaining access to markets where for-profit competitors were otherwise dominant (such as with corporate clients). An example of this motivation came from Ali Clabburn, the founder of Liftshare, which provides a free service for individuals to share car rides across the UK; this free element is enabled by revenues from corporate customers to whom Liftshare provides travel support services. As Ali reflected:

“It became clear that, as long as our business plan and strategy was very clear on what we were all about in terms of positive impact, it didn’t really matter to us as a team what we actually were, but it did matter to our clients that they could engage with us and understand properly what we were. So we needed to make sure that the business side of it was crystal-clear so people could buy from us.”

Here, as with several other respondents, the emphasis was on gaining the most traction within the market in order to then have a ‘positive impact’ – and the CLS is just a vehicle for doing so.

**Obtaining a return: personal and commercial**

A few of the social entrepreneurs discussed their desire for personal return as one motivating factor in setting up a CLS. In doing so, most made the distinction between making a ‘reasonable’ personal return and ‘getting rich’, with the latter not being the primary motivator.

While they did not explicitly mention ‘sweat equity’, it was evident that they had invested significant amounts of time, effort and personal capital into their social purpose ventures and, as such, wanted a return, especially if they had families to support and/or had family and friends who had also invested in the venture.

This was highlighted by Mohammad Al-Ubaydli who set up Patients Know Best, a digital patient record sharing system where patients own their data and control who gains access to it. Mohammad explained that he put his own money into the company, taking a low salary for the first two years, and that his family had also invested. Because of this, it is not so much a personal return on investment that matters to him as a return on the money his family had put in, especially during the difficult first year. For this reason, making it an entity that could grow and receive investment was important.

Other respondents also referred to the need to pay a return to commercial investors (such as VCs), and emphasised that this was an incentive without which their company could not have started, especially the higher-risk ones. For example, Robbie Frazer set up Work Hero, an online platform enabling young people to improve their employability through volunteering and other opportunities, as a CLS in order to be able to raise investment from ‘the general investor’, who was looking for commercial returns. To illustrate his point, he compared the CLS option with a CIC:

“I also wanted to reward early stage risk taking, and if we had incorporated as a CIC then those people coming on board early on would almost be punished for their entry into the business. The more you pay for the shares, the more you can get a decent return in terms of dividends; but if you come in right at the beginning and not pay that much for the shares... I don’t see that much reward for the enormous risk you’re taking. And we didn’t want to prohibit that.”
In this sense, choosing the CLS form that enables a return for commercial investors is a means to an end that helps generate the necessary capital for the venture to grow and deliver its social mission.

**Combining profit and social mission on principle**

A reason for choosing the CLS form that was less frequently mentioned overall but implied by several respondents was that this was a principle-motivated decision to demonstrate that having a social impact and profit making are not mutually exclusive - in fact, they should co-exist, especially where the venture combining them is responding to a gap in public services. The following case study highlights this.

**Case study 3: Insane Logic/My Choice Pad**

Insane Logic was set up in 2008 as a digital services company. In 2010, founder Zoe Peden and her co-founder used income from the business to fund a new product: My Choice Pad, an iPad application that uses sign language and symbols from the Makaton language programme to help early years children with language development, particularly those with English as a second language, as well as children and adults with speech delay or communication issues.

Zoe was inspired to develop My Choice Pad having previously worked for the Makaton charity, when she saw a gap for digitalized products that could help children, parents and schools with learning. Approximately half of My Choice Pad’s customers are individual consumers, while the other half is a combination of schools and speech and language therapists. Today, Insane Logic is wholly dedicated to developing My Choice Pad.

From the start, Zoe had the belief that the social and the for-profit could co-exist: “I didn’t see why you couldn’t do good and bake it into the business model – my technology changes people’s lives. People tell us all the time about the difference that we’ve made. So that’s very much part of the business; if we didn’t do that, we wouldn’t sell anything. And I wanted to say that you don’t have to be a charity to do this – there’s a different kind of business that can survive and become sustainable, not rely on grants. People should also be able to access and pay for their own affordable healthcare and education; for example, if the school isn’t good enough, they want to be able to supplement it. So I wanted to show that you could do that and be a profitable business, and solve the problems in the UK in terms of the gaps in the NHS [for speech and language provision].”
As Tom from Third Space Learning also emphasised, profit-making and social impact can be aligned:

“I strongly believe there isn’t anything mutually exclusive about profit and tackling the biggest problems in society. I want to make money, for myself and my team and investors – but I want to do that by solving a genuine problem and building something we’re all proud of building.”
Facilitating shared ownership

Finally, the CLS was seen as an ideal way to facilitate shared ownership, either by employees of the company and/or those with a professional or principled stake in it. A minority of respondents mentioned that they may adapt their current CLS form to enable this in the future. One had already used it for this purpose from the start to facilitate the vision of an arts collective, which is today a PLC:

**Case Study 4: V22**

V22 is an arts collective that secures spaces and workshops for artists, facilitates exhibitions and the collection of their work, and organises community projects based around those spaces and exhibitions. Set up in 2006, the collective’s social mission is to enable artists to have affordable studios within which to work and connect with one another, as well as to promote contemporary art more widely and create a positive cultural impact through work with local community groups, schools, etc.

The inspiration for V22 came from the founder, Tara Cranswick’s background as an artist herself. She thought the means for art distribution should be owned by artists themselves, and so had the idea for an arts collective based on shared ownership that could then also facilitate vital workspace for artists. The legal remit of V22 is contained within three interlinked company structures – a CLS that purchases and rents out studios and spaces for artists and alongside this organises community projects, a Public Limited Company (PLC) of which the CLS is a subsidiary, and an independent Company Limited by Guarantee (CLG, founded in 2011) that facilitates art exhibitions and events. So the shareholding structure is contained within the PLC, within which the artists themselves hold approximately 35%, and the remaining approximate 65% is held by individuals and investors interested in art. The founder and director, Tara Cranswick, holds a minority of shares – uniquely among the founder entrepreneurs in this study.

Setting up an arts collective with a for-profit legal structure (i.e. the PLC) was the simplest way in which to facilitate shared ownership - a core idea to which Tara was committed. The CLS form within that was also chosen “because there were no restrictions on it” in terms of the flexibility to accept investment, allow shared ownership, and build in a social mission. Tara was aware of other options, such as becoming a cooperative or CIC, but felt they did not offer the right combination of these factors that a CLS would. Tara also recognised that the people who did share the ownership and put money into the venture would want a return on their investment, meaning that a for-profit structure made most sense.
Summary of motivations for choosing the CLS

• Simplicity – a CLS is easy and cheap to set up, with minimal bureaucracy.

• Access to finance – a CLS is open to finance from a broad range of investors, from entrepreneurs’ friends and family, to commercial, social and angel investors. In particular, the CLS:
  o can facilitate substantial amounts of investment to enable growth, which is particularly important for R&D-intensive technology ventures and those aiming to scale globally
  o is eligible for major tax relief schemes to incentivise investors.

• Flexibility – the CLS can be adapted to build in social purpose and meet the emerging needs of the venture as it evolves. Specifically, the CLS can:
  o build in increased commitment to social purpose in line with the venture’s sustainability as it develops
  o be more easily converted to another, more ‘locked in’ legal form than vice versa
  o enable the entrepreneur to have restriction-free decision making, enabling greater risk-taking and innovation.

• The default option, given a lack of familiarity with other forms of social business, and the fact that the CLS is the industry standard:
  o familiar and reassuring form for investors (and clients), especially if aiming to scale internationally
  o enables equal footing with commercial competitors.

• The CLS provides for a personal return for entrepreneurs and a commercial one for investors, thus incentivising the growth of the venture.

• Principle-motivated decision to demonstrate that social impact and profit making are not mutually exclusive.

• The CLS can facilitate shared ownership while also enabling social mission to be embedded.

As this example shows, while other legal structures (such as a cooperative) may be seen as the traditionally more appropriate one for a venture based on shared ownership, the added ‘edge’ of a CLS lies in its flexibility to attract investment from diverse sources and grow, without precluding a social purpose.
ATTITUDES TO SECURING SOCIAL MISSION

A key contention around the use of the CLS by social entrepreneurs is the potential vulnerability of social mission to the profit-making element of the venture. As such, a central concern of this research was to explore how social entrepreneurs who had adopted this form ensured the integrity and sustainability of that mission.

The following two sections discuss these findings in detail, beginning with the extent to which social entrepreneurs see the need to lock in or demonstrate their social mission, and the reasons behind this. This is followed by the ways in which they have put these perceptions into practice through different ‘mission locks’ and their effectiveness, considering throughout the mechanisms they might intend to put in place in the future.

The formal ‘mission locks’ referred to here include embedding social purpose into the Articles of Association, having a Golden Share or other specific clauses in the legal documents that protect the social mission, committing to a charitable distribution of profits, and other legally binding devices, which will be discussed. The summary at the end of the next section highlights these, together with entrepreneurs’ views on their usefulness.

Some entrepreneurs stress values over legal locks

When asked what securing commitment to social mission means to them on a general level in the context of having a for-profit company structure, interviewees were broadly divided into two camps of thought. The first highlighted a significant difference between demonstrating this mission through the everyday practice of the organisation and legally ‘locking’ it into their company mandate. Broadly, there was strong consensus within this group that, while mission locks may be helpful, they are not essential; on the other hand, demonstrating social purpose through the venture’s behaviour, values, working culture, the integrity of its product/service, and transparent interaction with stakeholders, absolutely is. The following quotes from a range of entrepreneurs illustrate this:

“I’ve seen lots of organisations that have worthy things written in their formal documentation... it worries me that that becomes a substitute for everyday living it. People’s values and how an organisation behaves are more important to me personally.” (Imogen Martineau, founder of Martineau & Co, a communications agency specialising in social and environmental change)
“I don’t think that embedding your purpose in your articles will actually change behaviour. That’s incumbent on the people actually within the organisation. If you’re working in an organisation, you don’t look at the articles of association and say, this is how I should behave – you behave according to principles and values.” (Jamie Wilson, Home Touch)

These quotes indicate a general ambivalence towards the usefulness of having social mission formally embedded, as opposed to actually ‘being’ that mission in everyday practice. However, it is important here to note that all of these ventures were at an early stage of development (having incorporated three years ago or less); they, as well as those further along in their development, frequently acknowledged the increasing relevance of formal mission locks as the venture grew. As one person commented:

“The attitude and values that are in a person are more important than something written on a piece of paper, but that only works for a very small organisation – maybe as you grow, you would need that more.”

Indeed, most of these early-stage respondents said that securing commitment to their social mission in a legally binding way was something they would consider in the future, embedding this in their Articles of Association being the most popular. The reasoning behind this was to protect the future integrity of their social purpose, especially if new investors were to take a stake. As Syed from Buddy Enterprises further explained:

“If we do seek investment, there could be a time when certain investors would want to exit, so it’s about saying that whoever works with us needs to have that kind of mission and that they’re not going to commercialise the products or start overcharging.”

“Don’t think you need a flag above you as a social business saying this is me – you simply live by those values every day, which is reflected in how you behave and how you go about your business. And that’s not going to change even if I’ve got it written down somewhere.” (Syed Abrar, Buddy Enterprises)
In line with this, those that had been active for several years and had a higher turnover were more likely to have instigated formal mission locks and to see the value of these alongside demonstrating their mission through their values and culture, as will shortly be discussed in more detail.

Notwithstanding this, the current mindset of most of the early-stage entrepreneurs was that building the internal identity of the company and trust with customers was key, rather than pre-determining how these would evolve via formal mission locks. In particular, ‘trust’ was a key motif: building a brand that can be trusted, aligning those brand values with social mission and so engaging more customers/users, was seen by many to be the best way in which to widen social impact.

Several people commented that this trust can be built by making evidence of their social impact publicly available. As Aileen McDonnell from B4Box asserted, demonstrating social mission is especially important when working with public sector clients: ‘if your customers are public clients, as local authorities they should have an interest in putting their spend into the best social value – and how can they analyse that? So you can help them analyse it.’

Often, the founders themselves were seen as key to ensuring the integrity of their venture’s social mission; indeed, several respondents emphasised that the ‘intention’ of the organisation and the people at the heart of it are what underline its identity as a social business:

“No matter what form you had, if you had people who weren’t honouring the social mission, it wouldn’t work… There have been so many examples of organisations supposedly there to do good, but then the people running them don’t do that in an exemplary way. It’s more about the spirit than the documentation.” (Founder of digital company building applications that give people control over their own health data)

“It’s more about the founders of the business and their values that filter down to everyone else in the company.” (Jamie Wilson, Home Touch)

Interestingly, a few respondents separately used the marriage analogy to denote the difference between ‘real’ commitment and that outlined in formal paperwork:

“I guess it’s a bit like marriage – if you’re in a relationship with someone, do you need to have a certificate to confirm that commitment? We’ve got our mission and we’re not going to change it, so would a piece of paper make a difference?”

As well as expressing ambivalence about formally locking in social mission, some respondents also felt that this could be too rigid and actually negatively affect the organisation’s social impact. The main way in which this could occur was by these formal mission locks potentially deterring investors (who bring capital as well as skills) that could then impede the venture’s growth, scalability, sustainability and ability to deliver and maintain its promises relating to social purpose.
For example, Mohammad from Patients Know Best feared that golden shares or a charitable trust model “would frighten high-tech investors.” Other formal mechanisms that may impede a social venture’s progress would be those that mandated the venture to donate a set percentage of profits to a not-for-profit cause that may not be sustainable in itself. Juan Guerra, who founded StudentFunder, made the case that:

“If you were to reinvest those profits in the company you could potentially scale and solve the problem you are tackling a lot quicker. So, by giving that 50% away, aren’t you perhaps doing more harm than good?”

The following case study of StudentFunder illustrates some of these perceptions in more detail.

**Case study 5: StudentFunder**

StudentFunder was set up in 2012 in response to the problem that many people wanting to study at university but unable to rely on family income couldn’t afford their education, which creates barriers to social mobility and is harmful to the economy. The venture offers a crowdfunding platform for (UK and international) students wanting to study in the UK, which they can use to raise finance for their education from among their networks.

Reflecting on securing commitment to social mission, founder Juan Guerra commented that legally embedding social mission is “all fine and well, but there’s nothing like the quality of service and the moments of truth with the customers - that is really what matters.” StudentFunder has a 50% profit reinvestment clause and their social purpose embedded in their Articles, as well as the remit that if they wind down, everything goes to charity, which Juan put into place as ‘protection’ in case something happened to him. However, overall, Juan is of the opinion that “it doesn’t really matter to anyone and, frankly, it just confuses people when you tell them... people think that if you have those trust engines you’ll be able to create more impact, but it’s something I often see people do just to satisfy potential funders and not to gain any commercial advantages in the real world... I think it’s all about how you treat your customers and stakeholders, and that will speak for itself.” In addition, “for an investor, a trust engine can be a bit scary, and for customers a bit confusing; so in a way, [mission locks] have been hindering to some extent.” In particular, Juan felt that a Golden Share could be a major deterrent to commercial investors.

For Juan, retaining control of the company is very important to safeguarding the company’s mission and ensuring that people are in it “first and foremost for the impact.” This is another reason he chose to formalize StudentFunder’s social mission: “it leaves no shadow of doubt internally what this company was set up for.” Ultimately, for Juan, demonstrating social mission “is much more about brand communication than legal documents. It’s much more about how you deliver your service and interact with your stakeholders.”
In this discussion, Juan clearly highlights the distinction between locking in social mission for immediate reasons, and doing this as a precautionary measure for the future. In particular, his own remark about the potential inefficiency of giving away a percentage of profits to charity and then StudentFunder’s commitment to transferring assets to a charity in case the company folds, indicates that this measure was taken only in light of extreme eventualities, rather than as a key demonstration of social purpose. This reiterates the earlier finding that locking in social mission is something that early stage social entrepreneurs may see as more about the future than something immediately relevant to the integrity of their ventures.

It was also noted that mission locks may actually restrict the social entrepreneur from taking risks or innovating in a way that becomes necessary, especially in the early stages of development. This echoes one of the key reasons for incorporating as a CLS in the first place – namely, the flexibility to innovate. As Christos Orthodoxou who founded Class Careers, a platform connecting employers with school leavers via online workshops, explained, having a mission lock in place could be important in keeping social ventures on track and aligned with values; however, he also felt that:

“It could hinder us in the long term... when you’re starting something up, you need to change so much, so if we need to lock something down it could become outdated very quickly.”

A minority of entrepreneurs emphasised that legally embedding social mission was a ‘luxury’ that they may not currently have the time or the capacity to implement, and would not necessarily be relevant precisely given the fact that their everyday behaviour and values were tailored to that effect anyway.

Finally, several people mentioned the fact that ‘nothing is irreversible’ – legal mission locks can themselves be altered, making this a more ‘theoretical’ protection measure than the concrete behaviour and values espoused in everyday operations.

Other entrepreneurs stress the central importance of formal mission locks

Alongside the group of respondents who indicated ambivalence towards formal mission locks, there was a significant number who saw a strong need to formally embed social mission from the start, as well as to demonstrate it. As in the case of Juan who founded StudentFunder, the main driver behind this was to protect the mission from future potential shareholders whose values may not be aligned, especially if the founder leaves. As two respondents stated:

“I believe it’s essential because otherwise, how on earth can you protect that in an investable model? There are enough examples in the world of shareholders riding roughshod over any kind of guiding principles... I don’t believe anybody sets out to launch a business that is bad. What
happens is that money becomes the guiding principle, so then you ride roughshod over absolutely everything for profit. So the only way to ensure and lock in your social purpose is to embed it legally, otherwise there’s no way you can stop that from happening.” (Benita Matofska, Compare & Share)

“Locking in social mission makes it easier if you bring on investors as it makes it absolutely clear that that is the crux of the organisation... this also validates your profile with your target audience, reassuring them that you’re there for the purpose you said you are.” (Founder of a social business marketing and communications boutique supporting social enterprises)

These reflections emphasise that, again, building and maintaining trust with the users and community whom the social mission of a social venture aims to serve, is of the essence. This was especially seen to be the case for those working in an industry “where it is easy to become commercial,” as the founder of Lingoing, Sadaqat Ali, noted. Lingoing is an open market platform where interpreters and those needing language and sign language services can meet and trade; it is designed to offer more client choice, quality assured services and empowerment than conventional agencies, particularly for the deaf community and those speaking other languages in the UK. Sadaqat commented:

“Because it is a limited company, it could also change course and become a commercial enterprise. For me, it’s a) about creating change, and b) making sure that change is understood and received by the wider audience... While investment’s welcome, we can’t forget the original purpose for which this company was established.”

Building this trust and understanding was seen to be particularly important when working with institutional clients that were deemed to have a traditional suspicion of for-profit forms. Formal mission locks were seen as very useful in helping to mitigate this. As Fiona Nielsen who founded Nucleobase, a data sharing online platform for genetics research that is itself wholly owned by the charity she also set up, DNA Digest, stated:

“Researchers in academia have a funny bias towards working with commercial companies, but they like working with charities. So having a charity in control gives us an advantage in working with our key stakeholders in academia.”

The significance of venture stage and size

While some of the social entrepreneurs interviewed strongly felt that their social purpose should be locked in from the start, the general consensus that emerged was that locking in mission is much more important when the venture grows and new investors come in. In particular, this was emphasised by those who had incorporated their ventures over three years ago and had been able to see their trajectory clearly taking shape.

For example, Ben Atkinson-Willes who founded Active Minds, a company that produces specialist activity resources for people with dementia, aiming to improve their quality of life, emphasised that social ventures should have their missions locked in, “as you can lose sight of the mission otherwise, especially as
the business grows.” Likewise, Paul Miller from Bethnal Green Ventures said that formally embedding social mission is not important for early start-ups, who “are a long way from being able to demonstrate their social impact” and might not have fully crystallized their social mission. As they are trying to solve a problem but may still be developing the best way to do that, “it would be a big risk to bolt this down when you haven’t yet found a scalable method to achieve that.” However, he went on to say:

“It’s very important if you’re talking about later stage investment... larger ventures have got something that’s repeatable and scalable that they can then formally lock in. So as they grow, it becomes more important to lock in social mission.”

Another entrepreneur, who founded his venture in 2009, concluded that:

“The real issues lie further down the line – that’s when you might not want to be for profit, as suddenly people start rubbing their hands together... It’s when a company is massive and successful that it becomes a problem. Maybe we should have this chat again in five years.”

This, again, underlines the significance of the venture’s timeline, as well as its size and potential earning power – the implication is that the longer it is active in its market, the more investment it attracts and the more profit it makes, the more important it is to secure social mission formally.

Overall, there were differences of opinion among the respondents as to when it is best to formally lock in social purpose, even if the effects will only be felt later. Most felt that a social venture should only do so once its trajectory is clear, retaining flexibility in the early stages. Others were of the opinion that it is precisely in the initial stages that it is most possible and necessary to lock in social purpose, before possible tensions arise.
EMBEDDING SOCIAL MISSION IN PRACTICE

This section moves from perception to practice, considering the concrete ways in which the social entrepreneurs in this study have embedded their commitment to their social mission, or are planning to do so.

Embedding social purpose in the Articles of Association

Interviewees were asked what formal mechanisms, if any, they had implemented within their venture to legally protect or demonstrate their social mission. The most common device that had already been implemented was embedding social mission in the company’s Articles of Association. This was seen by some to work very well in building vital trust with stakeholders and lending strong legitimacy to their standing as a social venture.

For example, Sadaqat from Lingoing asserted that having done this had helped the company on both an internal and external level; internally in terms of embedding their values into the consciousness of all who work there, and externally in terms of proving their commitment to social mission:

“If we’re not demonstrating what we’re doing as a company internally, it does have an implication for our clients and interpreters – it’s important that they see what we’re actually trying to achieve and what our core is as a company. It’s also to build trust and a working relationship with our community, and advocate for good practice that should be there anyway.”

However, in line with some of the perceptions previously discussed, there was also some ambivalence about what this legal commitment actually means in ‘real’ terms, especially in cases where this was externally or funder-led (ie a condition of grant funding, social investment or a particular partnership) rather than initiated by the founder. Those expressing this ambivalence emphasised that having embedded their purpose in the Articles has not had, and is unlikely to have, an effect on the organisation’s behaviour or product/service. As Aileen from B4Box emphasised, while it is important to have safeguards such as this in place, “it’s not just a matter of having them – it’s a matter of doing them.”

‘It’s in our DNA’

Many of the entrepreneurs felt their social venture contained a natural symbiosis between commercial and social activity, to the extent that there was no dividing line between the two. As such, their social mission was ‘protected’ simply by virtue of being inherently built in – “it’s in our DNA,” commented several people. Among them was Tom Hooper, whose venture is discussed in the following case study.
Case study 6: Third Space Learning

Third Space Learning develops one-to-one online learning programmes for primary schools to help raise numeracy standards, with the mission of reaching the many disadvantaged students throughout the UK currently struggling with numeracy, and consequently helping to reduce educational and social inequality. Clients are solely state primary schools.

The venture was set up in 2012 in response to the lack of mathematicians in primary school classrooms and the fact that one-to-one intervention is “the most value added form of supplementary learning.” The idea is to have a ‘third space’ – a virtual space – where children can ask further questions that arise from work done in class.

The founder, Tom Hooper, stated that: “there is nothing legally committing us to our social cause,” apart from a commitment in their Articles to have an “independent audit of our social and academic impact, which will be published every couple of years.” They primarily built this into the articles following a request from Wayra UnLtd from whom they won an award, but they were undertaking the audit in-house beforehand anyway - “it was just to formalise what we were doing.”

Tom feels that Third Space Learning’s commitment to social mission is naturally built into the venture: “from day one, the technology, the brand – everything we’ve done has been about making one-to-one learning affordable and accessible. So the legal commitment is slightly by and by. It’s in our DNA to do this. And we’re doing it in order to reach these children, so structurally that’s where we’re at.” He further went on to say that the best way to protect social mission is “to build self-interest into it... we’re building something that will solve these problems in a way that can sustain itself and is intrinsically incentivised to keep solving those problems... If you build a business that from day one is going to try and solve this problem at a national level, and we’re going to generate an attractive profit as we do so, and that business is going to scale and scale - that is the best way to protect what you’re trying to solve.”

The argument here is that the venture’s unique selling point (USP) is both what creates its commercially viable service, and simultaneously is the social mission. This ‘social DNA structure’ of the organisation was seen as a particularly effective form of ensuring that future shareholders would not veer off social mission – if they did, then the USP would also be affected and, therefore, so would sales and profit. Several other respondents also emphasised the effectiveness of this ‘inbuilt’
protection. For example, Mohammad from Patients Know Best explained that their key selling point is the fact that they encrypt all records to ensure patient control, rather than anyone else being able to gain access to them or sell them on. This then performs the double role of reassuring their stakeholders and filtering out investors who are not in line with their mission: “from a shareholder perspective, that’s why customers are buying from us” – thus their USP automatically aligns shareholder interests with their social mission. As another entrepreneur expressed of their venture:

“There isn’t a commercial side to the business and a social side – we don’t have that divide. If we fit ten kitchens and bathrooms, simultaneously training and employing people to do that, and fitting the kitchen and bathroom, we’re achieving both the ‘social’ and ‘service’ end.” (Aileen, B4Box)

Apart from having social mission naturally built in, another frequently reported way of demonstrating it – rather than locking it in – was simply staying true to brand promises, whether this related to offering affordable rates, employing disadvantaged groups, ensuring the confidentiality of customer data, etc. Moreover, the fact that this was often done in the face of stiff competition from commercial competitors further helped to build trust and credibility with users and customers.

Measuring and reporting on social impact

Measuring impact was a widely cited means of demonstrating social mission. While only a small minority had this particular commitment embedded in their articles, most undertook this, or were in the process of refining it, as a matter of course. The majority said that their venture’s social impact was measured internally, with plans to later apply more formal techniques such as social auditing or accounting. Being transparent about their outcomes (for example by publishing social impact reports on their website) was seen as a good way of proving social value and building further trust and buy-in from users as well as funders. The case study of Class Careers on the next page provides more detail.
Case study 7: Class Careers

Class Careers is an online platform connecting employers with school leavers aged 16-19 via live online workshops. The social mission is to get as many students as possible going into school leaver schemes and accessing the great opportunities available through them to take the next steps into the world of work. The organisation charges employers for workshops based on the number of schools they want them shown in.

The founder, Christos Orthodoxou, was inspired to set up the venture in 2013 after working at the business partnerships department at Aston Business School, where he saw a stark disconnect between employers and students, and decided to do something about it.

The main way in which the team at Class Careers ensure they stay true to their social mission is by quantifying and reviewing everything they do - each month they look at how many schools they've aired the workshops in and how many school children have been engaged, including their questions and feedback, as well as feedback from employers and teachers. Christos recounted how the venture had been “a bit of a learning curve”, and how measuring their social impact had helped to keep them on-mission internally, as well as to demonstrate their purpose externally: “we got a bit lost in the whole for-profit story, and staying alive, in terms of investor conversations, working with clients, trying to manage people... and so doing this really helped take us back and look at our social impact.” They have been refining the way they measure social impact, and keep reviewing their mission and vision in light of it.

Christos emphasised that by consistently “looking at social impact, you won’t lose it [social mission], especially at the early stages when you won’t make much money anyway.” This is also important at later stages, “otherwise you can get really caught up in just driving profits.”

However, social impact measurement as a tool for ‘proving’ social mission was not without its problems. Several entrepreneurs who had less quantifiable outcomes (such as those providing a networking or collaboration service) recounted the difficulties they had experienced in relaying qualitative user feedback alone to certain stakeholders, notably social investors.
One person, for example, recalled experiences with some social investment funds that were “quick to dismiss” his venture given its lack of quantifiable outcomes. This then meant that there was “no wriggle room for innovation” and their “hand was forced” to turn to a for-profit legal structure such as a CLS in order to attract commercial investors who are more flexible. Others also emphasised that measuring ‘numbers’ alone in terms of outcomes was not sufficient in fully relaying the benefits that their ventures brought to individual people’s lives.

**Ethical working practices**

Many interviewees stated that they had various ethical working practices embedded in the everyday culture of the organisation, often (although not always) stated in a formal policy or charter, as testament to their social mission and values. They all found these to function very well in terms of staff satisfaction and ‘practicing what they preach’. The most common practices were:

- distributing a percentage of profits among staff
- having a flat management structure
- ensuring low salary gaps between the highest and lowest paid
- constructing a working environment conducive to co-creation
- having a policy of only taking on commercial investors and clients aligned with the company’s social mission and values
- having a low environmental impact infrastructure
- putting an ethical suppliers’ agreement in place, especially if the supply chain extended internationally
- forming partnerships with other social ventures and charities.

In line with some of the perceptions around committing to social mission discussed in the previous section, interviewees often commented that they, as the founders themselves, were the ones who injected the ethics into their ventures, acting as an intrinsic mission lock and ‘living proof’ of their venture’s social mission. Indeed, formal mission locks were often seen as meaningless if the founder’s behaviour did not match because the founders are the ones who set the ‘tone’ of the organisation and ensure the integrity of its values. This was underlined by the fact that the drive to solve a particular social problem was, in the vast majority of cases, the reason why these entrepreneurs set up their ventures, a motivation that is then reflected in their leadership; as one person asserted:

*“Your intentionality is embedded in the way that you run the business.”*

There was also a frequent emphasis on moral self-regulation by founders in abiding by the values they established and/or bought into. Several people emphasised that this included willfully not taking a ‘shareholder windfall.’ Others focused on the personal characteristics of the founder and the others they engage within the venture in aiding this self-regulation, as the following case study shows.
Case study 8: Seniors Helping Seniors

Seniors Helping Seniors® is a social franchise that provides care services for less active seniors to enable them to live independently in their own home. The company started in the USA 16 years ago, where it has become a very successful franchise concept. Its unique idea is that it enables those who are retired and who would like to help others to become paid providers of empathic care, while keeping active and engaged themselves.

The UK Master license holder, Christian Wilse, was inspired to start the social franchise in 2013 after a chance encounter with the idea, and having “always talked about doing something good” following a career in commercial businesses for the past 30 years. He felt that his skills “could be used in a much more positive way for other people rather than for commercial gain.”

As the venture is a franchise, it is obliged to maintain the model outlined in the franchise manual, which contains within it the key ethical principles of the business. Within this remit, Christian emphasised the importance of ‘self-regulating’, such as linking himself up with as many skills and development organisations in the care sector as possible: “I need to regulate myself and be the best of the best, otherwise I can't highlight our social care mission.”

Christian feels that the social mission of Seniors Helping Seniors® “is protected by itself because you cannot do this work without being involved in the social commitment to people... prospectives franchisees are vetted just as much as our care providers. And if that is not a loving, giving, caring, compassionate person and does not have the business acumen for the understanding of social care, then that person is not the right one, and we would not grant the partnership.”

Founders’ personal journeys

In addition, founders’ own personal journeys towards their idea were often seen as a key factor giving the venture its true credibility as a social one. From seeing family members or friends suffer and being determined to create something to alleviate that, to being in a personally problematic situation that then motivated them to become entrepreneurial with a strongly social and empathic mindset, the ‘stories'
the founders come from are also important in illustrating the authenticity of their social mission. As Sadaqat from Lingocing commented, social entrepreneurs have:

“Taken their personal experiences and have produced something that has helped society in a certain way.”

The case study of Active Minds further illustrates this.

**Case study 9: Active Minds**

Set up in 2010, Active Minds produces specialist activity resources for people with dementia, such as jigsaws, painting products and memory based products, aiming to improve their quality of life at mid- to late stages of the condition through activity with appropriate stimuli. Customers are the care sector – including care homes and the NHS – and families of people living with dementia.

Ben Atkinson-Willes, the founder, was inspired to set up the venture after his grandfather had Alzheimer’s. Through caring for him, a gap became apparent to Ben that, as the illness progressed, his grandfather was having to use children’s toys to keep him occupied, highlighting a lack of appropriate specialist products.

Ben emphasised that the social mission in what Active Minds does is strongly conveyed via his own background and intention: “one of the big selling points behind the business is my personal story, and where it’s come from and the intention behind it, which in itself gives it that credibility.” This, in the eyes of the people he works with, has superseded the issue of the venture having a for-profit structure, compounded by the fact that 10% of the shares in Active Minds is held by a social investor – a consortium of four social enterprises that invest surplus funds in ventures that are aligned with their social mission.

**Commitment to reinvesting profits**

In a few cases, the entrepreneurs had established formal agreements not to pay dividends for a set number of years, or an asset lock built into share clauses (usually as a condition of grant funding or social investment). Most said they currently reinvest profits anyway to grow the business as they are still in the early stages. This was seen as an effective strategy that, by building the sustainability of the venture, ultimately nurtures its social mission.

**Distribution of profits to a specified charity**

Several respondents were interested in setting up an arm’s length charity, to which some or all profits would be distributed. A few respondents were actively considering embedding a profit distribution mandate into their legal structure that would commit typically between 10 and 51% of their profits to charities and social causes, once their ventures reach breakeven point and become profitable, as the following case study illustrates.
Case study 10: WorkHero

WorkHero’s mission is to enable young people to improve their employability and showcase their skills and attributes on an online platform. Employers and recruiters pay for licenses to search the platform’s profiles. Robbie Frazer and co-founders were inspired to set up WorkHero in 2013 after seeing even less social mobility now than 30 years ago, as well as the isolation that social media can foster, “with very few opportunities to bump into people and network beyond one’s own peer group. It was also set up in response to the fact that “today it’s extremely difficult for young people to get visibility in front of employers unless you have a 2:1 or above from a Russell Group university.”

Robbie emphasised that formally locking in their mission is important in protecting this in case the people running the organisation change their roles, or investors change. If, for example, in five years’ time he wanted to leave the company, he “wouldn’t want to do that unless we’ve locked in some enshrined behaviours constitutionally.”

The way in which they are doing this is by embedding their social purpose in their Articles and “committing the business to donating the majority of its profits (51%) to charity, and that charity is not under our direct control” – this will be an arm’s length charity set up by WorkHero that will, in turn, disseminate those profits to organisations that work with young people.

Golden share and control of mission through ownership by a charity

Some of the ventures were set up in such a way that the CLS is under the overall control of a charity or other non-profit organization, through the ownership of a majority of shares.

In addition, several respondents were interested in setting up a golden share in the CLS that would explicitly protect the venture’s social purpose, irrespective of ownership of the rest of the shares. Typically, this would be held by a separate charity/not-for-profit organisation that would then have ultimate control over that purpose. For example, Benita from Compare & Share had previously set up People Who Share in 2011, a social enterprise incorporated as a Company Limited by Guarantee, which acted as “the campaign to build a sharing economy.” Today, People Who Share is a sister company and shareholder of CLS Compare & Share, and has a particular responsibility within the articles of the latter: that the purpose of Compare
& Share cannot be changed unless it is agreed by People Who Share, thereby protecting the social purpose of the CLS.

Another founder is currently in the process of implementing a model which combines both control through overall ownership at present, and a golden share that allows for future dilution of ownership, as illustrated in the following case study.

**Case study 11: Nucleobase/DNA Digest**

DNA Digest is a charity with the mission of facilitating easier, more efficient sharing of genetics data for research. Its subsidiary, Nucleobase, was set up as a CLS to build a sustainable business model and enable the prototyping and building of new mechanisms for data sharing, enabling users to access data sets in an anonymised and secure fashion.

Fiona Nielsen founded both DNA Digest and Nucleobase in 2013. She was inspired to do so given her background in academia and genetics research, specifically her personal frustration with the lack of access to data for research and the waste of money inherent in having disparate research projects whose data is not shared and often duplicated. By setting up secure access to relevant datasets through Nucleobase, Fiona aims to add significant value to subsequent research projects. Target customers are genetic testing clinics that generate data for patients as part of their diagnostics, and research institutions.

DNA Digest owns 100% of shares in Nucleobase. As such, there is a Board of Trustees determining “when or whether to give up those shares,” which will be particularly important in the future, when the plan is to take on significant amounts of (commercial and social) investment. A major part of the plan is also to put in place a Golden Share “so the charity remains in control of the company, making it necessary to go through the charity to make decisions regarding selling Nucleobase or our intellectual property.” Ultimately, this governance structure will protect Nucleobase's social mission: “as long as the charity has the final say, then the company has to be run aligned with the interests of the charity.” This will become particularly important if there is interest in another entity buying up the company and the data: “what if someone does something else with the data? That is a particular concern we want to address by making DNA Digest have governance over Nucleobase.”

DNA Digest's Golden Share will thus ensure the long-term sustainability of Nucleobase's social mission, as the company “would not be sold unless the charity decides it’s a good idea,” thereby also generating the “long-term trust” with stakeholders that is especially important for companies dealing with sensitive medical/research data.
Employee ownership

Having a shared ownership model with employees or beneficiaries/users holding shares was another mechanism that a few respondents saw as effective in building and demonstrating their core principles into the company structure. While V22 was the only social venture in this study to have done so already, where the founder relinquished the controlling stake, several other respondents were considering or in the process of implementing this. Specifically, they were interested in setting up a shared ownership structure for employees within the company, in line with the ‘John Lewis model’.
### Table 1: Summary of approaches to securing mission

<table>
<thead>
<tr>
<th>Approach</th>
<th>How it works</th>
<th>Social ventures using this approach*</th>
<th>Entrepreneurs’ reflections</th>
</tr>
</thead>
</table>
| Commitment to collect and publish evidence of social impact | Demonstrating how the venture is complying with its social purpose, using a variety of techniques (e.g. automated measurements for tech-based ventures, external social audit, collecting data in-house) and publishing on their website. May include a commitment in Articles. | • B4Box  
• Lingoing  
• Active Minds  
• StudentFunder  
• Buddy Enterprises  
• Bethnal Green Venture  
• Patients Know Best  
• Compare & Share  
• Home Touch  
• Third Space Learning  
• Class Careers | “Every pound I spend, I think about the impact it will have on the patients and how can I deliver more value, so measuring our impact helps with that.” (Syed, Buddy)  
“The main way in which we ensure we stay true to social mission is trying to quantify and review everything we do.” (Christos, Class Careers)  
“Measuring our social impact is important for us; however, it’s important not to be limited by number-based criteria but to go by our actual social mission, and create our own measures that reflect that.” (Mohammad, Patients Know Best) |
| Embedding social purpose in Articles of Association | The venture’s social mission is stated in its legal company documents, making this purpose legally binding. | • Seniors Helping Seniors  
• B4Box  
• Lingoing  
• Nucleobase/DNA Digest  
• WorkHero  
• StudentFunder  
• Bethnal Green Ventures  
• Compare & Share  
• Active Minds | “I believe it’s essential because otherwise, how on earth can you protect that in an investable model? The only way to ensure and lock in your social purpose is to embed it legally.” (Benita, Compare&Share)  
“By putting our social purpose into the Articles, it ensures that everyone involved really knows what they’re signing up for and that the company has a long-term purpose.” (Sadaqat, Lingoing)  
“It’s good to show where you’re coming from and to be transparent about it. It adds credibility.” (Ben, Active Minds) |
| Specific share clause or Golden Share allowing for veto over changes to a company’s social purpose | Ring-fenced share or right of veto restricting the circumstances in which the venture’s social purpose can be changed. This is typically held by a related but arms-length charity or not-for-profit organization, but could also be held by another appropriate third party. | • Nucleobase/DNA Digest  
• Compare & Share, whose social purpose can only be altered by its sister social enterprise, People Who Share, a CLG | “By being associated with and controlled by the charity that holds the Golden Share, Nucleobase will have the trust of its stakeholders.” (Fiona, DNA Digest)  
“People Who Share can veto anyone who tampers with our purpose, so our social mission, the principles of the sharing economy, are firmly embedded.” (Benita, Compare & Share) |
| Commitment to particular treatment of profit internally | Three main commitments within this (legally embedded and otherwise): reinvesting profits back into the venture, especially in initial stages; capping dividend payouts; sharing a % of profit among employees | • Active Minds  
• Dot Dot Dot  
• Liftshare  
• StudentFunder  
• Buddy Enterprises | “This is a way of enshrining social mission but still keeping the CLS structure. You want to make sure that your investors’ goals are aligned with your own.” (Ben, Active Minds) |
| Commitment to external profit distribution | Distribute % of profits to social projects/arm’s length/other charities (legally embedded and otherwise) | • My Choice Pad  
• WorkHero  
• Seniors Helping Seniors | “We’ve chosen to do this to prove to cynical social investors that we mean what we say.” (Robbie, WorkHero) |
| Shared ownership | Employees and/or stakeholders at the core of the venture’s social purpose own shares. | • V22  
• Compare & Share | “This is a core principle to which we’re committed, enabling our stakeholders – artists – to own the means for art distribution themselves.” (Tara, V22) |

*or in the process of reviewing/establishing it.
EXPERIENCES OF BEING A CLS

So far, this report has explored social entrepreneurs’ motivations for setting up their CLS, their thinking around protecting social mission within this context, and the various approaches they have used to do this. But how have their motivations and efforts around social mission translated into the real, everyday experience of being a CLS in the social space? Has this legal form impacted on their progress and the way they are externally perceived? This section engages with these questions and highlights the key advantages and disadvantages respondents have experienced with regard to their social venture being a CLS.

Legal form is irrelevant for some stakeholders...

There was general consensus across respondents in different sectors and at different points in their ventures’ development that their clients and users are fundamentally uninterested in their legal form. Thus far in their journeys, their experiences have indicated that it is the quality of the products and services they offer, as well as the relationships with users and the reputation that they have built, which matter most. Being a CLS, therefore, has not hindered them in engaging customers and, through that, furthering their social mission. As Benita from Compare & Share asserted:

“Only people who run businesses have an interest in legal forms... it’s simply not the case that people are aware of the legal structure of the company they’re buying from.”

This was seen widely to be the case for individual customers, with corporate and institutional clients also rarely querying the company’s legal form. The following case study reflects on this.
Case study 12: Buddy Enterprises

Buddy is a digital solution enabling patients to record a diary of their lives and different stages of their mental/emotional wellbeing using SMS. Patients can record their daily thoughts and feelings by texting to Buddy, which creates an online mood diary that is then shared, via a secure online platform, with their health professional. The Buddy system also allows the NHS to send out texts to patients for appointment reminders, to set personal goals, etc. NHS Trusts buy licenses for Buddy to enable its use by their patients.

Syed Abrar was inspired to set up the venture due to a personal experience: “I thought there must be something I can do to help resolve the issue of stigma and increase engagement around mental health services.” He set up Buddy Enterprises in 2011, using a collaborative, co-creation approach with NHS services and patients to develop the service.

Syed stated that NHS trusts, their main customers, have never queried the venture’s CLS form. What Buddy Enterprises has created is as much the NHS’s solution as it is theirs, given that they co-created the product. However, “they’ve never done business with us because we’re a social business or have a social mission; they’ve looked at it as, we have a product they co-created that fills a gap in what they’re doing in current therapy services.” So clients buy from Buddy Enterprises because they can see the evidence in what it delivers, rather than explicitly considering its social or commercial identity.

…but for others there is a ‘credibility hurdle’

However, Syed’s experience was not always the norm, as some interviewees have encountered negative perceptions of their venture’s CLS form when working with certain public sector clients and academic institutions, especially in education and healthcare. For example, Christos from Class Careers said he had experienced some initial ‘push back’ from schools that questioned his motivations:

“If you call yourself a social enterprise, how can you do this thing to make money off us, or how do we know that you don’t just want to get the maximum number of students hired?”

Similarly, Juan from StudentFunder recalls having “a credibility hurdle” to overcome with higher education institutions, and how an alternative legal form such as a charity would have been helpful in that sense:

“It would have been a lot easier to set this up as a charity with no commercial purposes – there’s just something in the word ‘charity’ that makes people very comfortable. And I think that’s incredibly fallacious – that’s just a matter of perception. It would have made my life easier from a sales perspective to be running a charity, so it has been a bit of an uphill battle to be a CLS in some instances.”

Initial mistrust of the for-profit form was also recounted by those working in a space where, traditionally, such a form was seen as the antithesis of both the function and form of organisations usually in that space. For example, Tara from V22 commented that, “at the beginning, V22 being a PLC worked against us,” as this was seen to be a highly unusual form for an arts collective and social enterprise, with some stakeholders suspicious “that we were just a nice front for dodgy men in suits.” However, “as they got to know us, they began to understand,” and for the artists themselves who secured affordable space
via V22, the company structure did not matter – the values and outputs spoke for themselves.

Tara’s observation was echoed by everyone who mentioned a similar mistrust or suspicion of their legal form – namely, that once the relationships and a certain level of trust were built up, the form ceased to matter. As Christos from Class Careers went on to say: “being honest with the schools and just saying that our social mission is at the core of everything we do,” has enabled them to build positive working relationships. Similarly, Jamie from Home Touch was initially apprehensive that NHS and the public sector partners they aimed to work with might favour a different legal structure more associated with social enterprise; however, he found that:

“The reality is, once you get round the table with someone, it’s the relationship and the person in front of you that drives the decision making. So although there’s a superficial perception around us being a for-profit company, it’s down to the culture of the company and the people that drive the impact.”

Interestingly, those whose ventures support other social enterprises and charities with strict non-profit legal forms have themselves never been questioned about their CLS form. As these respondents commented:

“The people that I work with a lot, they know what I’m trying to do, so I’m perceived for that – people who approach me know I want to support social enterprises... I’ve never had to evidence [social purpose] practically.”

(Founder of a social business marketing and communications boutique supporting social enterprises)

“What matters to our clients is that we’re a good value, well thought of organisation with a good track record. We’re clearly a social business because of the way we charge out our work, what we seek to achieve, and who we work with.” (Michelle Wright, Cause4)

Other limitations of the CLS in the social space

Some entrepreneurs have found certain grant funding and public sector contracts less accessible to them owing to their CLS form, as these favoured asset-locked or not-for-profit organisations. As one respondent who had been in this situation commented:

“This actually stops the business developing to a higher commercial level, and therefore also delivering more of a social impact.”

A few others also noted their exclusion from benefits afforded to not-for-profits that essentially had the same or similar mission/impact as their social purpose venture, notably tax relief and discounts for charities and social enterprises with non-profit legal forms.

One respondent also recounted being excluded from member networks accepting only more traditional forms of social enterprise. She noted that this
was detrimental not only to her but also to the other organisations within that network, as there could be scope for partnership opportunities.

**The benefits of the CLS in competitive markets**

More generally, the CLS form has not affected these entrepreneurs’ social mission negatively – most argue that the opposite has been true. Being a CLS has enabled the sustainable growth of their business models by allowing them to attract investment capital and to scale, which has, in turn, fostered social purpose. For example, Mohammad from Patients Know Best spoke for many when he described how the CLS form had been helpful in several ways. Firstly, it had enabled them to attract vital skill sets onto their team. Secondly, from their public sector clients’ perspective, being a CLS has meant that it is perceived as a stable growth company and not a potentially long-term partner with an unstable future due to, for example, having to rely on grants. Finally, being a CLS implies that:

“We can be more aggressive in hiring and expansion plans than if chasing grants, so we are also able to have a wider social impact.”

**Case study 13: Liftshare**

Liftshare is the UK’s largest carpooling site that runs a free service for individuals to share car rides. It is mostly facilitated via an online platform, although they also have a call centre to cater for people with limited internet access. The free side of the business is funded by corporate customers who pay for Liftshare to provide travel support services.

Liftshare is a 15-year old social enterprise that the founder, Ali Claburn, set up as a student in 1998. He was inspired by a personal experience of not being able to afford his trip home and checking his university student noticeboard to see if someone could give him a lift, after which the idea for Liftshare was born. Ali is the sole shareholder in the company and has never given away equity.
Ali reflected on the challenges that social enterprises face when working within a commercial market, and how being a CLS can help mitigate that to an extent: “running a social enterprise is much harder than running a normal business because you have to run your normal business side better than a normal business would do, as you’re trying to get enough profits to invest in the social side of the business... There’s also a challenge in that, once you have proved the model, the free market will open up and others will come into your market space and try to take the profitable side of the business, but not worry about the social side.” Liftshare has several competitors in terms of travel support, but no one is trying to do what they do in the social sense. As such, being a CLS means that: “you’re free to compete with other businesses who are set up in the same way – you’re not discriminated against and can compete on a level playing field... we also need to be able to compete and cooperate with commercial but socially driven businesses, and if we’re a different type of organisation, that just adds a barrier.”

Ali went on to comment on a certain tension between maintaining both the commercial and the social in a competitive marketplace:

“If we just focused on the commercial side, we could make a lot more money, but that would not be helping our mission, and we would forget about certain members of the population that we don’t want to forget about.”

This conveys one of the key disadvantages of being a CLS that some interviewees highlighted - the fact that it makes it ‘easier to create mission drift,’ as one person said, and invites the temptation of taking a shareholder windfall. The other side to this is the constant pressure to “demonstrate social credentials” (Robbie, Work Hero). This also means that social entrepreneurs with CLS ventures need to:

“Make more of an effort to state your message and what you’re trying to do. People maybe see you as for profit and that has negative connotations around it – so it’s about overcoming those connotations through your behaviours” (Founder of a social business marketing and communications boutique supporting social enterprises).

‘Social’ can be a bigger barrier than ‘for-profit’

Interestingly, several interviewees observed that it was not so much (or at all) the for-profit structure of their venture that was queried but, rather, its ‘social’ identity, given the perception of social enterprise as somehow less ‘businesslike’, or ‘mainstream’. As one entrepreneur commented, while their corporate/private clients
Summary of entrepreneurs’ experiences of their CLS

Advantages of the CLS:
- Can combine commercial viability with social impact, so is not a hindrance to building trust with key stakeholders
- Optimum form for attracting substantial investment capital and skill sets to enable growth and so enable the sustainability and scalability of social mission, especially for high-risk initiatives
- Contains flexibility to adapt and change, with freedom to innovate
- Widely recognised, standard form that lends credibility in mainstream markets, especially with private sector clients, positioning the venture as a viable competitor
- Most common form enabling tax incentives for investors.

Disadvantages:
- Potentially negative perception and initial mistrust by clients/users, particularly if working in certain public and arts sectors
- Easier to create mission drift; constant pressure to demonstrate social credentials
- Some funding/public sector contracts less accessible, where asset-locked or not-for-profit organisations have an advantage; also exclusion from certain benefits afforded to not-for-profits/other forms of social enterprise
- Potential for abuse, for example taking shareholder windfall; difficulty in finding investors with the same values.

with a for-profit structure have never queried the venture’s CLS form, they may have questioned its ‘social’ aspects, which would have been exacerbated had the venture had anything other than a recognisable CLS form:

“It’s an advantage to be a CLS – ‘a regular company’ – as then the onus is on me to make sure that we could compete in that world if we wanted to. We’re not positioning ourselves as too niche.”

As another entrepreneur, who works with housing associations, observed, going into details of their social enterprise status ‘could be overwhelming’ to potential clients:

“We could be a lot of different things to different people... for non-housing association clients, we don’t promote the fact we’re a social business... I think there could be some negative connotations around the term social enterprise as I don’t think many people understand what it means.”

Even in the public sector, as another respondent pointed out, despite on-paper commitment to procuring from social enterprises, in reality “a lot of our clients get anxious if they hear the term social enterprise,” because it is more associated with “having a more uncertain future or weaker balance sheet.” The implication here is that having a more mainstream business form, such as a CLS, acts as a reassuring counterpoint to potential uncertainty about social enterprise.
CONCLUSIONS AND KEY FINDINGS

The key focus of this research has been on social entrepreneurs’ voices rather than on external assumptions about how social organisations should act. This has enabled a variety of views to emerge regarding reasons why the CLS form was chosen, how social mission is positioned within this, and the entrepreneurs’ resulting experiences with their ventures.

Choosing the CLS

Overall, there was general agreement that incorporating as a CLS can foster the vital sustainability and scalability needed to then create social impact, through its openness to different types of finance, its simplicity, and widespread acceptance as the ‘business standard.’ In particular, social entrepreneurs valued the flexibility of the CLS and its adaptability not only to building in a social mission and being part of larger structures that can protect social purpose (such as being a subsidiary of or wholly owned by a not-for-profit entity), but also to potential conversion at a later stage to another legal form.

It was also seen as important to enable social entrepreneurs who were just starting up to have the necessary freedom to innovate and take risks. Many argued that a for-profit legal form was much more conducive to this. Michelle from Cause4 asserted:

“That’s like trying to put people in a box, when actually what we want is to encourage social enterprises to become sustainable businesses, and I think labels aren’t helpful in that way... those labels are probably stymieing young entrepreneurs because they’re getting themselves into inflexible company structures when they could have just set up as a CLS... People who want to get going with a good idea should know that it’s straightforward and easy to set up.”

The key factor expressed here was that innovation should come before structure, rather than the latter being the pre-determining factor. Other forms more usually associated with social enterprise, such as CICs, were often viewed as too restrictive owing to their asset lock, lack of transferability outside the UK and additional regulatory layer. By comparison, the CLS was seen to offer a much better incentive for investors as well as a more efficient, less governance-heavy working speed.

Thinking more broadly about choosing a legal form, several respondents felt that this is entirely dependent on what the individual social entrepreneur wants to achieve, with the CLS form not being appropriate for all. As Benita from Compare & Share observed:

“If you want to have a small local business or lifestyle business, you don’t need investment for that.”
How best to secure social purpose

There were two clear schools of thought among the entrepreneurs with regard to how, and why, social purpose should be treated within the context of the CLS. The majority of respondents were of the view that, while legal mission locks such as embedding social purpose and profit distribution clauses into the articles of association were useful, ultimately they were no substitute for an organisation's actual practices, the integrity and values of its driving force (ie the founders) and the quality of the product/service delivered. In this sense, demonstrating social mission rather than formally embedding it takes precedence.

However, a significant number of interviewees strongly stated the case for having the social purpose of a for-profit venture very firmly and unambiguously defined in its legal documentation. This was important not only to emphasise those values internally but, crucially, to protect that purpose should the founders leave or relinquish their controlling stake. This was also seen to help mitigate the possibility of shareholder windfall at the cost of social mission, and reassure customers and stakeholders that the venture’s ‘social’ identity comes first.

These two camps broadly agreed that legally binding mission locks become more relevant as a venture scales, when there is more at stake in terms of potentially drifting away from the original social purpose. In addition, some entrepreneurs’ experiences with their CLS’ demonstrated the importance of considering the perceptions of key stakeholders such as customers/clients and investors in deciding upon ways in which to demonstrate and/or protect their social mission.

The significance of venture stage and market

In analysing the findings, certain key trends emerged with regard to how commitment to social mission was demonstrated and/or locked in, according to the venture’s sector, size, time in market, and client base.

Firstly, sector-specific considerations emerged as important in requiring, to a lesser or greater extent, substantial amounts of investment finance, particularly in the early stages. Specifically, the entrepreneurs of tech-based social ventures emphasised the need for high amounts of seed capital to support R&D before their company could scale and have social impact. VCs and other commercial investors were usually seen as best placed to provide this capital, meaning that the CLS was often seen as the only feasible form to attract them.

Secondly, and most notably, there was a marked difference both in perception and practice regarding securing commitment to social mission, between social entrepreneurs in the early and later stages respectively of their ventures’ development. Most early-stage founders were less likely to have multiple shareholders and potentially conflicting investor interests, and therefore a lower perceived need for formal locks.

By contrast, the founders of later stage ventures (over three years’ operation) with larger teams and turnover were more likely to see this as important and to have these locks in place, especially to plan for future exit strategies and the sustainability of their social mission. However, while those who were just starting up were less likely to have these in place, several recognised the future value of doing so and were in the planning stages of instigating formal measures.
The following diagram illustrates these differences, highlighting the extent of each social mission commitment mode/degree at the different stages of venture development.
Finally, a clear trend emerged with regard to entrepreneurs’ experiences of different client bases (and stakeholders involved). Certain clients and stakeholders, notably those in academia and the public sector, including those in education and healthcare, were found initially to be more inclined towards charities or other not-for-profit legal structures in terms of the partners they contract. Accordingly, the social entrepreneurs working in these spaces recorded having more initial mistrust to overcome, and a greater drive to actively demonstrate their social credentials, such as by establishing formal mission locks or planning to in the near future.

Entrepreneurs’ reflections on current debates about social business

Many of the social entrepreneurs in this study reflected more broadly on what it means to have a CLS structure in the social purpose venture space. In particular, there was frequent strong critique of the current perceived split in certain debates that a business can ‘either do good or do well’ – as many of the entrepreneurs emphasised, businesses should be allowed to be both. To this end, several people argued that the social business movement needs to move away from a mistrust of profit. For example, Jamie from Home Touch spoke for many in disagreeing that:

“Being for profit is somehow bad – that’s just a false argument. I mean, if you run an organisation purely for profit and the people within it are purely motivated by greed, then that is not a good thing. But there are numerous examples of companies that are for-profit and probably do more social good than more charities because they’re sustainable.”

Having a social purpose and making profit, therefore, are not mutually exclusive. As Jamie went on to emphasise, ‘they’re completely compatible; it’s just about creating a model that incorporates all the elements.’

The common emphasis across all interviewees was that having their ventures incorporated as companies limited by shares should be seen as an enabling factor that helps sustainable social impact thrive, rather than something that threatens it, particularly given the adaptability of this form to build in strong safeguards to protect social mission. Ultimately, there was strong agreement across respondents that social mission and a for-profit legal form can – and should – co-exist, as long as there was conscious awareness of the potential challenges involved. The following two respondents spoke for many in highlighting this:

“Being a CLS doesn’t have to negate your social values. Actually, it’s a great vehicle for you to unlock that value. But it has to be used in the right way, and there are so many layers to it, starting from how you distribute revenues to how you run the organisation. Being a social business doesn’t mean giving up full profit, because that actually allows you to do more with your social mission than if you didn’t have that.” (Founder of a social business marketing and communications boutique supporting social enterprises)

“The assumption that social commitment needs to be secured is based on the perceived inevitable trade-off between generating returns and delivering social good – that’s not necessarily the case… it’s a lot more challenging and you need a lot more creativity to do it, but it can be done.” (Juan, StudentFunder)

Allowing social entrepreneurs to make an informed choice

This research has highlighted that social entrepreneurs are choosing the CLS for a variety of reasons, and that they are actively considering whether and how they should seek to secure and/or communicate their ventures’ social mission. Their reasons for doing so often depend on factors specific to their ventures – particularly their age, stage of development, markets they are operating in, the type of finance they require, and other aspects of their
strategies and philosophies. For some CLS social ventures, there are clearer reasons for locking in social mission formally than for others.

This underlines the importance of social entrepreneurs considering for themselves what is most appropriate for their own venture. Investors, advisers and supporters, including UnLtd, have an important role to play in allowing social entrepreneurs to make an informed choice about both the legal form that is best for the social impact they are aiming to achieve, and the ways in which they secure commitment to it.
ENDNOTES

1 This has been noted particularly for UnLtd’s ‘scaling up’ programmes such as the Big Venture Challenge (BVC), where CLS applications have become the majority, rising from 34% to 54% between 2009 and 2013. Overall, just under 10% of all UnLtd Award Winners supported since 2003 have used the CLS for their ventures.


3 Other legal forms commonly associated with social enterprise, such as Community Interest Companies (CICs) are currently limited to the UK, although various countries are introducing their own forms with some similarities to the CIC.

4 There is a difference between benefit corporations and Certified B Corporations, which are both sometimes called ‘B Corps’ and often confused. A Certified B Corporation is accredited by the non-profit B Lab, whereas a benefit corporation is a legal status administered by a US state. For further information, please see http://www.bcorporation.net/what-are-b-corps/legislation

5 Proposed changes to the CIC form, e.g. the removal of the dividend cap, may have different implications for subsequent investment in CICs: see http://unltd.org.uk/2013/12/12/tinkering-or-game-changing-part-1

6 As of April 2014, the new Social Investment Tax Relief allows for similar incentives for investors in certain forms of social enterprise.
Author: Dr Lidija Mavra, Iceberg Research

Acknowledgement: We would like to thank all the social entrepreneurs who took the time to speak with us for this research. For more information about the social ventures showcased in this report, please visit their websites:

My Choice Pad: www.mychoicepad.com
B4Box: www.b4box.co.uk
Active Minds: www.active-minds.co.uk
WorkHero: www.workhero.org
Buddy Enterprises: www.buddyapp.co.uk
Third Space Learning: www.thirdspacelearning.com
StudentFunder: www.studentfunder.com
Home Touch: www.myhometouch.com
Cause4: www.cause4.co.uk
Dot Dot Dot Property Guardians: www.dotdotdotproperty.com
Seniors Helping Seniors: www.seniorshelpingseniors.co.uk
Bethnal Green Ventures: www.bethnalgreenventures.com
Liftshare: www.liftshare.com
Class Careers: www.classcareers.co.uk
Compare & Share: www.compareandshare.com
V22: www.v22collection.com
Patients Know Best: www.patientsknowbest.com
Lingoing: www.lingoing.com
DNA Digest/Nucleobase: www.dnadigest.org
Martineau & Co: www.martineauandco.com

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