

# The social spotlight

*The headlines might seem dominated by divisive geopolitics, but don't despair just yet. Recent trends in entrepreneurialism are all about doing good for others. Eddie Finch and Matt Katz discuss why start-ups are just as interested in social impact as social media.*

## GET IN TOUCH

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Reflecting on an event at the New Entrepreneurs Foundation, Eddie Finch, our resident social enterprise expert, recalls: "I was sat in a room full of young aspiring entrepreneurs and almost every question in the Q&A focused on how to make their business more socially progressive."

The story is in keeping with trends from the start-up community at large, as seen by Matt Katz, our Head of Corporate Finance. "Going back ten years in the world of corporate finance, entrepreneurialism was all about making as much money as possible. The entrepreneurs that I meet today still want to run a sustainable profitable business – but they also want to make a difference."

In this climate, businesses run principally for social gain – or social enterprises – are thriving. "There is an element here of necessity being the mother of invention," Eddie notes. Public sector cuts mean charities must look to other options for a sustainable future. Yet just as significant is the desire from consumers and employees to engage with or feel part of socially beneficial outcomes."

"Entrepreneurs understand what the market is demanding and they mould their business to it," Matt summarises. "More and more are promoting their social impact, realising the positive force behind this that gets them closer to their goals of a successful, sustainable business."

*This article continues* ►



But where there is success there is also scepticism. Enterprises without an asset lock or a socially-responsible ownership model face a nagging suspicion that their social motives are dispensable, or just marketing shtick for commercial purposes.

Matt regards this pessimism as largely overblown. "I think in general the world holds itself to account more than it did a decade ago. There are far more lobbying organisations, for example. Social media in particular makes it quick and easy to identify when an organisation is doing wrong."

Moreover, social motive is more concrete than commentators expect. "Social benefit becomes completely embedded in an organisation's culture. Employees work there because of those values, and are incentivised by it, so it would be a huge risk to step away from it."

Eddie agrees, arguing that being too prescriptive about a social enterprise's structure can be counterproductive. "I think of social enterprise as a verb – something organisations do, rather than something they are."

He deliberately avoids setting boundaries between sectors. "If the commercial world starts behaving socially responsibly, social enterprise has done its job. And, in fact, were this to become a reality it would do itself out of a job." However, realistically, it is far more likely that there will always be a need for businesses that are governed by a constitution and an embedded purpose that isn't purely about making money.

Buzzacott's own relationships with Social Enterprises are just as inclusive, often spanning different services, beginning with start-up services such as accounting and basic tax compliance. "We help small enterprises consider whether it is better to remain private, or to become a charity, which makes a lot of sense from the tax perspective."

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As smaller enterprises scale up, they may move across to Matt's team. "We support them with their forecasting and their business planning, and help them to raise money through the traditional banking route, or through social investment."

The future of Buzzacott's services in this area looks exciting. Methods of valuing social impact are developing including approaches such as Social Return on Investment, which expresses social value creation in monetary terms. However, such methods should be used with caution if at all to compare different organisations, as should any indicators that take human value into account.

Many social enterprises won't have the capabilities to make these sorts of evaluations in-house and the sector is in need of simple tools to provide assurance of their social impact. Buzzacott is currently looking to software solutions to capture this information.

Similar to an audit, social value reporting has more credibility when it's assured by an independent third party. "We're well placed to provide this sort of assurance. Assessing the approach an organisation has taken to deliver sensible outcomes is exactly our area of expertise," comments Eddie.

"We are already seeing organisations delivering social impact above or at target levels, resulting in the cost of their funds reducing," Matt adds. "As this trend grows, the measurements of social impact will become an essential part of a social enterprise's formal reporting."

Eddie is similarly enthusiastic about the possibilities. "There would certainly be a neatness and an elegance in signing off this assurance (regarding social impact created) at the same time as yearly financial statements."

As we creep closer to 2020 it will be interesting to see how Social Enterprises continue to adapt and how emerging methods of assuring value will ensure they hone their impact and flourish.

### **Buzzacott joins the Employee Ownership Association**

Employee Ownership, made famous by retail giant John Lewis, is becoming increasingly popular with start-ups and established companies alike. Many Employee Owned organisations identify as social enterprises, and both run without external stakeholder profit as their primary motive.

*"I foresee a world where most Social Enterprises that generate profit are Employee Owned."*

We recently joined the Employee Ownership Association to better service our clients making the change. The demand from our client base is broadly two-fold: millennial entrepreneurs who want to do good for the staff that work for them, and Professional Practice firms, like architects, where the service provided is all about their people.

The Government is further incentivising the model with significant tax breaks, including no Capital Gains Tax on selling into Employee Ownership and a yearly tax-free bonus for employees of £3,600.

Even without the financial rewards, the cultural change is palpable. Analysis of Employee Owned companies reveal colleagues to be more participative, with greater incentive to deliver high-quality service. To have a conversation about the future of your business, or whether Employee Ownership is an option for you, contact Matt Katz.

## *Case study: A Tale of Two CTs*

*Community Transport (CT) is transport delivered on a not-for-profit basis in direct response to the needs of a community. Eddie Finch explains how two CT clients took a different route to their Social Enterprise status today.*

HCT Group is one of the UK's best known Social Enterprises. They started as a small community transport operator in Hackney, providing community minibuses and transport for older and disabled people. To help finance its community work, HCT Group began to compete for transport contracts in the mid-1990s. Since then, it has grown by more than a hundredfold and now operates London red bus routes, Yorkshire school buses, Bristol social services transport and the entire public transport network of Jersey and Guernsey – among many other services. They continue to use contract surpluses to support their community transport work, measuring their social impact using the Big Society Capital impact framework.

Ealing Community Transport, widely known as ECT, had similar community roots to its Hackney based cousin. Its history saw it grow into a sprawling social enterprise empire, including recycling depots, back office support to a GP surgery and even acquiring railways. The expansion proved to be an overstretch and ultimately ECT's bankers withdrew support; ECT Group was broken up and much of its business sold off. Anna Whitty MBE, CEO of the core ECT charity, consolidated the remaining transport business and over the past ten years has overseen its turnaround. ECT Charity has successfully delivered an increasing variety of transport services, most notably providing accessible transport at the 2012 London Olympics and other global sports events as well as expanding its operations into Dorset and Cornwall. More recently ECT has developed a methodology that quantified the widespread social impact of providing the elderly with transport to doctor appointments – reducing demand on many public services through reduced hospital admissions, alleviation of isolation and other outcomes.

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