Pulling in the right direction

How social investment can support VCSEs to become more resilient, achieve their social mission and avoid mission drift

A thematic insight produced as part of the independent Growth Fund Evaluation

March 2023

Contents

Image: Courtesy of Invisible Cities.

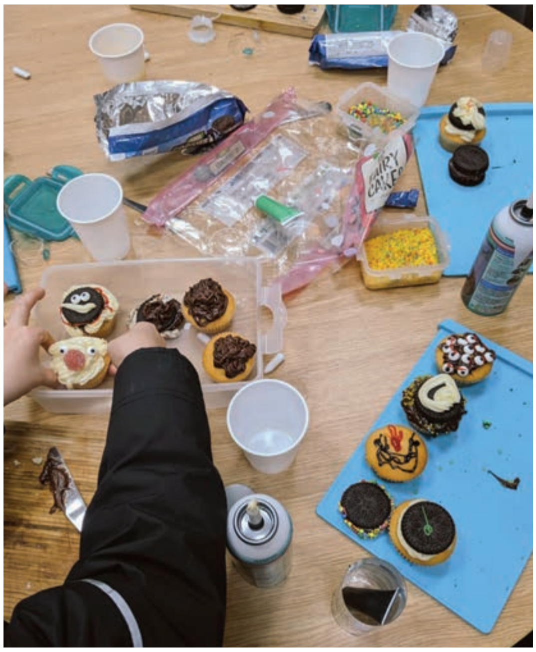

Image: Courtesy of TLC: Talk, Listen, Change.

Glossary

Below we list definitions of terms used within this report. The sources for these definitions are noted below, and the source is listed at the end of each definition:

- Good Finance
- Government Outcomes Lab (GO Lab)
- The National Lottery Community Fund
- Own definition

Beneficiaries

General term used for people who benefit from services/products/activities (etc) provided by a VCSE (own definition)

Business model

How an organisation plans to raise money to pay for activities that will help it achieve its overall social mission (Own definition)

Grant (or Grant-funding)

A conditional or unconditional gift of money with no expectation of repayment (Good Finance)

Mission drift

Where an organisation moves away (or 'drifts') from its intended purpose (Own definition)

Social impact

There is no one definition of the term or concept, but the social impact can be defined as the effect on people that happens as a result of an action or inaction, activity, project, programme or policy. The 'impact' can be positive or negative and can be intended or unintended, or a combination of all of these. (Good Finance)

Social investment

The provision of finance to organisations addressing social needs with the explicit expectation of a measurable social, as well as financial, return (GO Lab/ OECD)

Social investor

An investor seeking social impact in addition to financial return. Social investors can be individuals, institutional investors, dedicated social investment funds, and philanthropic foundations who invest through their endowment. (GO Lab)

Social mission

The ultimate purpose of the VCSE organisation in terms of the overall social impact it is setting out achieve (Own definition)

Voluntary, community and social enterprise organisation (VCSE)

An incorporated voluntary, community or social enterprise organisation (for The National Lottery Community Fund, that serves communities solely within England) which is either: (a) a charity, Community Interest Company or Community Benefit Society, registered with the relevant registry body; or (b) an unregulated organisation (see here for full definition from The National Lottery Community Fund).

1

Introduction

Image: Courtesy of Proper Job Theatre.

All voluntary, community and social enterprise organisations (VCSEs) need money to survive and achieve their social mission, but they generate this money in different ways. Social investment is one tool that can potentially help VCSEs to become more financially resilient. In this report we look at the business models of different VCSEs involved with the Growth Fund programme, and how they have used social investment to sustain or grow their social impact.

What is the Growth Fund?

The Growth Fund was launched in May 2015. It was designed to provide flexible unsecured loans of up to £150,000 for VCSEs and make them affordable by combining grants with loans. The Growth Fund blends a commitment of £22.5m of grant from The National Lottery Community Fund with at least £22.5m of loan finance from Big Society Capital and other co-investors (such community foundations). Access – The Foundation for Social Investment, manages the programme in a wholesale capacity, working with a number of social investors who manage funds under the programme and provide investments to VCSEs. The programme itself aims to provide relevant finance to over 700 organisations in England. Further information on the Growth Fund can be found in the latest summary evaluation report.

How might this report help VCSEs?

This short report looks at how VCSEs' business models lead to them taking on social investment. **By 'business model', we mean how an organisation plans to raise money to pay for activities that will help it achieve its overall social mission (the social impact that it is setting out to achieve).** In particular:

- **Section 2** looks at the business models of VCSEs involved in the Growth Fund, discussing what their social mission is and how they generate money to enable them to achieve this mission. It highlights the constraints they were facing with their business models, and how they used social investment to overcome these.
- **Section 3** explores how VCSEs' business models generated a demand for social investment and discusses how VCSEs used their investment to develop their business models, and to what success.
- **Section 4** summarises the key learning for VCSEs looking to develop their business models, as well as learning for those organisations looking to support VCSEs in developing their business models (such as investors and funders).

The findings from this research are based on **case study research with 18 VCSEs** successful in applying for social investment via the Growth Fund programme (up to August 2022). Half have been visited more than once. Case studies are sometimes explicitly mentioned in this report, but only where organisations agreed to be named. The case studies are part of a wider evaluation of the Growth Fund programme, which runs from 2016 to 2025, and is being delivered by Ecorys and ATQ Consultants. The evaluation aims to assess and track the effectiveness of the Growth Fund in enabling a wider group of charities and social enterprises to successfully access social investment, become more resilient and deliver greater social impact. This report has been written by Ecorys.

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What do VCSEs' business models look like in the Growth Fund?

Image: Courtesy of Handcrafted.

In this section we look at what different VCSE business models look like and what challenges VCSEs face with their business models that can lead them to take on social investment.

What is a business model?

One way to think of a business model is to think about:

1 where the income comes from, and

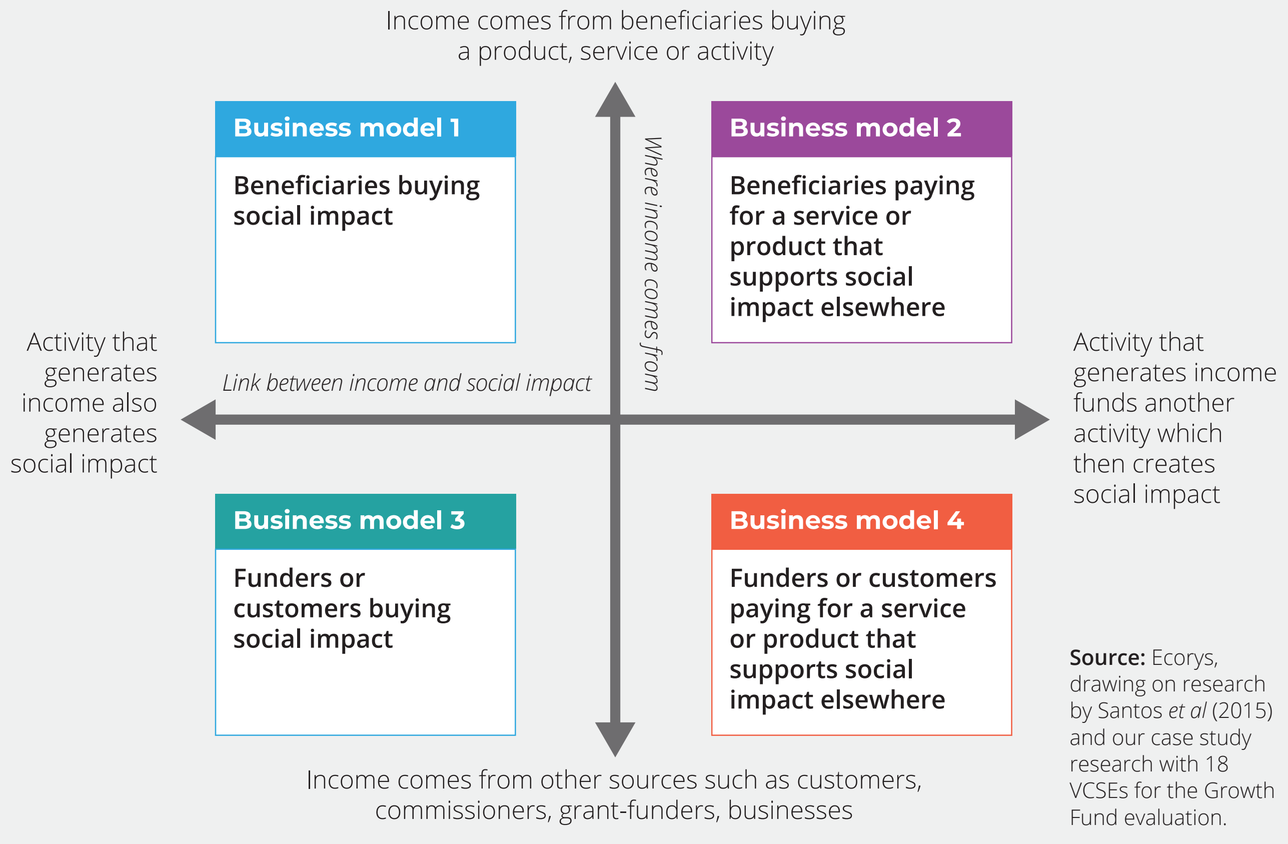
2 the link between the income and social impact.[1]

Income can come completely from service beneficiaries, from other sources (such as other businesses, customers, grant-making bodies and commissioners), or it can come from a mix of both.

When considering the **link between income and social impact**, activity that creates income can lead directly to social impact, or it can create income that then funds other services that lead to social impact.

This is summarised in Figure 1 below.

Figure 1: Business model types



Source: Ecorys, drawing on research by Santos *et al* (2015) and our case study research with 18 VCSEs for the Growth Fund evaluation.

Figure 1 also shows that there can be four different 'types' of business model (though many organisations may overlap between the types of business model). Overleaf we provide an example of each of these, taken from Growth Fund case studies:

1 Santos, F., Pache, Anne-Claire., Birkholz, C.2015. "Making Hybrids Work: Aligning Business Models and Organisational Design for Social Enterprises" University of California, Berkeley. 57:3.

Business model 1: Beneficiaries buying social impact

In this business model, VCSEs get their income through selling a service, activity or product to a service beneficiary. Social impact is generated as a direct result of that transaction, for example, a beneficiary might pay for therapy and as a result experience increased wellbeing.

Growth Fund VCSE example

Social mission: To be a heart within the community and to promote community cohesion, through providing coffee houses that are welcoming to all in local communities, and roasting and selling ethically produced coffee from small farms across the world.

Income: Customers pay for food and drink at the coffee shops, as well as for the roasted coffee.

Social impact: The social impact generated through this is twofold: within the coffee shops, which promote community cohesion and aim to reduce loneliness through bringing people who use the coffee shop together; and by fairly supporting coffee farms across the world.

Business model 2: Beneficiaries paying for a service or product that supports social impact elsewhere

In this business model, beneficiaries pay for a service, but additional support or intervention is needed to generate the social impact (i.e. social impact does not happen directly as a result of the service that they pay for).

Growth Fund VCSE example

Social mission: Supporting sports clubs and facilities to be more environmentally and financially sustainable, and therefore continue to stay open and support the wellbeing of the communities they are in (because they are able to continue using the facilities). This is done through carrying out testing (e.g. light testing) and identifying how improvements to facilities can be made.

Income: From paying beneficiaries (sports clubs and facilities) for consultancy support to help identify improvements and reduce their environmental impact.

Social impact: The VCSE aims to support wider community wellbeing by ensuring that people can continue to use the sports facilities. It does this through improving the sustainability and quality of facilities so their use can be maximised, as well as making an environmental impact by increasing the energy efficiency of the facilities. The income-generation activity (e.g. testing lights) does not itself create social impact, but the result of the activity – a functioning sports centre, does produce social impact for the people that use the sports facilities.

Business model 3: Funders/customers buying social impact

In this business model, funders or customers (e.g. commissioners, philanthropic organisations, businesses and individuals) pay for a product, service or activity that generates social impact directly. In these models, the VCSE tends to bridge the needs of both funders or customers and beneficiaries through one intervention.

Growth Fund VCSE example: Invisible cities

Social mission: To create a space for tourists and locals to engage in a meaningful way with people who have experienced homelessness. Invisible Cities does this through training and supporting people with experience of homelessness to develop their own city tours, which some then go on to deliver to the public.

Income: Invisible Cities' income is from selling tours and merchandise to the general public, and being paid by organisations (such as businesses and schools) to deliver homelessness awareness-raising workshops (who in themselves benefit from increased awareness). This income pays for the training and support that is delivered to people who have experienced homelessness.

Social impact: The general public who pay for the tours benefit from engaging in a meaningful way with people who have experienced homelessness (helping to break down stigma and raising awareness of homelessness). Those delivering the tours benefit both financially and personally, by being supported by Invisible Cities to increase confidence, gain transferable skills, and achieve their personal goals (e.g. accessing further education or reuniting with family and friends).

Business model 4: Funders or customers paying for a service or product that supports social impact elsewhere

In this business model, funders or customers pay for a service. The VCSE uses the income from this to deliver services to beneficiaries. For example, this can be through a commissioned service or grant (i.e. commissioning or providing grant-funding to a VCSE to deliver provision), or through customers buying a product that a VCSE sells, and the proceeds go on to subsidise the VCSE's social impact activities.

Growth Fund VCSE example

Social mission: To encourage people in the community to participate in creative activities, such as art galleries, workshops and creative spaces. The organisation uses money from people paying for the creative activities to fund their work with more vulnerable groups.

Income: Customers pay to use the art galleries, workshops and creative spaces.

Social impact: The income is used to provide targeted support for vulnerable groups.

Why think about business model types?

Depending on the business model type, there can be tensions between how VCSEs generate income and their social mission.[2] Constraints highlighted by Growth Fund VCSE stakeholders included:

- **Aligning VCSEs' social missions with funders' requirements.** Some VCSE managers told us that their grant-funded activity was often restricted to working with particular groups (such as schools, or people living in a certain ward in the community) or to deliver specific activities (such as reducing knife crime, improving school children's nutrition), which did not always get to the core of what their organisation was trying to achieve.[3] They wanted to access financing to help them diversify how they made their money so they would not be reliant on grant-funding, and could therefore focus on delivering activities core to their social mission.
- **Restrictions on funding preventing VCSEs expanding how they could increase their income.** Multiple VCSE managers told us how reliance on funding that had restrictions on what it could be used for meant that it was difficult to invest in their organisation to help grow their reach and social impact. For example, one VCSE manager of an arts venue highlighted that their grant-funding would not allow them to renovate the café area in their venue (which they planned to do to make the café usable and generate revenue from food and drink sales). They wanted to access financing that had fewer restrictions on what it could be used for (i.e. social investment), so that they could use it flexibly to fund activities to get them closer to their social mission.

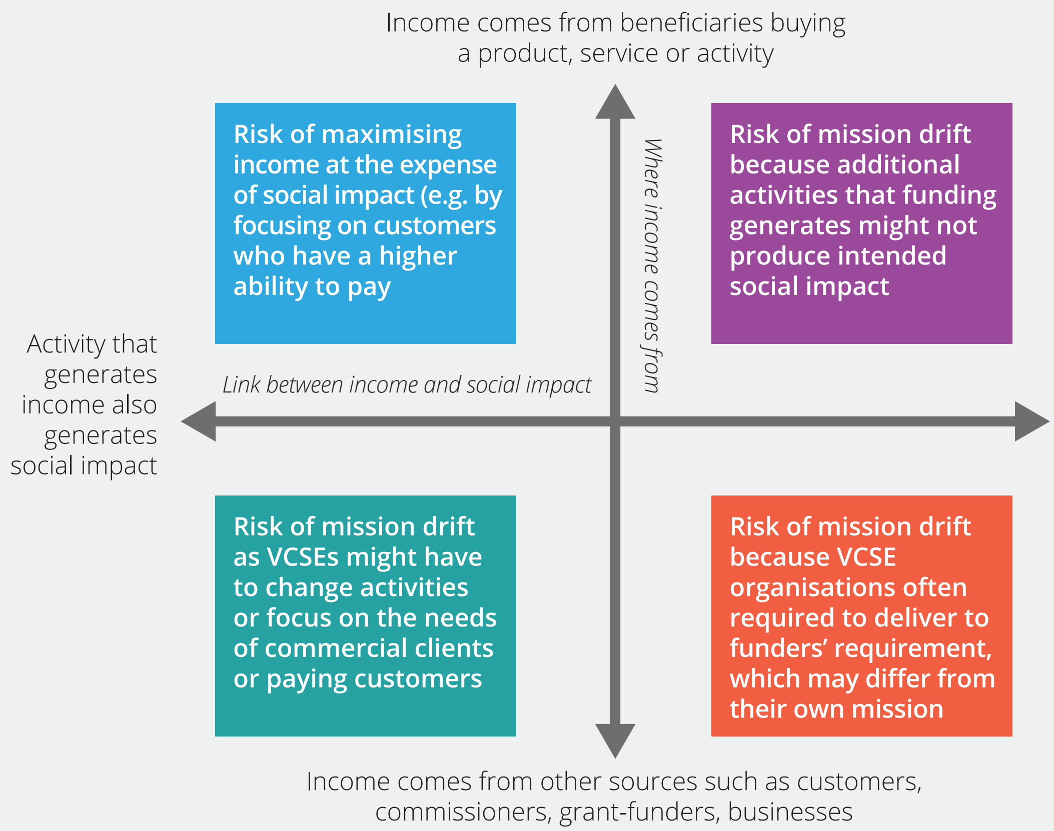
Thinking about how business models work is important in order then to understand their possible limitations. Understanding this can help VCSEs decide how they might be able to develop their business model and if/how social investment can help them to do that. Figure 2 shows the possible limitations with different business models.

Image: Courtesy of Proper Job Theatre.

2 Santos, F., Pache, Anne-Claire., Birkholz, C.2015. "Making Hybrids Work: Aligning Business Models and Organisational Design for Social Enterprises" University of California, Berkeley. 57:3.

3 Not all grant-funding is 'restricted' (I.e. has "strings attached" in relation to what the funding should be used for). For VCSEs wanting to explore accessing funding with "no strings", the Institute for Voluntary Action has some further information: https://www.ivar.org.uk/unrestricted-funding/

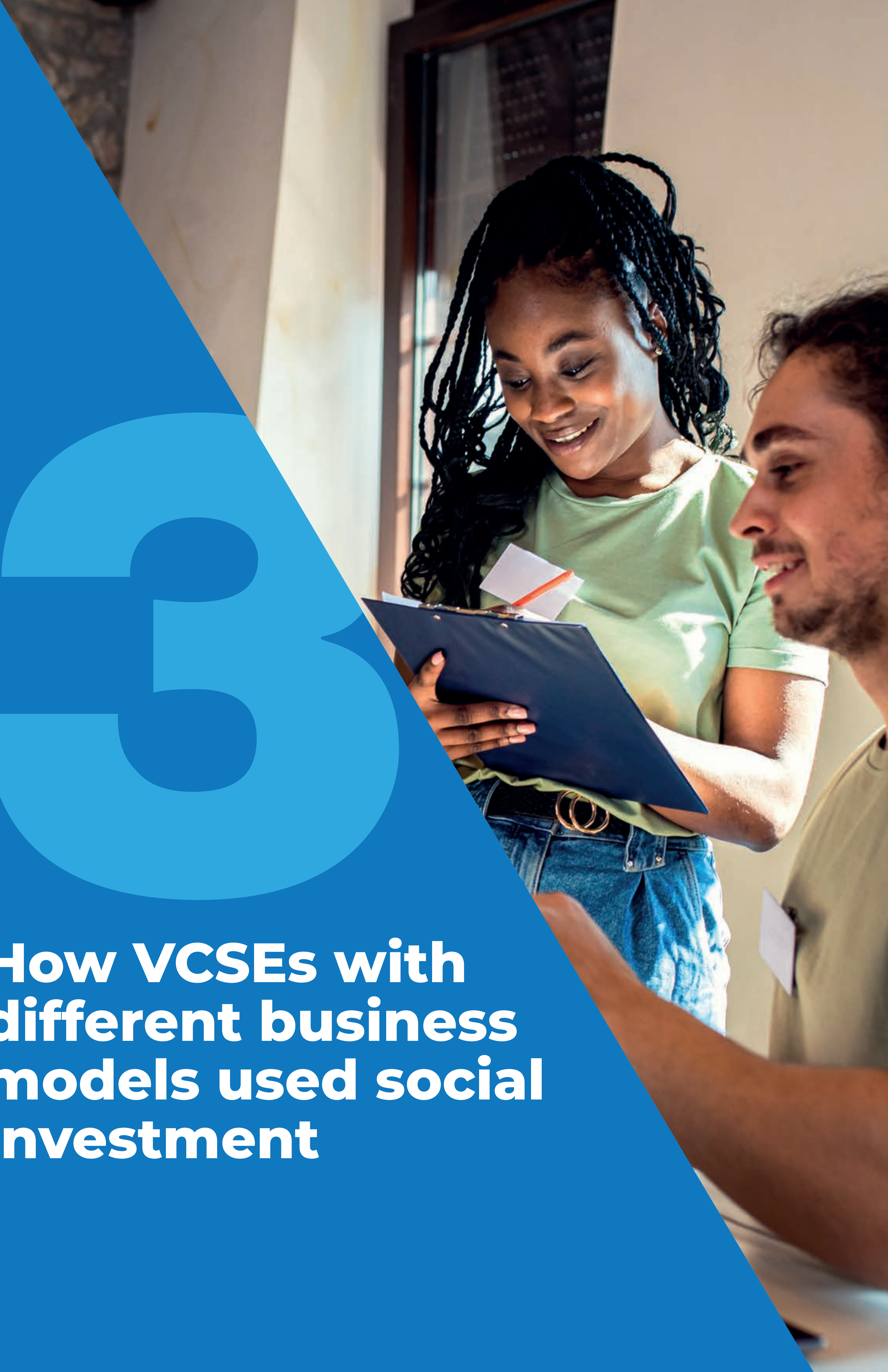
Figure 2: Potential business model limitations



Source: Ecorys, drawing on research by Santos *et al* (2015) and our case study research with 18 VCSEs for the Growth Fund evaluation.

3

How VCSEs with different business models used social investment



Social investment can be used in different ways, depending on the business model, to help VCSEs build a sustainable approach to achieving their social mission. Below we describe how some of the Growth Fund VCSEs used social investment and what difference it made.

Why VCSEs needed social investment and the difference made

Despite the differences in VCSEs' business models, a key theme from our research was that **VCSEs saw social investment as an opportunity to sustain, strengthen or increase their income, which in turn would help them to sustain or improve their social impact** (such as by increasing their reach or improving the quality of activities they provide). As highlighted in Section 2.4, case study VCSEs often had restrictions in the scope of activities, or how they could use funding from third-party sources. **They saw social investment as an opportunity to access finance to develop their business model in a way that otherwise might have not been possible.**

The table overleaf provides examples of the main reasons why case study VCSEs needed social investment to overcome challenges with their business model. We recognise that some of these examples do overlap, so we have positioned them under the business model type which seems most appropriate. Also recognising the overlap between the business model types for the VCSEs in our research (i.e. many fall in the middle of Figure 1), we also show how VCSEs with cross-cutting business model types used social investment. Overall, Growth Fund case studies used social investment for three main purposes: to **sustain, adapt or scale up** their business model.

> *"Generally for grants, they will give you a grant for a certain project, so you have to spend it in a certain way to fulfil a certain requirement, so you don't have the flexibility of, using it to plan or to do some sort of pivoting. But for this one [social investment] I think it has a good edge that as long as you are delivering the required social impact... you have a bit of flexibility in terms of the outcomes it could be used for."*
>
> VCSE manager

Image: Courtesy of Invisible Cities.

Need for social investment across different business model types

Business model type	**Gro Business model 1: Beneficiaries 'buying' social impact**
Need for investment	To **scale** up existing work.
Growth Fund Case study example	**Case study example 1** **Social mission:** To provide opportunities for young people and families in a safe environment, making them healthier, happier, and more connected. **Activity:** Maintaining a community sports venue and providing activities for young people and families. Users of the venue (young people and families from the local community) pay for the facility per use. **Business model fit:** This example fits this business model because people pay to use the venue, and they directly benefit from using it. **Need for social investment:** The VCSE knew that to expand and grow their business, they needed to strengthen what they already had (such as by making sure there were enough staff members). They also needed to explore options to grow the service that they could offer and increase their revenue by being able to increase the number of paying customers using their services. **Use of social investment:** The organisation used its social investment to employ more staff (so that they could keep all aspects of the business going) and enhance their facilities, such as investing in a coffee machine to improve the quality of their café offer, which would increase their income. **Outcome:** The VCSE experienced increased financial resilience as income grew and became more stable. They felt that the investments they had made to their facilities improved the quality of people's experience. It also meant that they were able to offer their facilities to more people, meaning that more people benefitted from using the venue (and associated health and wellbeing outcomes).

Business model type	**Business model 2: Beneficiaries paying for a service or product that supports social impact elsewhere**
Need for investment	To **sustain** and act as cashflow whilst they explored other revenue streams.
Growth Fund Case study example	**Case study example 2** **Social mission:** Supporting sports clubs and facilities to be more environmentally and financially sustainable, and therefore continue to support the wellbeing of the communities they are in. **Activity:** Carrying out testing of facilities (e.g. light testing) and identifying and advising on how improvements to facilities can be made. **Business model fit:** This example fits this business model because sports clubs pay for consulting support, where the sports clubs are advised on how they can reduce their environmental impact. Based on the consulting support they may then implement changes to reduce their environmental impact. **Need for social investment:** The organisation was in its start-up phase and needed financing to help pay for day-to-day running as it established enough clients to break even. **Use of social investment:** The VCSE used its social investment in a different way than planned, because they quickly identified that their original business model was not sustainable and they were not getting enough clients to cover their running costs. They changed their approach to try and explore new ways of generating income (for example, creating a subscription model for supporting sports organisations through an online portal) and used the social investment as cashflow to enable them to explore different options. **Outcome:** The organisation was still exploring options for diversifying its revenue model at the point of the case study research, although the social investment had enabled them to continue covering their day-to-day costs while exploring their options.

Business model type	**Business model 3: Funders/customers 'buying' social impact**
Need for investment	To **adapt** its business model and **scale up**, using the investment to acquire an asset (building or equipment) to enable the organisation to grow its operations and increase profits where there were restrictions on how they could use their existing funding.
Growth Fund Case study example	**Case study example 3: Handcrafted** **Social mission:** To provide tailored training opportunities to enable individuals experiencing disadvantage to achieve their goals and become active members of the community. **Activity:** Part of its approach to achieving this mission is providing employability training through renovating houses. **Business model fit:** This example fits the business model because before accessing social investment, investors bought houses and then paid the VCSE to renovate housing (through its employability training). The social investment allowed the VCSE to change its business model – it later earned income from renting out the renovated houses. **Need for social investment:** Prior to the Growth Fund, external investors would purchase properties, and pay the VCSE to renovate them (through its employability programme) and then rent them out as supported accommodation. While this was a low-risk approach (as external investors held the financial risk), the renovations were often adding substantial value to the houses, but the VCSE did not benefit from it because it did not own them. **Use of social investment:** It used its social investment to be able to purchase the houses, renovate them, have more control over renting them out and then reinvest the money into the organisation. **Outcome:** The VCSE manager reflected that the social investment enabled them to push beyond the plateau in growth that they were experiencing, and they had increased their income. They also felt their social impact had increased because they reinvested their income to improve the range and quality of the training they delivered to their clients.

Business model type	**Business model 3: Funders/customers 'buying' social impact**
Need for investment	To **sustain** cashflow between payments from funders.
Growth Fund Case study example	**Case study example 4: Proper Job Theatre** **Social mission:** To provide education support to socially excluded adults, with the ultimate mission of improving their wellbeing and employability skills. **Activity:** Engaging with socially excluded adults and those that are unemployed, then progressing them through learning workshops to improve confidence and employability skills, and finally supporting them into employment, volunteering or further education. **Business model fit:** This example fits the business model because the VCSE receives government funds to deliver the activities, which have a direct social impact. **Need for social investment:** Proper Job Theatre had secured government contracts to provide end-to-end provision to adults (from initial outreach to supporting people into jobs). There was a time lag between the VCSE delivering provision and being paid for it, so it needed some money to help maintain cashflow so it could continue to cover its costs in the meantime. **Use of social investment:** It used the social investment to maintain cashflow and access money quickly. **Outcome:** The social investment helped Proper Job Theatre sustain and continue between funding streams. The manager at Proper Job Theatre reported that the social impact remained similar to how it was before it accessed social investment.

Need for social investment across different business model types continued

Business model type	Business model 4: **Funders/customers paying for a service or product that supports social impact elsewhere**
Need for investment	To **sustain** profits by refurbishing existing premises that it could not use its grant-funding for.
Growth Fund Case study example	**Case study example 5** **Social mission:** To encourage people in the community to participate in creative activities, such as art galleries, workshops and creative spaces. **Activity:** Provide targeted activities for vulnerable groups. **Business model fit:** This example fits the business model because customers pay to use the art galleries, workshops and creative spaces, and the income helps to support social impact elsewhere (paying for the VCSE's targeted activity with vulnerable groups). **Need for social investment:** The VCSE saw the potential to refurbish an area to establish a café and undertake marketing alongside it. It could not use its grant-funding on its capital works, so the VCSE's management team saw the opportunity for using loan financing to pay for the renovation. **Use of social investment:** It used its investment as intended, which was to refurbish an area to establish a café. **Outcome:** As a result of the refurbishment, the VCSE was generating income through its café, and was able to provide a diversified catering offer to its customers (such as a greater selection of food with full-scale kitchen staff) and make the space more accessible to its beneficiaries.

Business model type	Cross-cutting
Need for investment	To pay for a marketing campaign to ensure ongoing awareness of, and **sustain**, the service.
Growth Fund Case study example	**Case study example 6: TLC: Talk, Listen, Change** **Social mission:** To create safe, happy relationships across the area that TLC is based, where people enjoy good emotional wellbeing and personal resilience. **Activity:** TLC does this by providing counselling and therapeutic support to individuals, couples, and groups. It generates income through a combination of individual client payments, contracts with local authorities and other funders, and some grant-funding. **Business model fit:** This case study is cross-cutting because beneficiaries buy social impact directly (e.g. through paying for their own therapy – which is Business Model 1), and funders pay for social impact (e.g. local authorities contracting TLC to deliver therapy – which is Business Model 3). **Need for social investment:** At the point of applying for social investment, TLC needed to develop a marketing campaign, to ensure continued awareness of its services following a re-brand (as bookings for services had decreased as a result of the rebrand). **Use of social investment:** TLC used the social investment to finance its marketing campaign. This covered all aspects of the campaign from the creative design, photography and scheduling of campaign activities, and on advertising channels such as Google AdWords, Facebook and on tram stops and trains. **Outcome:** As a result of a successful marketing campaign, bookings for services returned to their usual levels and they then experienced an increase in referrals. TLC was working with – and therefore able to support – more people, and their financial resilience improved, with a steady cashflow and surplus.

Business model type	Cross-cutting
Need for investment	To **adapt** and diversify revenue streams to reduce reliance on grants.
Growth Fund Case study example	**Case study example 7: Pop-Up Projects** **Social mission:** To increase diversity in children's publishing. **Activities:** Providing illustration courses for people from under-represented backgrounds, publishing its own literature and (before COVID-19) providing children's literature to schools. Pop-Up Projects generates income from its paid-for training courses (some are subsidised), from publishing, fees from schools, and grants from charitable foundations. **Business model fit:** This case study is cross-cutting because beneficiaries buy social impact directly (e.g. through paying for training – which is Business Model 1), and funders pay for social impact (e.g. schools or charitable foundations pay/provide grants – which is Business Model 3). **Need for social investment:** One of the objectives of Pop-Up Projects was to reduce its reliance on grants by increasing income from trading activities. **Use of social investment:** Pop-Up Projects originally applied for social investment to further develop its activity to provide children's literature to schools, but COVID-19 required them to pivot their business model because access to schools was "near impossible". Pop-Up Projects instead used the social investment to develop other activities, including developing a smaller-scale version of the school project to deliver specifically in special educational needs schools, market a collection of books, and promote their training courses. **Outcome:** Having to pivot their income-generating activities to adapt to the restrictions posed by COVID-19 restrictions was challenging for Pop-Up Projects, but the social investor accepted their proposal to focus on developing other profit-generating activities and gave them flexibility in how they used the investment. As a result, Pop-Up Projects increased its income from the new activities, which helped reduce its dependence on grants. The VCSE's manager considered that the organisation was in a more financially resilient place as a result.

Why VCSEs chose social investment over other forms of investment

There can often be a tension between maximising income and maximising social impact. VCSE managers told us that the benefit of 'social' investment compared with conventional financing (such as bank loans) is that social investors understand this tension and will support VCSEs to navigate it.

> *"I didn't want to engage with anybody who was not pulling in the same direction, which I felt [social investor] right from the start were... It was imperative for us that we were working with somebody who shared our values and was not going to try and manipulate what we were doing to make any kind of profit or benefit for anybody other than the end users."*
>
> **VCSE manager**

Some VCSE managers told us that they preferred social investment over other forms of financing because the terms were good (e.g. the interest rate, having flexibility with repayment). They had flexibility of what they could spend the loan on. Some also liked having the accountability to the investment board, having to report on their social impact and getting support from their social investor if they needed it. Through the Growth Fund, VCSEs were able to access loans that were not tied to an asset or guarantor – this is a good option for organisations with limited assets (e.g. cash, buildings, equipment) that still need financing.

4

Key learning

This section brings out the key learning from across the thematic paper, which may be useful for VCSEs to consider when developing their business models, as well as for other organisations to consider when supporting VCSEs.

- It is essential for VCSEs to be able to **define what their social mission is** – what social impact the VCSE is ultimately trying to achieve. Having a clear vision about the social mission will enable VCSEs to then think about the approaches to generating income that will enable them to achieve their social mission.
- It is also important for VCSEs to understand the **relationship between generating income and achieving social impact**. It is useful to consider the extent to which social impact is generated as a direct result of income generating activities, or if income generating activities are used to subsidise activities that have a positive impact on beneficiaries.
- Once VCSEs have a clearer understanding of their current business models, they can identify if there are any **weak spots in them**, and if revenue and/or social impact could be increased through taking other approaches. For example, there may be mission drift if VCSEs are too reliant on grant-funding and delivering to funders' requirements. These VCSEs may want to increase their 'unrestricted' finance through, for example, social investment, to enable more flexibility in what they can deliver.
- There are many different 'needs' for social investment but it is often appropriate to finance activity that **falls out of scope of grant-funding** (such as capital works, diversifying income streams or scaling up activity).
- When considering options for loan finance, social investment may be a suitable option to help provide assurance that investors are **mindful of the balance between maximising income and maximising social impact and will support the VCSE's pursuit of its social mission**.
- Social investment can be used for several reasons, from acquiring property or other assets, to exploring options to diversify revenue streams or scaling up existing activities. Based on the Growth Fund case study VCSEs' experiences, social investment can be used to **sustain** existing business (such as to support cashflow), to **adapt** existing business models (such as to identify new ways of generating income) or to **scale up activity** (such as acquiring new premises to increase the number of beneficiaries that could be reached).

Image: Courtesy of Proper Job Theatre.

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