From start-up to scale-up: what the UK can learn from the USA about scaling social enterprises

By Jem Stein

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Executive Summary

"Nearly every problem has been solved by someone, somewhere. The challenge of the 21st century is to find out what works and scale it up." Bill Clinton

The question at the heart of this project is this: what can be learnt from the US model that can help British social enterprises to scale up more effectively?

I have been working in the British social enterprise sector for over six years and I'm constantly puzzled by how rare it is for a social enterprise to grow to any kind of meaningful size. There are a handful of very large social enterprises in existence such as Better Leisure and London Early Years Foundation. However, most of those are dependent on large public sector contracts and very few organisations ever join that club. The problem is not the lack of start-ups: hundreds of new social enterprises start every year. The challenge is understanding why they are failing to grow beyond the start-up phase.

For my Churchill Fellowship, I spent two months in New York City and then San Francisco in late 2018 to try and understand whether the US holds the answer to this. The US is home to many of the biggest and most well-known mission-led organisations (non-profits, social enterprises, and social businesses) in the world and many of them have scaled rapidly. I interviewed 24 organisations to try and understand why this was.

My conclusions fall into four different categories: social investment, philanthropy, human capital, and culture. They can be summarized as follows:

1) **Social investment**: Social investors are distinguished by the fact that they demand a social and financial return on their capital, as opposed to philanthropists who only demand a social return. The big difference between the US and the UK is that the American social investment market offers investees far more variety. This allows investees to choose the investment structure that best suits the needs of their organisation at that moment in time. In particular, I came across the quasi-equity structure which was very appealing to organisations who do not have equity to sell. In contrast, the UK social investment market is heavily dominated by high-interest, uncollateralized loans which gives investees very few options. Loans may suit the capital needs of some organisations but there will be many for whom they are unsuitable.
2) **Philanthropy**: The magnitude of philanthropy in the US completely changes the significance of this form of capital. There is a lot more philanthropic capital so grants and donations are much larger. In addition, there are foundations that will support an organisation through every stage of growth which means it's unlikely an organisation will ever 'outgrow' philanthropy as an option. In contrast, in the UK foundations are heavily focused on giving to community-orientated organisations in local communities. The mantra is very much that 'small is beautiful' which means that, were an organisation to grow, they would no longer be able to access philanthropic grants from foundations.
3) **Human capital:** In my experience American social entrepreneurs tend to come from commercial backgrounds which often means they are more ambitious and come equipped with more relevant skills for starting and running an organisation. The downside of this is that American social entrepreneurs tend to come from wealthier backgrounds and are less diverse. This often means they are less likely to come from the communities they are trying to serve.

4) **Culture**: In my interviews, I found that American entrepreneurs, funders, and investors are more ambitious and less risk-averse than their British counterparts. Experimentation and expansion are considered as essential goals rather than existential risks.

On the back of these conclusions, these are my recommendations:

1) *British organisations who can scale need to be supported to do so and not restricted by a mind-set that only favours local and small.*
2) *More UK grant-making organisations should offer unrestricted funding or at the very least a significantly greater contribution to overheads.*
3) *British social enterprises (and charities) should draw up a three-year strategy to propose to funders as a means to leverage more unrestricted funding.*
4) *More UK investors should offer quasi-equity investment to allow organisations to grow.*

I. About Me

I am the founder and director of a charity and social enterprise called The Bike Project. We provide second-hand bikes to refugees and asylum seekers in London and Birmingham. Since its launch in 2013, The Bike Project has donated over 7,000 bikes to refugees and asylum seekers and taught over 300 refugee women to cycle.

In 2020, our turnover will be around £1.7m. Around half of our revenue is generated through fundraising and the other half is generated from our social enterprise.

The Bike Project has received numerous accolades including The EU Social Innovation Competition Impact Prize (2017), The PWC Social Entrepreneurs' Club Impact Award (2017), a High Commendation in the Small Charity Big Impact category at the Third Sector Charity Awards (2017), and Best Community Cycling Project at the London Cycling Awards (2015).

In addition to this, I have won several personal accolades including Lloyds Banking Group Social Entrepreneur of the year (2015) and Champion of the Year at the Women on the Move awards (2018). I am a fellow of the School for Social Entrepreneurs and a Churchill Fellow.

I have previously served on the boards of three other charities: The Family Planning Association, The Advocacy Academy and Sweet Cavanagh.

II. Introduction

(i)Background to the project

(a) How this came about

If you are reading this report, you probably have more than a passing interest in social enterprise, charities, or social entrepreneurship. So here is a question for you: can you name a social enterprise that is a household name with a national footprint? Failing that, can you name one that has a footprint and impact in multiple regions or cities? I'm guessing the answer to the second question might be 'one or two' and the answer to the first question is probably 'none'.

I have been involved in the social enterprise sector in the UK for over six years and, more recently, these questions have been troubling me. Clearly, it is not because the UK is incapable of supporting large and growing organisations. In the private sector, there are obviously enormous UK firms that have been around for decades who have an international footprint such as Marks & Spencer, HSBC, and others. In addition to the traditional big companies, the UK has successfully created an environment that has allowed new tech companies to flourish. One indicator of this is that the UK has created 60 out of the 169 unicorns (tech companies with a valuation exceeding £1bn) in Europe and Israel[1]. The charity sector also has its fair share of household names with a huge national footprint. The UK alone has 45 charities with annual turnover of over £100m.[2]

However, social enterprises are for the most part very small. In 2017, 65% of social enterprises had a turnover of under £250k.[3] While the UK is producing more unicorns than ever before in the tech

[1] https://technation.io/news/uk-regions-come-to-the-fore-in-producing-1bn-tech-companies/
[2] https://data.ncvo.org.uk/a/almanac18/size-and-scope-2015-16/#By_size
[3] All data in this paragraph comes from here: https://www.socialenterprise.org.uk/Handlers/Download.ashx?IDMF=a1051b2c-21a4-461a-896c-aca6701cc441

sector, the number of social enterprises turning over more than £5m has actually decreased from 8% in 2013 to 5% in 2017. Of this largest group, two-thirds have been trading for at least 11 years which suggests that it is harder than ever for a social enterprise to scale up.

(b) Is bigger really better?

Inevitably, my report will go on to address the question as to why social enterprises in the UK struggle to scale up. However, there is a logically prior question to address first: is bigger really better?

Before answering this, I want to first define what I mean by 'size' in the social sector. In the UK, we tend to use crude metrics such as headcount and turnover to indicate size. These are useful in some ways as they allow us to easily compare organisations by using like-for-like metrics. However, there is not necessarily a link between turnover, headcount and impact. A UK-based accelerator called Unltd defines social impact as 'the social change that an organisation creates through its actions.'[4] We can all think of organisations who have a small turnover and headcount but have a massive social impact and conversely we can all think of organisations who have a large turnover and headcount but who seem to have little or no social impact.

The two metrics are not completely separate though. A volunteer-led social enterprise with no staff and a tiny turnover may have an impact disproportionate to its resources, but this will inevitably hit a ceiling. There will come a point when it will need to employ staff and generate more revenue in order to increase its impact.

So, in this report, when I talk about 'size', I am referring primarily to the scale of an organisation's social impact. However, it's important to note that, even if a social enterprise has an incredibly lean business model, it will inevitably need to increase its revenue and staff size to support this and therefore these metrics cannot be ignored completely.

In light of this definition, let's rephrase the question: *is a greater scale of social impact necessarily better?* In short, not necessarily.

There may be a natural ceiling to the social impact that an organisation can have. An organisation which is rooted in the local community may struggle to maintain their impact if they tried to grow. For example, local youth clubs are run by members of the local community which gives them an ability to be nimble and responsive to the changing needs of young people in the area. If they tried start youth clubs in other areas, it would be difficult to maintain this.

Another reason not to scale is that your business model simply is not scale-able. For example, I know of a community café employing young, disadvantaged people in London that has been trading for a few years now. It is on a struggling high street, so the landlord has given them a significant discount on the rent. Although it appears to be doing well, the café sector in London is incredibly competitive as most high streets have high rents and are saturated with cafes. Consequently, just because it is a successful model in one area does not mean it could be successful anywhere else. In fact, starting more branches would place a huge strain on the organisation which could lead to the first one failing.

Nevertheless, there are many situations when a social enterprise can, and maybe even should, scale up their impact. As Bill Clinton put it: "Nearly every problem has been solved by someone,

[4] https://www.unltd.org.uk/our-support/learning-area/defining-social-impact-indicators-setting-targets-and-refining-your-social

somewhere. The challenge of the 21st century is to find out what works and scale it up."[5] As I mentioned above, 65% of social enterprises have a turnover of under £250k and many are tackling similar social issues. Rather than finding out what works and scaling it, the vast majority of small social enterprises are tackling problems at a local level. This means that, rather than learning from proven solutions, many enterprises are essentially starting from scratch.

I think it is fair to assume that somewhere in the 65% are solutions that could and should be scaled. The question for this report is, what can be done to support them to do so?

[5] https://apolitical.co/solution_article/how-to-scale-up-social-impact/

(c) Why the USA?

In truth, the decision to look at the USA was based on anecdotal, impressionistic evidence and hunches. The US is home to the world's biggest economy and social sector. It is also incredibly diverse and innovative and as such has been home to some of the world's largest mission-driven organisations (defined below) who in turn have created and scaled some of the most impactful interventions the world has ever seen.

In addition to the above factors, the US is probably the most similar to the UK in terms of its economy, culture and social sector. Overall, it seemed like a natural place to look for comparisons.

(ii) Aims and objectives of the project

I had several aims for this project:

1) To discover whether US mission-driven organisations have had more success in scaling up than UK social enterprises;
2) To understand what it was about the environment and eco-system around US mission-led organisations that have supported them to scale;
3) To determine what, if anything, I could learn from the US eco-system and successful organisations that could be applicable in the UK.

(iii) Purpose of the report

To allow social enterprises in the UK to benefit from what I learnt in the US. There are also learnings and insight for policy-makers, social investors, foundations, and philanthropists.

(iv) Scope and terminology

For the purposes of this report, I will use the Social Enterprise UK definition of a social enterprise.[6] A social enterprise must:

- Have a clear social and/or environmental mission set out in its governing documents;
- Generate the majority of its income through trade;
- Reinvest the majority of its profits;
- Be autonomous of state;
- Be majority controlled in the interests of the social mission; and
- Be accountable and transparent.

In the UK, the third sector and the public are increasingly aware of the term 'social enterprise' and the social enterprise movement is well-organised and blossoming. However, in the US the term is not as widely known or as clearly defined. Many organisations in the US who would fit the UK definition are unaware of the term.

Consequently, I decided to incorporate a wide spectrum of organisations into my research. The key criterion that they all had in common is that social impact is their primary objective. This includes charities (or non-profits as they are referred to in the US) as well as not-for-profit and for-profit businesses. Although the context and experiences of these organisations may vary significantly from UK social enterprises, there are still insights and learnings that can be applied to social enterprises in

[6] https://www.socialenterprise.org.uk/pages/faqs/category/faqs

the UK. For the purposes of this report, I will refer to these organisations as 'mission-led organisations'.

Funding is a key driver of the extent to which social enterprises can scale up. It is also a key to the striking differences in the trajectories of mission-led enterprises in the US as against their equivalents in the UK. By 'funding', I am referring to the full range of capital requirements for mission-led organisations. This includes philanthropy, equity, and repayable finance. In the UK, access to finance is the biggest barrier facing both start-ups and established social enterprises.[7] Unsurprisingly, this is also a top priority for US mission-led organisations. For the majority of interviewees, this commands much of their focus and as such many of my recommendations relate to this issue.

To state the obvious, the US is an enormous country with an incredibly diverse range of mission-led organisations. Consequently, I decided to focus on New York City and the San Francisco Bay Area. I chose New York City as it is the home of global NGOs and the ecosystem around them is enormous. I chose the San Francisco Bay Area as it is the birthplace of many of the tech companies that have changed how we all work over the past 20 years and there a large social innovation sector that has piggy-backed on that growth and knowledge.

(v) Methodology

Over the course of my research, I carried out 24 interviews of a range of people including social entrepreneurs, CEOs, social investors, philanthropists, non-profit staff, social enterprise staff, and policy-makers. I also attended two conferences: Twilio's Signal conference and the Social Capital Markets conference.

The framework I developed for my report was based on the 'four pillars of social enterprise ecosystems' which was developed by the Halcyon Incubator in their report social enterprise ecosystems.[8] I have adapted these, and my report identified the following areas of interest:

1) Social investment;
2) Philanthropic funding;
3) Human capital: talent, diversity and remuneration of staff;
4) Culture: including attitudes, ambition, and desire to take risks.

For each area, I asked each interviewee whether they believed that the environment was conducive for mission-led organisations to scale up, why they thought that and whether the situation could be improved.

Readers should note that I did not carry out my research according to academic standards of scientific research. I used the interview structure flexibly and I have collated my responses and conclusions based on themes that arose. I had originally expected to make separate findings on public policy and the effect of regulations. However, I found that it was more useful to include the role of policy and regulation under the other specific headings.

[7] https://www.socialenterprise.org.uk/Handlers/Download.ashx?IDMF=a1051b2c-21a4-461a-896c-aca6701cc441
[8] https://socentcity.org/executive-summary

III. Findings

(i) Social investment

Before I start this section, it is worth defining the term. In the UK, 'social investment' is used to cover any type of investment where the investor anticipates a financial return on the investment, generally through the sale and dividends from equity or a from a form of repayable finance. In the US, however, grant-making is often casually referred to as a type of 'investment'. For the sake of clarity, in this report I will use the UK definition of 'social investment' to avoid confusing it with philanthropy and grant-making (which will be covered in later sections).

1. Types of investment

My main finding in relation to social investment is that the US offers a much bigger variety of types of social investment. I've listed a few below:

1) Medium term loans (3-6 years): in the UK, these are the most common type of social investment instrument available. Although available in the US, I did not meet anyone who actually had a loan.
2) Long term loans: organisations such as KIVA[9] provide loans over potentially long periods of time to enterprises around the world. Many are paid back over a 10 year period and can be paid back in instalments as low $20 per month.
3) Long-term equity stakes: investor such as NIA Impact Capital[10] take longer equity stakes and are repaid through dividends and ultimately through selling equity.
4) Venture Capital: the San Francisco Bay Area is the global home of venture capitalists (VCs) and many have applied the same model to impact investments. A good example is Double-Bottom-Line Partners[11] who have led the way in applying this model to social enterprises in the San Francisco Bay area.
5) Venture Debt: Gerald Brady at the Silicon Valley Bank told me about they had pioneered this model. Essentially, an enterprise will take on a loan as part of an equity fundraising round. This will give them an extra cash without unnecessarily diluting the equity stake. Typically, this loan is paid off in one payment using proceeds from the following fundraising round.
6) Blended investment and philanthropy: organisations such as the Omidyar Foundation[12] support enterprises through a package that includes investment and a grant.
7) Quasi-equity: this is an innovative solution where an investment is repaid through a percentage of sales (I deal with this below in more depth).

As you can see from the above list, there is a huge range of options for social enterprises looking for social investment to choose from. In contrast, the majority of social investors in the UK only offer 3-6 year loans with interest rates of 6-10%. Looking at the total value of social investments in 2017, 80% of the value of these were either debt investments or bonds.[13] This may suit some business models but inevitably there are plenty of business models for whom this form of finance is unsuitable.

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[9] https://www.kiva.org/
[10] https://www.niaimpactcapital.com/our-portfolio
[11] http://www.dblpartners.vc/about/
[12] https://www.omidyar.com/our-work/impact-investing
[13] https://www.bigsocietycapital.com/home/about-us/size-social-investment-market. In the statistics I quote, I have excluded equity investments in social housing as these are equity by necessity. I also excluded crowdfunding as this is a different method to organisations that invest.

The US offers potential investees so many more options and are therefore more likely to find one that suits their needs.

2. The social investment conundrum

There is an inherent challenge for organisations seeking social investment that arises from the legal structures on offer.

In basic terms, investment can take two forms: debt and equity.

In the private sector, organisations looking to grow almost always look to raise investment through selling equity. In many cases, the investors get a return on their investment when the company is sold, and they may also be paid dividends along the way.

However, many social enterprises in the US and UK have a non-profit structure and so there is no equity to sell. They may need to be a non-profit to be eligible for tax breaks and to receive philanthropic capital as well as other benefits. Even if they did not need to be a non-profit for these reasons, selling equity still may not suit their business model or social purpose. Typically, an equity investor receives a financial return when the company is sold. They may only invest on the premise that the company will grow to a point where their shares can be sold on at a profit to another company or through an IPO. They will usually expect an organisation to commit to doing this within a certain timeframe, such as 5-7 years. However, this means that the organisation will need to grow very quickly and ultimately will need to cede control completely to a new owner. For many social enterprises, this would seriously dilute their social mission and make it difficult to pursue their original purpose.

The other option is to raise debt investments. Debt finance can be very useful to fulfil short-term capital needs. However, once the repayments kick in, growth is necessarily restricted as the focus is on being able to repay the initial capital. In companies looking to grow by selling equity, they will typically have multiple fundraising rounds to continue to provide capital to support their growth. However, it’s impractical to continue to take on debt finance as that increases the risk of being unable to repay. With debt finance, the risk lies completely with the investee as they must repay the investment irrespective of how they perform.

In summary, social enterprises are stuck between a rock and a hard place if they want to raise capital to support their growth and maintain their social mission.

3. The solution: quasi-equity investments.

The best example of social investment structures that I came across was what is known as a quasi-equity investment, which in many ways solves the conundrum I describe above.

As part of my research, I interviewed Alex Linkow from The Fair Food Network who leads The Fair Food Fund, an innovative Fair Food Network programme that provides financing and business assistance to good food enterprises that connect small and mid-size farms with consumers hungry for local, sustainably grown food.[14] Like other forms of investment, quasi-equity can take a variety of forms so the description below is the one Alex gave me about how it is implemented in his organisation.

Essentially, the investor will invest an amount in an organisation to support its growth plan. After a payment holiday which is usually around a year, the investee will pay the investor a royalty which is

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[14] https://fairfoodnetwork.org/projects/fair-food-fund/

a fixed percentage of sales. The royalty payments will continue until they hit a pre-agreed cap, or the period of repayments ends.

4. An example

Using a hypothetical example, let's say the Fair Food Fund decided to make a quasi-equity style investment in a social business. The business has a turnover of £1m but wants to achieve a turnover of £5m in the next five years. In order to do so, it needs to spend £100k on equipment to expand its operations.

In this instance, let's say that (i) the fund invested £200k in the business, (ii) the royalty amount was 10% of sales, (iii) the total royalty amount was capped at double the principal (in this instance the cap would be £400k), and (iv) the investment period was five years with a one year payment holiday.

After a one year payment holiday, the business would begin to pay the fund a 10% royalty on sales. These royalties would continue until they had repaid £400k. If they did not achieve this by the end of the five year investment period (one year holiday plus 4 years of repayment), they would stop paying royalties.

5. What are the advantages of this?

There are three key advantages of this model.

Firstly, risk and reward are shared more evenly between the investor and investee. With loans, most of the risk of the loan lies with the investee: you must repay the loan irrespective of the performance of your business. The reward also lies with the investee: if the business outstrips expectations, it still pays the same amount of interest. With quasi-equity finance, the risk and rewards are more evenly shared between both parties. This is crucial as it allows social enterprises to grow without giving away equity or taking on a loan which they will have to pay back irrespective of how their business performs.

Secondly, quasi-equity investment structures can be used by any legal framework as it is not dependent on the sale of equity. This solves the challenges highlighted above where non-profits cannot access the benefits of equity investment and for-profits cannot access the benefits of being a non-profit.

Recommendation: more UK investors should offer quasi-equity investment to allow organisations to grow.

(ii) Philanthropic funding

I am using the term 'philanthropic funding' to refer to the full range of gifts including foundations, donor-advised funds, and individual donors.

1. Scale

Simply put, the scale of US philanthropy is in a different league to philanthropy in the UK. In 2017, £10.3bn[15] (and a further £1.3bn of gift aid[16]) was donated to charities in the UK whereas $410bn[17] was donated to charities in the USA over the same period. When discussing grants and donations with non-profits in the US, they would generally refer to a 'small grant' as one that is worth $50k-$100k and a 'large grant' is anything in excess of $250k. In the UK, my impression is that a small grant is up to £10k-£15k and a large grant is a minimum of £30k. Of course, these are impressionistic ideas of the scale of philanthropy based on my experience and that of my peers but the gulf between the two gives you some sense of how different each market it is.

There are three key reasons for this.

Economy

Firstly, the US is a much larger country with a population of 327m[18] and a GDP of almost $20tn[19]. In contrast, the UK has only 67m[20] people and a GDP of just £2.6bn[21]. Given the difference in size of the economies, it is no surprise that US giving is so much higher.

Tax

Secondly, the tax system in the US offers far more generous tax deductions for donors than the UK tax system does. In the UK, higher rate taxpayers can claim back 15% of the value of their donation. In the US, donors can donate to non-profits out of their pre-tax income. The top rate of federal tax is 37% which is levied in addition to state taxes and in California this means that the top tax bracket can be over 50%. In effect, this means that top rate tax payers in California can claim back up to 50% of the value of their donation. Therefore, if they are donating $100, it will actually only cost the donor $50. This is a huge incentive to donate to non-profits.

Culture

Thirdly, many of those I interviewed spoke of a culture of 'giving' that exists in the US. Many people mentioned that the US government does not really offer a social safety net or public services in the way we are accustomed to in Europe. Consequently, people feel more of a responsibility to give money to support others. Others talked about philanthropy giving major donors a 'seat at the table'. To join the board of a prestigious organisation, it was often necessary to donate a significant sum of money which further incentivised giving at the highest level.

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[15] https://www.cafonline.org/docs/default-source/about-us-publications/caf-uk-giving-2018-report.pdf

[16] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/719899/UK_Charity_Tax_Relief_Statistics_Commentary.pdf

[17] https://givingusa.org/giving-usa-2018-americans-gave-410-02-billion-to-charity-in-2017-crossing-the-400-billion-mark-for-the-first-time/

[18] https://www.worldometers.info/world-population/us-population/

[19] https://tradingeconomics.com/united-states/gdp

[20]

[21] https://tradingeconomics.com/united-kingdom/gdp

2. Should the UK consider offering further tax deductions to stimulate giving?

One easy way to stimulate increased charitable giving in the UK would be increase tax deductions on gifts from donors. However, these deductions would be at the expense of government budgets and those of key public services. This begs a wider question around whether the US model where greater spending decisions on social issues are outsourced to non-profits and US taxpayers is better than the UK model where spending decisions are made by the government. Although this is an interesting question, it is also a huge question which is beyond the scope of this report.

3. Restricted Funding

Every single person I spoke to in the US talked about the challenge of restricted funding (funding that is granted on the basis that it can only be spent on a certain project). Most funding is heavily restricted and, based on the responses of people I spoke to, this is becoming increasingly more restrictive. When I spoke to employees in the Airbnb impact team, they mentioned that part of the problem is that the rise of the financial transparency movement (through vehicles such as 'effective altruism' websites) has increased the pressure on non-profits to decrease the proportion of their funding spent on 'overhead costs'.

The challenge this poses for non-profits is what Kathara Green from the Skoll Foundation calls the 'starvation gap': the financial gap between what funders consider 'project costs' and the true cost to the charity of delivering a project. A funder may only be willing to fund direct costs such as the project staff, the purchase of materials, and the use of space for an activity. However, none of that can take place without an accountant, office space, laptops, a CEO, and other overheads. Although most project budgets include a 5%-10% contribution to overheads, this rarely comes close to covering the true cost.

One possible solution is suggested by Aaron Katler from Upstart. Instead of applying for specific projects, Aaron instead drew up a threeyear strategy for the organisation which included budgets, key performance indicators (KPI)s, and outcomes. He then approached funders asking for contributions towards this strategy and seems to have been successful in this approach. The advantage of this approach is that funders can clearly see how their money is being spent and what outcomes are being achieved without the funding being restricted to 'direct' costs.

Recommendation: More UK grant-making organisations should offer unrestricted funding or at the very least a significantly greater contribution to overheads.

Recommendation: British social enterprises should draw up a three-year strategy to propose to funders to leverage more unrestricted funding.

4. Start-ups vs Scale-ups

One of the big challenges of running a social enterprise and charity in the UK is that it is really difficult to find foundations who want to support you to grow. There are plenty of funders who want to only support small charities and there are also a group of funders that want to support early stage initiatives that have the capacity to scale. However, the latter only see their role as supporting an initiative and expect others to support the initiative to scale. The problem arises because there are very few funders that will support these initiatives through the next stage of growth.

This was the area I was most curious to research: how do US foundations respond to growth?

I struggled to find any data in this area, so my conclusions are based on anecdotal evidence. The responses I got were varied so it was difficult to pull out key themes. In the San Francisco Bay Area, several respondents talked about foundations being excited by the 'next shiny new thing' and it being hard to stay relevant to funders after 5-10 years of support. Another experienced non-profit professional said that it was hard to scale beyond a turnover of $20m. This implied that this is a small figure by US standards but that is still enormous by UK standards. Amongst respondents in New York City, this did not seem to be an issue at all as foundations were more than willing to support very large organisations.

However, it was not an issue that really bothered anyone. None of those interviewed felt that their growth plans were inhibited by an endemic lack of willingness to support large organisations. Given that most people I spoke to have some experience of fast-growing organisations, this suggests to me that it is not really a challenge for them.

I look at the reason for this difference in the section on 'culture' later in this report.

(iii) People

Hiring, developing, and retaining good leaders, staff, volunteers, and board members is crucial to the success of any organisation at any size. Consequently, I was keen to hear what my interviewees had to say about the challenges of recruiting for impact-led organisations in the US.

(a) Cost of living

The cost of living is a huge challenge to social impact organisations in New York City but particularly in the San Francisco Bay Area. The Bay Area is the most expensive place to live in the USA[22] and New York City is not far behind. In the Bay Area, graduates starting their careers at the big tech companies often start on a six-figure salary and receive significant rises from there. It's incredibly difficult for social impact organisations to compete with those salaries. Given that a salary under $117k is officially considered 'low income',[23] this poses a huge challenge to recruit and retain talent in the impact-led sector. To compound the issue, an employer is often expected to cover the cost of health insurance. The cost of this varies but is usually several thousand dollars per employee.

Every single person I interviewed mentioned the enormity of this challenge. For young single people fresh out of university, the impact-led sector is exciting, and they tend to take entry-level jobs. However, as the reality of the cost of living bites and employees' life circumstances change, it can be very difficult to retain them.

In the UK, graduate jobs in charities tend to lag significantly behind more lucrative roles for graduates in the private sector. However, in London the average salary is £35k,[24] which means that, according to one survey, middle management and CEOs of charities are doing reasonably well.[25]Anecdotally, most roles in charities tend to be incredibly competitive as there is a real desire to work in the sector and remuneration is reasonable in comparison to the cost of living. Charities are also more likely to offer other non-financial benefits such as maternity pay, holiday pay, and flexible working.

Overall, this appears to be much more of an issue in the US than in the UK, where there do not appear to be challenges in attracting and retaining staff.

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[22] https://www.businessinsider.com/how-expensive-is-san-francisco-2015-9?r=US&IR=T
[23] https://www.bbc.co.uk/news/world-us-canada-44725026
[24] https://www.payscale.com/research/UK/Location=London-England%3A-London/Salary
[25] https://oliver-dev.s3.amazonaws.com/2018/10/18/17/27/06/773/Harris%20Hill%202018%20Salary%20Survey.pdf

(b) Diversity

Both the US and the UK suffer from a lack of diversity among their senior leadership teams and on their boards. In terms of gender, the US is relatively progressive as 42% of non-profit leaders are female[26] and in the UK over half of charity CEOs are now female (although the numbers are less if you look at just the largest 100 charities).[27]

However, the picture is not as equal when it comes to racial diversity: 87% of all US CEOs are white and, in the UK, just 3% of CEOs were from a BAME background. When it comes to trustees, just 6.3%[28] of all board members in the UK are BAME whereas in the USA only 24% of non-profit board members are people of colour.[29]

There is one other key factor when it comes to diversity that is difficult to conclude from the survey data: what socio-economic background do staff and board members come from? From my interviews, social entrepreneurs and CEOs in the USA are overwhelmingly from very wealthy backgrounds. The reason for this is simple: access to capital. In the USA, to join the board of a non-profit or social business, you must invest or donate a significant sum of money. In addition, access to investment and philanthropic income seems to be defined by 'who you know' rather than the merits of your organisation. I did not come across any investors or foundations who opened their programmes to unsolicited applications as they prefer instead to fund organisations within their networks. One study surveyed social entrepreneurs' sources of funding and found 65% reported that 'self-financed, friends, and/or family' were in their top five sources of funding (it was the most popular funding source by far)[30]. The same survey showed that the average funds raised by social entrepreneurs were millions of dollars. If you grow up in a poor part of the USA, you are unlikely to have friends or family who can finance your social enterprise to the tune of millions of dollars. Inevitably, this lack of access to capital restricts the ability of social entrepreneurs from underprivileged communities to launch a social enterprise to serve the needs of their own community.

In the UK, it is difficult to find comparative figures looking at socio-economic diversity amongst social entrepreneurs. Nevertheless, there are a plethora of open-access programmes providing advice and funding to social entrepreneurs from all backgrounds and at all stages of growth. Organisations such as Unltd and the School for Social Entrepreneurs have made significant efforts to recruit and support social entrepreneurs from an incredibly diverse range of backgrounds.

(iv) Culture

Culture is integral to the success or failure of any organisation or society, but it is a difficult concept to pin down. Finding a suitable definition and then making generalisations across one large and one enormous country are incredibly challenging and would not stand up to rigorous scrutiny.

Given the constraints I have outlined, the below is a set of impressionistic comments based on my experience in the USA and how it contrasts with the culture I have experienced in the UK.

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[26] https://philanthropynewsdigest.org/columns/the-sustainable-nonprofit/the-diversity-gap-in-the-nonprofit-sector

[27]

[28] https://www.theguardian.com/global-development/2018/apr/19/alarming-lack-diversity-charity-trustees-england-wales

[29] https://koyapartners.com/wp-content/uploads/2019/01/KOYA_GovernanceGap_FINAL.pdf

[30] https://socentcity.org/

(a) Ambition

I interviewed an employee of an American Foundation that sums up this section with one neat quote: "Americans are very ambitious and want to have impact on a scale. People think nationally and internationally. They want something that's going to change the world and funders have a big appetite for risk."

In just a few lines, this encapsulates the difference between the British approach to social change and the American approach: entrepreneurs, funders, and investors in the US are ambitious and think big whereas their British peers prefer smaller, more localised interventions. So many respondents in the US (particularly in the Bay Area) echoed this sentiment about ambition, thinking big, and a desire to expand. Partners and supporters by and large liked this attitude and wanted to support it.

In contrast, in my experience British culture around impact-led organisations is very different. Big is often considered to be bad whether we are talking about the importance of small business, small charities, communities or local work. This is evidenced by the fact that so many trusts and foundations focus on small charities and 'place-based initiatives',[31] implying that they would not be interested in organisations that work in multiple places.

Recommendation: British organisations who can scale need to be supported to do so and not restricted by a funding model that only favours local and small.

(b) Types of organisation

As discussed in a previous section, I was struck by the areas that American entrepreneurs that I met focused on. There were lots developing interesting technology and also working in developing countries. I came across very few social entrepreneurs or foundations that combatted poverty or other social issues such as homelessness, domestic violence, or mental health. This contrasts with the huge number of organisations working in this area in the UK.

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31 https://www.acf.org.uk/downloads/publications/ACF147_Foundation_Giving_Trends_2018_For_web_spreads.pdf

IV. Conclusions

There are several areas where the UK compares favourably to the US and several areas where we can learn from our American counterparts. On the one hand, British organisations have more of a focus on poverty and related domestic issues whereas in my experience there were very few American social entrepreneurs tackling pressing local issues such as homelessness in the Bay Area. In addition, barriers to entry in the UK for social entrepreneurs are lower as there are a lot more open-application programmes for funding and investment. In the US, fundraising and investment is very much done through networks and introductions. This means that if you do not mix in the right circles it's very hard to raise funds or investment. This in turn means that British social entrepreneurs tend to be more diverse and are more likely to represent the communities that they are trying to serve.

On the other hand, the breadth, ambition, and desire to operate at scale is remarkable in the US. Every constituent part of the British ecosystem would benefit from being more ambitious, less risk-averse, and more willing to experiment.

Part of this is due to another simple conclusion: there is a lot more money in the US. American foundations and investors have much bigger pots of cash to give away or invest and inevitably this means they can take more risks with the money they have. Nevertheless, the difference in approach is not all down to this. Much of it is down to the fact that British culture fetishizes small whereas in the US big is beautiful.

Based on my research, these are my key recommendations:

1) **British organisations who can scale need to be supported to do so and not restricted by a mind-set that only favours small.**

2) More UK grant-making organisations should offer unrestricted funding or at the very least a significantly greater contribution to overheads.

3) British social enterprises (and charities) should draw up a three-year strategy to propose to funders as a means to leverage more unrestricted funding.

4) More UK investors should offer quasi-equity investment to allow organisations to grow.

If there is one takeaway from this report for British social enterprises and their funders and stakeholders, it is this: bigger can sometimes be better.