Social Ventures: Built to Scale

Patrick Shine and Chris Mould - August 2012

THE SHAFTESBURY PARTNERSHIP
SOCIAL • IMPACT • ASSURED

Social Ventures: Built to Scale
Introduction

Growth (or "scaling") is difficult. It is difficult in the commercial sector, where businesses and their stakeholders are largely aligned around the objectives of profit-driven growth. These difficulties are compounded in the social sector, where business models are often unproven, surpluses can be harder to attain, and many leaders and stakeholders still doubt the benefits of going for scale.

Despite these challenges, consensus is beginning to build around scaling as a way of maximising social impact and creating change at a system level. At The Shaftesbury Partnership we build scalability into the social ventures[1] we launch, and drive them to scale nationally. We see this as the best way of achieving our mission, to create and inspire trailblazing social reforms that empower communities by tackling disadvantage and generating opportunity. Through our experience of scaling innovative and effective solutions to social problems we have learnt many lessons, and developed key insights about how to achieve scale in the social sector. This paper seeks to share our approach, illustrated through two case-studies.

• • • •

What makes it difficult to scale a social venture?

Both external and internal factors make scale hard to achieve for social ventures. Externally, the market in which social ventures operate is not yet mature. The nascent social finance market is very much needed to play a crucial role in its development. Social ventures often struggle to raise appropriate and sufficient capital, yet social investors report a lack of social ventures that are truly 'investment ready'.

These issues are compounded by parallel difficulties that social ventures often have in reaching customers and securing the contracts that will give them stable trading revenues.

The entry of Big Society Capital into the market should both increase the capacity of social investors[2] to invest in social ventures, and also make the market more functional through stimulating advisory firms that parallel those in the commercial sector (the latter will also be helped by schemes such as the Cabinet Office's 'Investment and Contract Readiness Fund[3]').

However, these initiatives will only achieve their goal of improving the investment readiness of social ventures if the current gaps in talent and management capacity are also addressed. There is a recurrent complaint that management teams in social ventures lack the operational and financial skills to ensure the robustness of the venture for investment. Various programmes offer training, networking, and other support to management teams to try to overcome these gaps, though the most promising interventions are those that bring in new talent from the commercial sector, such as On Purpose[4].

Though an increasing number of people with business backgrounds are joining the sector, the skills gap also reflects a cultural mix in the social space where voluntary sector influences remain strong if not dominant. With this come instincts and behaviours that prevent scale. These include a general risk aversion, a suspicion of the profit generation that is often needed to secure investment for scaling, and a belief that small scale organisations are better able to have an impact by remaining focused on serving their users within local communities.

[1] "Social ventures" have been defined by the Young Foundation (2011) as organisations that tackle social problems, are financially sustainable, and aim to scale what works.
[2] Big Society Capital refers to 'Social Investment Finance Intermediaries' or 'SIFIs'.
[3] http://www.thesocialinvestmentbusiness.org/our-funds/beinvestmentready/
[4] http://onpurpose.uk.com

Social Ventures: Built to Scale
Case Studies

Despite the challenges, there are some very successful social ventures that demonstrate that scale is in fact achievable – and that it can drive increased social impact. The lessons drawn in the following sections are based on the experiences of the partners of The Shaftesbury Partnership, with particular focus on two of the most notable examples of rapid and successful scaling in the social sector in recent years:

• • • •

The Trussell Trust Foodbanks

The Trussell Trust[5] is a charity that works to empower local communities to combat poverty and exclusion in the UK and Bulgaria. Its flagship programme is the UK based Foodbank network which distributes food to families and individuals in desperate need. Through a social franchising model, the network has grown to over 250 Foodbanks – adding 100 to the network in just 12 months - and is now growing by up to three new outlets per week.

Chris Mould is Director of the Foodbank and a partner of The Shaftesbury Partnership. He also has over twenty years in senior public sector management at Chief Executive and Chairman levels, in particular in the NHS and in a non-departmental public body responsible for police training across England and Wales.

The Challenge Network

The Challenge Network is the leading provider of the government's National Citizen Service (NCS). Founded in 2009, it has grown by approximately 300% per year. In the summer of 2011 The Challenge led over 3,200 young people through the NCS programme, encouraging social mixing and community engagement and in 2012 trebled its capacity to 10,000 participants.

Patrick Shine was founding Chairman of The Challenge Network (TCN) and is lead partner of The Shaftesbury Partnership, which launched TCN. Patrick previously worked at UnLtd, helping numerous social entrepreneurs to scale their ventures, and has 20 years' investment experience from the City.

Foodbanks and The Challenge Network: similarities & differences

In analysing the features that have supported this rapid and sustained scaling, some are common to both the Foodbank network and to TCN and some are quite different; both are instructive in learning from their journeys.

Similarities

Ambition to scale
Scaling was not accidental in either case. Both organisations had leadership teams that were determined to maximise their impact by achieving scale – and this ambition was translated into the design and execution of their ventures from the outset.

Business practices
A focus on operations is common to both organisations, and the priority placed on systems, processes, and management, is consciously 'borrowed' from the commercial sector. For example, The Challenge has a management team whose CVs include Procter & Gamble, Google, and McKinsey.

Commitment to quality
The business practices described above also engender a commitment to high quality of delivery, with the goal of consistent, positive feedback from their "customers" - the thousands of people that use their services each year.

Differences

Financial model
The Challenge Network draws all of its income centrally – initially from high net worth individuals and grant making trusts, latterly from government contracts for National Citizen Service. By contrast, Foodbanks largely rely on local giving economies for cash, food and volunteer time.

Scaling model
TCN has followed a strategic model of expansion, building on selected regional hubs, whereas the Foodbank network's growth has been more organic, where local demand is stimulated and managed through a franchising system.

---

[5] http://www.trusselltrust.org/foodbank-projects/

Social Ventures: Built to Scale

The four ingredients of scale

Our experience has led us to identify four ingredients that a social venture needs in order to be scalable: the right idea, the right people, the right money, and the right execution. These ingredients can be seen clearly in the successes of TCN and Foodbanks.

• • • •

The right idea

A concept that benefits from scale

The 'idea' is the concept – or value proposition – that lies behind and defines the product or service being delivered. Clearly, if this is not a strong idea it is unlikely to result in sustained social impact, robust operations, or supportive stakeholders. Standard approaches such as impact measurement are useful in evaluating the idea on this level; however, an idea that is powerful at a local level may not always be scalable.

For example, if a service is designed in a way particular to its local circumstances it may not be replicable in other areas. If it has a long history in a specific area, an organisation may have special access to certain resources, such as a bequeathed building, enthusiastic local volunteers, or a local corporate patron.

By contrast, if the goal is to maximise social impact by reaching larger numbers of people, the idea has to work better at scale, which then incentivises growth. This could be either through economies of scale or through network effects. The former is the case for the Foodbank network where central marketing and branding spend is shared between ever larger numbers of units, and the latter is at play for The Challenge, where the greater the number of young people having a positive experience the more others will want to follow suit.

A defined product

A well-defined and differentiated proposition is important, particularly if it is part of a larger organisation, as it enables the intervention to be 'productised'. This enables it to be sold effectively – to prospective funders, new areas for replication, staff and volunteers, and broader stakeholders. It also allows for replication, as there is a clear product that new leaders can learn to implement in new locations

Simple ideas are often the most compelling and motivating, and also often the most effective at getting to the heart of complex issues. This simplicity and strength will be all the more important as the organisation grows and new actors become further from the centre.

Though a well-defined product is a key attribute for a scalable venture, this insight comes with a word of warning: if the venture's model is relatively straight-forward to copy, it will be important to protect the intellectual property in order to retain a sustainable competitive advantage.

A timely intervention

Timing is also crucial; well-timed ventures can ride a wave of support from policy makers, the public and the media, while ventures that are too early or too late may find it difficult to recruit customers or stakeholders. For example, while there has always been food poverty, the growth in the Foodbank network has coincided with a global recession driven in part by rapidly rising food prices.

The right people

Leadership

Venture capitalists – who are the experts on high-growth enterprises in the commercial sector – often talk about "backing the jockey, not the horse". This is because the innovation that is necessary in order to scale is intrinsically uncertain. Market conditions change, technologies fail, and competitors emerge; thus it is important that the person(s) running the venture is capable of leading their team and adapting to meet new and unexpected challenges. For venture capitalists, this both reduces the risk to the investor, and increases the likely return. This analysis is just as pertinent, if not more so, for innovation and scale in the social sector – where leaders must often navigate shifting policy and funding environments, balance the interests of a variety of stakeholders, motivate underpaid or volunteer staff, and deliver both financial stability and social impact. Doing so, while simultaneously seeking to scale, is a considerable challenge. It is therefore critical for stakeholders to back the right 'jockey' – or jockeys.

>

Social Ventures: Built to Scale

A strong team

In fact, we concentrate on the leadership team, not just one individual. High profile social entrepreneurs often gain exposure as a result of their charisma, but this quality can have both advantages and disadvantages. It is important for the leader of the venture to have a powerful enough personality to be able to recruit and excite stakeholders, supporters, and staff. However, reliance on non-replicable features of an individual or small team can make scaling impossible. Furthermore, if the entrepreneur's personal brand starts to overtake that of the enterprise itself, it may limit scale as the venture needs the ability to become larger than the person.

This means the two indispensable attributes for the leaders of a venture are ambition and teamwork – the management (and governance) of a social venture need to have the ability to think on a strategic level, have high expectations of scale, and have the willingness to take responsibility for driving growth. This big picture perspective must be balanced by an attention to detail and process, and a commitment to continual improvement based on these details and processes. The team has to encompass these different roles and skillsets and be able to bring them together under high levels of pressure and risk.

The right people at the right time

The management must also be prepared to submit to rigorous governance processes, which can be a challenge for entrepreneurial leaders. Personalities that prove to be an effective driving force behind the business start-up may also be less comfortable – and indeed often less capable – when running the scaled up operation. More generally, the skills and mind-set required to start up or run a small operation are very different to managing a larger organisation. It is crucial to recognise when the leadership team needs to expand, as different skills, attitudes, and business specialisms are required. Special attention needs to be given to "phase changes" where the organisational model is restructured to manage further growth – for example introducing a new management layer, or introducing new senior positions. It is also vital to recognise how to manage the process when power needs to shift from the entrepreneurial founder towards a more managerial executive. This can often be a significant, and difficult, transition point for a scaling venture, and the governance team will be crucial in supporting the transition.

The right money

Scaling requires investment, not just revenue

A focus on revenue models and sustainability has been a defining feature of the social sector over the last decade. However, increasing scale requires significant advance financial commitment – in processes, quality control, and upfront capacity – and so a venture's revenue requirements go beyond those of sustainability during the scaling process. For scaling to be possible, appropriate and sound investment models are therefore an additional requirement. Any attempt at scaling that does not have a robust financial model at its heart is likely to fail.

To secure investment – or more precisely a return on investment - a venture needs to have a degree of pricing power in their market; in other words, their proposition and market position must be distinct and compelling enough that they can attract a 'good price' from their customers which includes a margin that can be returned to investors.

Most commonly that can be secured through a trading model with limited competition, although further investment may be required to achieve the economies of scale. It is also important to consider how the financial model will be affected by scaling. If there are high fixed costs and low variable costs, or if there are network effects (making each extra unit of a service or product more valuable than the last), then there are likely to be economies of scale which will ease the scaling process. Conversely, complex organisations or those that require significant capital investment at each stage of expansion may entail diseconomies of scale. An example is a programme where front line staff need expensive and continual training and supervision; operations of this nature, which have permanent diseconomies of scale (rather than temporary diseconomies at various points during the scaling process) are highly unlikely to scale successfully, and investment would be more effective elsewhere.

>

The need for early stage investment

It is worth noting that ventures which do not spend time in developing their concept and business plan, or that rush to a monetised model too soon tend to be riskier and lower margin – both of which make them less attractive to investors in the longer term. This suggests that ventures which scale most successfully will have had a period of high risk/low cost financing that funds detailed design work and supplements trading income. For a social venture, early stage capital is likely to be in the form of a grant. However, this type of money needs to be aligned with the culture of the organisation. Investors have a strong role in setting the incentives and culture within an organisation, and if a social venture aims to move from a grant-based model to a revenue generating model there may be challenges. As a result, it is important for the management and governing bodies to set the culture and incentives themselves from the outset.

The right execution

Process and codification

Small, growing, and large ventures all have different dynamics, and for an organisation or project to flourish at each stage, it needs to be based on rigorous execution appropriate for the stage of the venture. The management of a smaller venture will usually be close enough to most aspects of delivery to quickly receive feedback on performance and make changes where possible. As the venture grows, however, this ability will diminish and it becomes vital to have systems and processes in place to ensure quality and performance.

Embedding and testing these processes during the pilot phase – when they might not appear essential to success – should nonetheless be a priority to enable faster scaling thereafter. They become particularly important during periods of rapid growth or organisational re-structuring as these create extra pressures on the organisation and people, and any failures in operation or execution have a disproportionate cost.

In an organisation that is scaling, the operations must also be clearly codified. This is particularly important when the scaling takes the form of replication, so that leaders of new units have a template which they can follow, reducing both the risk of failures and the burden on the central operations. Each new Foodbank, for example, is provided with a 315-page operating manual covering systems and processes (including numerous flow charts), in areas ranging from warehousing and distribution to PR and admin. While the manual is comprehensive and detailed – including for example, thank you scripts for food donors – it also communicates the core non-negotiable elements of Foodbank's 'simple idea'. For example there is a mandatory 'shopping list' of a limited number of affordable, non-perishable foods that will provide balanced nutrition for three days. The systems and processes in the manual are embedded through a focus on training and motivation, which reduce the need for monitoring and performance management – and can inspire individuals to create value beyond what is expected.

Feedback loops and data-driven iteration

An investment in training becomes increasingly important, particularly when delivery teams need to hold in balance "soft" skills such as relationship building with the consistent processes and controls to ensure consistency . In our experience this is best achieved by clear KPIs and detailed tracking systems, complemented by clear guidance on the "house style" of the organisation when dealing with customers, clients and partners. These allow for the organisation to continue innovating and learning in order to deal with the challenges of scale – good practice can be recognised and spread, while potential failures can be identified early and prevented.

This is a core competency of The Challenge Network, and has underpinned its impressive scaling. They track processes for filling up their programmes with great care, and understand where they need to be at particular points in the cycle to ensure that their programmes will be full. It means that whether they are doing this for 10 programmes or 1,000 programmes, they can still understand their performance and manage the business accordingly in real-time. It has enabled them to understand the best ways of engaging with schools, parents, and young people, to ensure that the crucial conversion of interest into participation is highly successful. As a result, they fill over 90% of their places, while the average across providers is closer to two thirds.

Social Ventures: Built to Scale

Combining the ingredients

At The Shaftesbury Partnership, we not only design innovative social ventures, but also lead them through the scaling process.

Our approach is characterised by the way in which we bring together the elements discussed above, combining the right idea, people, money, and execution for success.

• • • •

Selecting the right model for scale

We divide the diverse methods for scaling into five broad categories:

We divide the diverse methods for scaling into five broad categories:

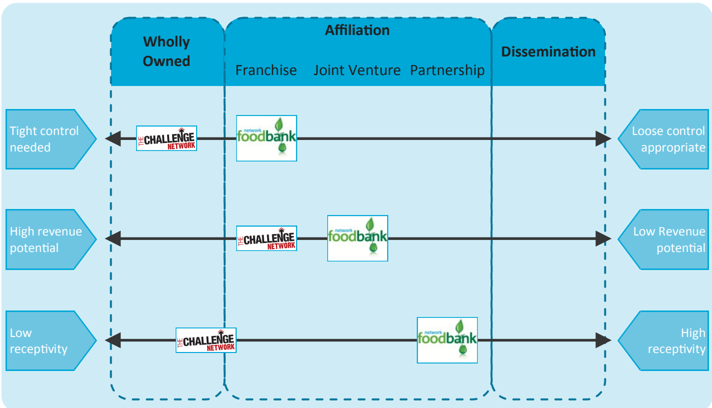
- **Wholly-owned:** in which the social enterprise creates, owns and operates the venture, with growth essentially depending on its own internal capacity.
- **Affiliation:** involving partnerships with entities that are partly or wholly owned by other organisations. Affiliation models include:
  - Franchising: Venture enters into a contractual relationship with other entities operating under or using the social enterprise's trade name and model. Looser models exist, taking the form of licencing agreements or 'kitemark' schemes.
  - Partnership: Venture creates a loose agreement with an existing organisation to deliver products or services locally.
- **Joint Venture:** A special form of partnership where the social venture joins with an outside party to create a formal new entity; the parties share profits and losses.
- **Dissemination:** where a social venture makes available information about its business model, but leaves it to others to learn the lessons and implement independently.[6]

These sit along a spectrum, as shown below:

Selecting the right model for scale depends on a number of factors. The model should be closer to the 'wholly owned' end of the spectrum where:

1. Tight control is needed, particularly where delivery is complex or risks are high – for example when working with a vulnerable client group.
2. There is high revenue potential in order to sustain the core.
3. There is likely to be some resistance from key audiences – whether clients, replication partners, or other stakeholders – which requires up-front investment in engaging these audiences.

Assessing The Challenge, and Foodbanks, against these criteria demonstrates why they chose their particular models for scale:



The Challenge Network's core competency is their tightly tracked and managed operations which reflect central accountability for delivery of a government contract. Coupled with the risks involved with supervising thousands of young people (in loco parentis) on activities such as abseiling, this suggests tight control. The contracts with government give strong potential for revenue to fund the core functions, and allows for heavy investment in marketing a new programme to young people with limited exposure to volunteering or community engagement. Thus the venture has opted for a wholly owned model of scaling.

Foodbanks do not carry the same risks with their client group, yet their core competencies are again related to tight operational consistency. They also have a strong central brand which is leveraged for advocacy and lobbying.

>

[6] Spectrum and definitions based on http://unltd.org.uk/template.php?ID=95&PageName=replicationstudy

Thus relatively tight control is still necessary to mitigate risks of operational non-compliance which would damage the brand. Revenue potential is more distributed and less predictable than for The Challenge Network, in that it is based on many decisions by potential local franchisees; but there is limited resistance to engagement from either client group or the replication partners (i.e. churches).

Although these operational factors sits the nature of the financial model. The key principle is that the type of money must be aligned with the type of organisation. This alignment takes two forms. Firstly, the sources of revenue – whether donations, grants, contracts, or trading income – must be as closely aligned as possible to the operational model and the impact that is being sought, in order to align incentives rather than to skew them. Where there is a large central source of income – for example The Challenge Network, which is largely funded by a single large grant from central government – there may need to be a higher level of control from the centre. By contrast, more distributed models such as franchising work well if it is easier to access small amounts of capital from local sources (e.g. locally distributed small grants, incentives to set up small businesses, or simply internal such as family or local supporters) – as is the case with Foodbanks. Indeed, if access to large scale capital proves to be a barrier, this can be overcome by choosing a more decentralised model where the individual units can share the burden of attracting capital and revenues.

The mechanism for scale

Getting the local platform right is essential to create the foundation needed to underpin rapid growth while maintaining the mission and character of the venture.

The first two considerations are the size of the 'unit' of scale; and whether there is an available 'platform' for scaling. Foodbanks are operated by churches; this is a non-violable feature of the network. With around 50,000 churches in the UK, this provides a rich platform for scaling, and offers scaling partners with highly aligned values. Moreover, it defines a clear unit of scale – a well-defined neighbourhood served by a number of local churches– which aids the 'productisation' of Foodbank and systematisation of the operations.

As a wholly owned organisation, TCN's unit of scale does not need to be so carefully defined; and they have defined their operational units around large geographic areas. This reflects the nature of their contracts, which are area-based, and these contracts are one of the key factors in defining the strategy for expansion.

A further set of considerations relate to the operational implications, and the nature of possible barriers to entry. For example, an educational social venture aiming to help school pupils get to university may choose to scale up by adding new schools or by adding universities; but the costs of adding new schools may be proportionately much higher than adding new universities. If so, the model for scaling may be much more viable if it focusses on universities rather than schools. In any case, the key point is that the venture will need to be clear on which it is using as a platform and not trying to do both at the same time.

Replicating the execution, not just the idea

It is important to understand that rapid scaling is not achieved by the spreading of an idea using multiple different methods, but the expanded deployment of a detailed and consistent business model, combined with rigorous and resilient processes, that deliver a predictable and powerful impact. Once a venture goes live, we find that 'operations' becomes the area which requires the most focus. At this stage the priority should be to identify which elements are both essential and scalable so that they can be codified for future replication.

This operations-centred approach has a number of benefits:

- It helps mitigate the business risk that is created by the distance (both geographical and operational) between the new unit and central management. This also helps to protect the brand by maintaining consistency and quality, and reducing the risk of unwanted behaviours.

>

- Engaging in the process of analysis and codification is in itself beneficial not only to the new unit, but to the existing one, which will gain a closer understanding of the key drivers of its value, and its points of strength and weakness.
- While this approach may initially seem to dampen innovation and personalisation, having certain elements systematised (e.g. 'back-office' functions) actually allows the new management to focus their energies on the areas where adapting to local needs is most important.

Resilience: dealing with disruptions, failures and competition

"Fail fast" is a common refrain in entrepreneurship and innovation. Creating new ventures involves risk and uncertainty, which can be amplified by scaling. As with any business, a social venture may also experience disruptions to their operations. These may be due to business issues, for example, key staff leaving or suppliers failing to deliver, or they might be caused by market conditions such as a change in the political landscape. A social venture that is scaling is especially vulnerable to such disruptions as any spare capacity will be allocated to ensuring successful scaling, and diversions from this goal will slow growth in three different ways:

- Management will be distracted and will need to concentrate on understanding why performance has slipped
- Cash flow may be disrupted as income is reduced or milestone payments are deferred
- These factors may result in a lack of capacity to engage new replication partners

These risks can and should be mitigated where possible, but due to the uncertainties inherent in innovation and scaling, this cannot always be achieved. It is consequently important for the social venture to be resilient to failures and disruptions, with alternative pathways or scenarios prepared should such critical factors, whether external or internal, disrupt their strategy.

There are two key considerations when handling failures in innovation: they must be survivable and there must be iteration.

Survivability means that innovation is done in a way that failure neither significantly damages the organisation nor unnecessarily kills the innovation itself. The key to survival is careful planning and design, combined with strong feedback loops for learning.

Iteration focusses on the ability of a venture to learn quickly and make adjustments to practice accordingly. This can be disruptive, with performance metrics reviewed more frequently, management / governance being more intrusive, and re-engineering of processes happening more rapidly. However, when carried out well this can encourage the delivery teams, who see that their concerns and ideas are listened to and adopted rapidly. A good example of successful iteration can be found in how The Challenge Network addressed the problem of "no-shows". Having found that a small but predictable percentage of participants would not turn up on the first day, action was taken in order to prevent the wastage of pre-booked resources that this caused. This was managed by creating wait-listing, similar to airlines, so that some participants were asked to arrive on day one "at risk". The young people were willing to do this as demand from places was high, and because the "no show" numbers were predictable, they nearly always got their place.

Another example of resilience, this time in the face of unprecedented disruption, can be seen in how The Challenge Network addressed the difficulties of operating through the riots of summer 2011. Robust systems and a flexible workforce enabled the organisation to rearrange 360 visits to community partners with minimal impact on delivery.

Once a certain scale is reached, a good way of achieving survivability and continued learning is to retain a 'safe area' for experimentation. Thus a large franchisor will often have some units that they own themselves, in order to test out new innovations in an environment where they can be closely monitored for learning, and where failure is survivable, before rolling out to the network. Indeed, over time, this learning and adaptation process means that it is quite common for the more mature venture to look quite different to the original model; even though the basic structure is often still in place.

Social Ventures: Built to Scale

Reflections: The personal challenge

As this paper has focussed largely on the practical and managerial aspects of rising to the challenge of scale, it may appear quite impersonal. So as practitioners in this space, we wanted to conclude by reflecting on the personal aspects of social action, and to emphasise the central role of motivation and leadership. Of course this is true for all types of social action or social enterprise, but there are particular issues associated with scaling and replication - and this paper has sought to discuss those where appropriate.

Being part of a rapidly growing social venture which is delivering ever increasing social impact is both hard work and intensely satisfying. Having the ambition and developing a strategy is the easy bit – in our experience the hard work comes in engaging with ever larger and more diverse stakeholder audiences.

Some are enthusiastic and supportive, but they still require frequent communication as they seek confirmation that the venture is consistently delivering the quality outcomes that excited their support. Some will be challenging and sceptical – often they control the critical resources that fuel rapid growth, so it is vital to listen, to be patient and to be professional. And some will see the venture as a threat and be committed to disrupt or deny the venture. This is where passion and enthusiasm are required, and the commitment and determination of the team.

This means the leaders of rapidly growing ventures have to be able to keep motivating themselves, and others. It is not an original insight, but the authors of this paper have found that the single most important activity is to have personal contact with the frontline – both the staff and beneficiaries. Making that happen is increasingly hard as the venture gets larger, but in our opinion that direct experience is the real fuel that keeps us working obsessively at increasing the impact of our work.

www.shaftesburypartnership.org

The Shaftesbury Partnership is a social business with expertise in bringing together leading organisations from across the private, public and social sectors, and an extensive track record of scaling social enterprises. Their mission is to create and inspire trailblazing social reforms that empower communities by tackling disadvantage and generating opportunity.

To discuss the opportunities for your organisation to get involved contact us on 020 7921 4322, visit our website at www.shaftesburypartnership.org or email us at info@shaftesburypartnership.org