An introduction to Social Enterprise
GETTING STARTED

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OUI SUPPORT FOR SOCIAL ENTERPRISE

This is a guide for Oxford University researchers and staff, describing new services that Oxford University Innovation (OUI) is providing in the field of social enterprise.

OUI’s focus is to provide support that protects and commercialises intellectual property (IP) created within the University. This has been remarkably successful, with approximately 20 new spinout companies formed each year, and many hundreds of licensing and consultancy deals concluded.

Historically, OUI’s focus has been on scientific discoveries that are routinely patentable, and can therefore be valued and commercialised through a mainstream investment model. However, much of the academic community’s work has significant ‘impact’ without necessarily offering a route to mainstream commercial development.

OUI’s goal is to build an innovation ecosystem that creates impact from all ideas and disciplines, and so the new service described in this brochure is offered to support projects across the University that have a focus on bringing about positive societal or environmental change as well as profitability.

WHAT IS SOCIAL ENTERPRISE?

There are many definitions of social enterprise, all of which have their merit. This is Oxford University Innovation’s interpretation.

Imagine a spectrum with mainstream commercial businesses at one end and charities at the other: social enterprises sit between the two. They are businesses with a social and/or environmental purpose. Specifically, social enterprises are characterised by a key clause, or set of clauses, in the Articles of Association of the company (which is a list of laws or constitution governing the company’s operation) which states the social or environmental purpose of the company and governs how decisions are made in its operation. Such a clause typically entails the business stating that it wishes to make a positive social and/or environmental change and describes how it will do so. The Directors are guided and bound by it in their discussions and duties at board meetings.

Mainstream companies can have a social or environmental mission, but this is not typically written into the Articles of Association of the company. There are also varying types of activity carried out by charities, for example some have a trading arm through a subsidiary company. There is therefore debate about where social enterprises start and the other models stop.

COMPANIES SPECTRUM
Mainstream commercial businesses are structured as Companies Limited by Shares (CLSs) whereas charities are organised as Companies Limited by Guarantee (CLGs). CLGs cannot take funding through investment whereas CLSs can. However, both can take funding through grants and loans. Social enterprise sits in between and slightly overlapping the two. However, just as CLSs make profits and charities make “surpluses,” social enterprises must be profitable in order to manage cash flow, pay staff and buy materials and equipment. The key difference between the mainstream and social enterprise is what is done with the profits. In social enterprises the profit is at most distributed in a limited way, and it usually recycled back for the benefit of the business. This enables the social enterprise to contribute a greater amount to its social or environmental mission.

There is a second classification of social enterprise which is the Community Interest Company (CIC). There is an additional step a company must go through, often undertaken during the incorporation of the company, to become a CIC. CIC’s are overseen by the CIC regulator in a similar way to the Charities Commission (which oversees the regulation of charities in the UK) but in a far less onerous way. The company can be either a CLG or a CLS. It is further characterised by the following:

- Assets are locked; its assets are dedicated to the public benefit the company is trying to perform.
- It cannot convert into a charity.
- It is the method through which a company can take either loans or investment through Social Investment Tax Relief (SITR).

Purists would argue that a social enterprise must be a CIC – however there is a significant argument over this in the sector; it is an argument about definitions. There are also advantages and disadvantages to the different types of company, particularly based on the structure of the company and the tax reliefs it can claim.

We think you should only start the process of creating a CIC if you are certain that it is the best route; you don’t need to make this decision at the beginning.

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**SOCIAL ENTERPRISES AT OUI**

With so many different potential types of company to choose from, how do you determine what form of company you need? To work this out, you need to ask three questions:

1. Will the company have a social or environmental purpose that it wants to protect?
2. Is the company likely to be sold in the future?
3. Does the company need money to get going?

We’ve designed a decision tree that acts as a guide to illustrate what type of company is required to best deliver the company’s purpose. This can be seen overleaf.
Does the company have a social or environmental objective which it wants to protect?

YES

Is there an intention to sell the company?

YES

Will the company seek investment before spinning out?

YES

Bespoke CLS Social Enterprise. Could well be a CIC dependent on funding.

NO

Template lean spinout CLS Social Enterprise. Could convert to a CIC at a later stage.

NO

Will the company seek finance before spinning out?

YES

Bespoke CLG Social Enterprise. Will most likely benefit from becoming a CIC.

NO

Template lean spinout CLG Social Enterprise. Could convert to a CIC at a later stage or create a CLS subsidiary for funding.
We realise that there are many ways and different business models which can be used to get a company started. Sometimes a company will already have their first customers ready and waiting, so no financing is required other than to pay a lawyer and an accountant to put the company together.

In such cases, if there is no financing, OUI will pay the incorporation costs and first year of accountancy fees up front so that the company can get going. The money will be paid back in stages when the company brings in a certain amount of cumulative income.

We have a standard set of documents for incorporation of social enterprises without seed funding. These standard company documents have a clause in the Articles of Association specifically devoted to the social and/or environmental purpose of the company which can only be changed if all members or shareholders agree to it; i.e. the University has a veto and because of its status, can help founders protect this clause should investors or funders want to change it.

The standard documents are designed with the flexibility for the company to convert into a CIC should it want to at some point in the future. We think if a company is in its early stages then the initial structure should allow for flexibility of format in the future. Should the company have seed funding it is worth discussing the creation of a CIC at the outset with all interested parties including accountants, lawyers and funders. This is because there are many factors to weigh up, specifically relating to tax relief where there are several different schemes to provide tax relief to entrepreneurs. The rules and guidelines change fairly frequently so it is always worth getting professional tax advice.

There are clearly many ways in which funding can go into the company, whether or not the company is a CIC.

As there are many variables, we have not created standard documents for social enterprise companies which have seed funding. Lawyers will be able to advise on the best format, and with good accountancy advice, far more money could be saved through the appropriate tax relief than the amount charged for professional advice to put the right structure in place for the company.
If you’ve decided that a social venture is the best way forward for your project, there is a process to work through to make it happen. The starting point is to work out what type of social enterprise you want to put together. It may look like a long process, but OUI is here to help you.

1. Contact OUI to explain your idea.
2. If there’s intellectual property, fill in forms to check on who owns it so that we can get the agreements in place to enable you to use this in the way you intend.
3. Discuss what you want to achieve through the social enterprise and how you intend to achieve this. Then we can work out what the best structure of the company should be. This isn’t finalised until later on, but it’s good to have a rough idea at the beginning.
4. If you are in the MPLS or MSD divisions, together we contact Oxford Sciences Innovation (OSI) about your idea. They are the University’s preferred investment partner for mainstream spinouts from these divisions and they have investment expertise which could be of use. There’s no obligation to go forward with them – their focus is on our mainstream portfolio – but it’s worth talking your idea through with them.
5. We work out what the social enterprise needs. Who are the founders? Do we need to find a person from outside the University to take things forward? Does it need funding?
6. We determine what the ownership of the social enterprise will be between all founders and the University.
7. We fill in a ‘Deal Sheet 1’. This is a document that records what everyone will be doing in the company and is signed by all founders, OUI and your Head(s) of Department(s).
8. We work up the business plan, help find funding and personnel if needed, appoint lawyers, accountants and where possible, help build relationships with potential customers/clients/organisations so that the social enterprise is functional from day one.
9. If there’s investment coming in, normally a lead investor will provide a “Heads of Terms” document which states the outline of what a deal would look like. Otherwise, if there’s other finance to come in like a grant or loan, we will need to know the outline of the terms of that funding before starting the social enterprise.
10. We fill in a ‘Deal Sheet 2’. This records, much like ‘Deal Sheet 1’, what the agreed structure of the social enterprise will look like, but with any additional parties such as investors or staff included as well.
11. You should complete a conflict of interest statement if you are remaining in the University. This deals with how you are going to divide your time and responsibilities between the social enterprise, teaching and research.
12. We complete the terms of a licence to the social enterprise if it needs one.
13. We complete the spinout process for the social enterprise with the signing of all necessary documents by all parties.