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Chapter 18: Lessons from the Community Interest Company

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While not without its limitations, the operation of the UK's Community Interest Company (CIC) model for more than ten years has produced important lessons on how social enterprises operate, on how to make them successful and how to regulate them. The introduction of the model, that necessitates a particular type of governance, has played a role in the development of the social enterprise movement in the last ten years, and in the continuing consideration of running business without losing sight of the wider community. Building on these insights, in this chapter we consider some of the lessons concerning the governance and funding of social enterprises, and their ability to demonstrate social impact, which the operation of the CIC model has revealed.

Background

The Community Interest Company (CIC) is a corporate legal form tailored to social enterprises in the UK. When it was introduced in 2005, the CIC model was a legal innovation.¹ The concept of social enterprise already existed in Britain,² and the idea of merging aspects of community activism and business entrepreneurship in more structured ways began to have wider appeal among innovating individuals and organisations, and within the Labour government at the time (Somers, 2013). However, the choice of legal forms available to turn these ideas into practicable organisations was limited. The corporate options were restricted to standard companies limited by shares or guarantee, but many of these were committed to the interests of their shareholders. Charities, on the other hand, were closely regulated to deliver a social good, with adequate asset locks to ensure their charitable purpose, but they were usually less entrepreneurial than corporate models. The charitable option allows for tax breaks but it also means a loss of control over the organisation's governance to a board of trustees, an option that many founders who considered themselves social entrepreneurs found unattractive. Between these two alternatives, industrial and provident societies were sometimes an effective alternative to set up cooperative social businesses, but they did not always match social entrepreneurs' needs and did not provide an adequate asset lock. This meant that though these organisations were initially set up for community benefit, a group of individuals might step in once they were doing well commercially and vote to turn the organisation into a company and extract the assets. Similarly, with a traditional company limited by guarantee, it is possible for a group of individuals to get hold of the power structure and change the company's rules so the organisation is run entirely for-profit (Lloyd, 2011, p. 32).

The CIC model was introduced to allow social entrepreneurs to set up organisations that were not charities but at the same time to be confident that their social purpose would be protected in the future. CICs are uniquely accountable through statutory clauses in their articles of association which include a statutory asset lock that prevents the company from underselling its assets or from paying dividends above a certain threshold (except to another asset locked entity). The social purpose of the company is in this way 'locked in' and may not be overridden, even upon dissolution of the company, where assets may only be distributed to another asset locked body.

¹ Companies (Audit, Investigations and Community Enterprise) Act 2004 and Community Interest Company Regulations 2005 (SI 2005/1788).

² See Dan Gregory, Chapter [*] in this volume.

The CIC is a special type of company that piggybacks on general UK company law. To set up as a CIC (or convert an existing company into a CIC), the organisation must register with Companies House as a company either limited by guarantee or by shares (if the latter, it may be either private or publicly listed). Charities may not become CICs. Registering a CIC involves submitting a community interest statement to demonstrate the company is going to deliver a community benefit. The Regulator of Community Interest Companies (the Regulator), based at Companies House, then considers whether the Statement satisfies a community benefit test, which is wider than the one that applies to charities, namely whether ‘a reasonable person considers that the activities being carried on are for the benefit of the community’.³

Once registered, the CIC is under a statutory obligation to file an annual CIC report with the Regulator (alongside the annual return and accounts) to show that the company still satisfies the community interest test, and that it engages adequately with its stakeholders in carrying out the activities that benefit the community. CIC reports are placed on the public register and made available to the public. They usually summarise the CIC’s activities over the last year and their benefit to the community, and also include information on stakeholder involvement, directors’ remuneration, dividend payments and the transfer of assets. Most CICs choose to file a simplified version of the report but a detailed version is available for CICs that have more complex financial arrangements.

The Regulator has wide powers to publicly monitor CICs’ activities and behaviour. Concerns about the corporate behaviour of a CIC can be reported to the Regulator who has the power to investigate and take action, including a decision to conduct an independent audit at the company’s own expense. The Regulator also has the power to start civil proceedings to intervene in the company’s affairs and to remove and appoint directors. The regulations are less onerous than for charities, but they still set up the structure of a regulated business. They are intended not only to ensure the business probity of CICs, but also to protect the integrity of the CIC brand and to maintain the competitive advantage that registering as a CIC might offer social enterprises.

There are now around 12,500 CICs in the UK. Most of them are small or medium-sized businesses but some are larger companies, and the field is increasingly diverse. The Regulator publishes monthly lists of newly registered CICs that illustrate the sector’s growing diversity as new registrations include anything from local shops, cafes, nurseries, sport associations, leisure clubs, art and community groups. Recently, more CICs have formed in the field of community energy and renewable technology (Regulator of Community Interest Companies, 2016, p. 8). The CIC has also become the standard format for public health spin-outs, some with budgets running into millions, but it is also popular in other public sectors, including education, youth and social care services, leisure facilities and community support. The number of existing CICs continues to grow cumulatively year on year and, according to the Regulator, proportionally fewer CICs dissolve after 21 months (the date when the first annual accounts need to be filed) than ordinary companies; so that if the current trend continues the Regulator anticipates ‘there being around 30,000 CICs delivering community benefit throughout the UK by 2026’ (Regulator of Community Interest Companies, 2016, p. 9). According to the Regulator, these figures far exceed the expectations at the time when CICs were set up, in June 2005. Parliament back then anticipated just 200 to 300 applications every year, but just over ten years on, this is roughly the figure of applications the Regulator receives per month.

³ Companies (Audit, Investigations and Community Enterprise) Act 2004, s. 35(2).

But the CIC is not universally praised. It presents problems, and it is only one of many corporate legal forms that are available to social entrepreneurs in the UK. As the CIC format has matured, other legal forms that accommodate social enterprises have also developed simultaneously. The structure of the cooperative and (charitable or non-charitable) community benefit society is available to operate a social cooperative model, and charitable incorporated organisations have introduced a variance of the traditional charitable format. Many social enterprises also continue to operate as traditional companies limited by guarantee or even as commercial companies limited by shares. B Corp certification is now available for UK-registered companies, a development which is likely to impact on the CIC brand and the development of social enterprises more generally. It is an attractive format to people who wish to set up their business as a 'force for good' in the wider community, but who are reluctant to accept the commercial restrictions of an asset-lock and dividend cap that are reversible only upon dissolution of the CIC. The B Corp certification format is less onerous in comparison but does not offer the security of a locked-in social mission, in the same way as the CIC. These are different legal tools but both help individuals to incorporate social purpose and entrepreneurship in a single organisation.⁴

While not without its limitations, the operation of the CIC model for more than ten years has produced important lessons on how social enterprises operate, on how to make them successful and how to regulate them. The introduction of the model, that necessitates a particular type of governance, has played a role in the development of the social enterprise movement in the last ten years, and in the continuing consideration of running business without losing sight of the wider community. Building on these insights, in the following sections we consider some of the lessons concerning the governance and funding of social enterprises, and their ability to demonstrate social impact, which the operation of the CIC model has revealed.

Governance

The CIC model is often taken up by very motivated passionate individuals or groups with vision and a sense of purpose. Most CICs are small, or even micro businesses, with the founding directors often taking a hands-on role in their work and running. This is not unusual in any new business and especially not in social enterprises, but it can lead to a lack of focus on governance which over time could leave the CIC without a robust strategy on forward planning, potentially compromising the business. It can be poor governance that is the cause of problems down the line, and directors of this type of company need to be mindful of this. The problem is not limited to smaller companies. Large CICs spun out of the NHS were also difficult to get right, requiring strong boards with managerial knowhow and a good understanding of business.

As the CIC model has grown and been taken up by more entrepreneurs and organisations the importance of governance and getting it right has become increasingly recognised. Governance and oversight of the business can be key to its accountability and success but for many setting up a CIC, there is a strong focus on delivering the social purpose that can often have a greater impact on direction and keeping control. Investors and funders on the other hand will want to see evidence of good governance when considering a CIC as a customer. Lack of good governance will be a sticking point and often social investors will include an element of business support to a social enterprise to ensure the focus on direction and commitment to a business strategy. Investors will want to know

⁴ See Hunter, Chapter [*] in this volume.

about the organisation, its staffing, governance, financial and business skills, customer base, competition, state of the market, profitability, connectivity, vision, capacity, track record of delivery, performance and impact measurement, reporting on achievement, cash flow and more. Grant funders may want a CIC to add to its governance structure to be sure that their investment is not being managed by a single director or small group of people as part of the decision-making process. This sometimes fails to take account of the fact that smaller boards can make decisions that are more immediate and in the interest of the company.

The Regulator's role is to monitor and support the good governance of CICs, and has made guidance on the governance of CICs available (Regulator of Community Interest Companies, 2017). Recently, a governance framework for CICs was devised in a partnership project that involved the Regulator and a range of relevant organisations and independent consultants, to provide further guidance to the boards of CICs and more importantly to outline the importance of governance in a clear and simple way for boards that may lack experience or expertise or, more likely, many have simply prioritised day to day operations to keep the business going (Bates Wells Braithwaite, 2015).

CIC directors have the same responsibilities as directors of any company, as laid out in the Companies Act 2006, but they are also required to ensure the company maintains its legal responsibilities under the community interest test and to maintain the asset lock and purpose of the company as part of its corporate duties. Unlike other businesses, social enterprises need to balance the dual demands of doing good and doing well financially. There is a risk that commercially successful social enterprises may drift away from their social purpose and undermine both their social impact and their reputation as a social enterprise (Regulator of Community Interest Companies, 2016, p. 11). Above all, CICs must be transparent in the way they operate and are governed. Governing documents and annual reports go on public record. These companies have taken on a legal (and moral) responsibility to maintain the credibility and sustainability of the business in delivering its social purpose. They have taken on additional responsibility by putting a regulated structure around their activity and are highly accountable for ensuring good business and corporate decisions in the light of this. Failure impacts not only on the company and its directors but on the community of interest and social impact that is the purpose of the activity.

Governance in a CIC and any social enterprise requires a range of skills that are unlikely to be found in one person. The minimum number of directors to set up a company is one. If CICs are going to deliver social purpose, make profit for the purpose of the company and thrive they should have a range of skills on the board to enable this. The advantage of a small board however is quick, purposeful decision making. Each company will have to find an appropriate structure to balance these demands. The need for transparency (and accountability to funders) can force a company to set up a larger board than desired but effective stakeholder engagement (e.g. a stakeholder council) can help avoid an unnecessarily large board. In small start-up CICs that have no employees, founders should identify who else they might involve in their governance.

The CIC format leaves individual companies the flexibility to decide how they consult their stakeholders. There is a view that more standardised stakeholder engagement processes should be introduced, and the CIC model should be more prescriptive in formally committing companies to these processes. Flexibility on the other hand is important as it allows social enterprises to develop innovative and effective ways of involving their stakeholders in the strategy of their business (e.g. one director might be a user representative, or they might set up a separate body to advise the board)

(Bates Wells Braithwaite, 2016, p. 17). The CIC report, which is placed on public record, is a means of assuring stakeholders that the CIC engages in activities that benefit the community and it also provides public information on how CICs have developed stakeholder engagement strategies.

The requirement of transparency is integral to the CIC model. The Regulator has wide powers to hold CICs to account publicly though it has been light touch in using them. It rarely makes any complaints about individual CICs public, unlike the approach taken by the Charity Commission, where complaints about individual charities are usually followed up by a public inquiry. While there is a view that the Regulator's light touch is impotent, it should also be noted that there is no requirement for a social enterprise to be a CIC. The model on the whole attracts a certain kind of social entrepreneur, and the lack of headlines to date, about failure and poor behaviour by CICs, attests to this. According to the Regulator, recent complaints have addressed the conduct of directors, delivery of community benefit, financial mismanagement, unpaid invoices and asset transfer, but overall complaints are rare. In 2015-16, with just under 12,000 CICs on public record, there were complaints on just 0.44% (Regulator of Community Interest Companies, 2016, p. 16). In some cases, the Regulator broadened the scope of information required from CICs in the renewable energy sector to address concerns that applications in this sector might not fully meet the conditions of the community interest test (Regulator of Community Interest Companies, 2016, p. 9).

There is concern that directors could abuse the CIC form by paying themselves high salaries because they are restricted from extracting money as equity (dividend cap) or through asset sales (asset lock) (Lloyd, 2011, p. 39). But CICs are under the same directors' remuneration reporting requirements as those of other companies (depending on size of the company and level of remuneration) and in addition, the Regulator has powers to remove directors for inappropriate conduct. The low number of complaints to date is reassuring, though the Regulator does not make the nature of any complaints that have been handled public. There is scope for further research into CIC directors' remuneration and whether salaries are being used to extract value from CICs.⁵

Investment

Developing businesses that grow sustainably and that are attractive to funders is key to the success of CICs and social enterprises generally. Many social enterprises establish themselves in their local communities, but struggle to scale up their businesses, and they tread a fine line between preserving their social purpose and running a sustainable business. According to the Regulator, of those CICs that eventually dissolve, most do so within the first two years of incorporation and the most common reason cited is the inability to obtain investment and funding. Those that are successful tend to have a strong business plan, are able to demonstrate good corporate governance and target funders that are most sympathetic to their activities (Regulator of Community Interest Companies, 2016, p. 16). Other funders however still equate CICs to charities, without fully appreciating the commercial side of the CIC model (Regulator of Community Interest Companies, 2016, p. 11).

About three quarters of all CICs are companies limited by guarantee that do not issue shares. Those constituted as companies limited by shares have paid out share dividends substantially lower than mainstream companies; in fact, few have paid any dividend at all.⁶ Most people who set up CICs do not see them as a vehicle for equity financing but rather as relying on grants, debts and public

⁵ The Regulator does not currently keep statistical information on CIC directors' remuneration.

⁶ Personal correspondence, Office of the Regulator of Community Interest Companies.

contracts, but some make the case for the CIC limited by shares, to attract investors with an interest in social impact who can also receive a financial return on their investment. There is resistance to the idea of paying dividends and a view that private gain in this instance does not reflect social purpose, but this should be open to question, when a company has a clear social purpose and reports its impact transparently. In these circumstances, the investment ought to establish a unique relationship that could bring greater social change.

Whilst the CIC can and does attract grant funding, it begs the question whether this is the most suitable way of bringing funds into the business, especially when there is such competition across the third sector, particularly amongst charities, for this kind of support; and the CIC is a commercial entity and has other options available to it. Many CICs themselves still appear to be averse to this, possibly because key players are more aligned to the social and community aspect of the business and are more risk averse than their counterparts in ordinary business. This is changing though, and CICs can be an attractive option to social investors with the protection of the asset lock and related additional commitment to the purpose of the company.

Social finance and investment in CICs has grown in recent years while legislative changes have taken effect to facilitate this. Following calls from within the sector to increase the CICs' financial flexibility, in 2014 Parliament approved changes to remove the statutory 'dividend per share' cap and increase the interest level for performance-related loans to 20% to make it easier for CICs to attract outside investors.⁷ Prior to 2014, two caps operated simultaneously to restrict dividend payments in a CIC limited by shares, including an overall cap of 35% of distributable profits, and a cap per share of 20% of the paid-up value of the share. The first of these remains, but the second has been abolished, enabling CICs limited by shares to pay dividends without investors needing to commit potentially large amounts of money, to encourage more potential investors to come forward.

The CIC limited by shares, these days with less restrictions following amendments to the CIC legislation, embodies the more commercial aspect of the CIC model. More CICs are turning to this more commercial way of financing their business, though founders, who often have experience and want to keep control over their mission, continue to be concerned that lenders and shareholders should not become overly controlling (e.g. by increasing board sizes). Social Investment Tax Relief (SITR), introduced in 2014, is starting to reflect interest from smaller investors who can achieve tax relief for their investment in a CIC (and other asset locked models) (UK Cabinet Office, 2016),⁸ and it offers people setting up social enterprises access to cheaper capital, potentially without the risk of having to dilute ownership of their company. Many investors and CICs are still uncertain about the nature of SITR (Rotheroe and Lomax, 2016), but it has encouraged more strategic business development, to enable CICs to grow commercially stronger and be more influential, rather than retaining a hybrid status where the company behaves charitably and focuses its income generation on grant income while having the responsibility of a private limited company.

⁷ The Community Interest Companies (Amendment) Regulations 2014 (SI 2014/2483), and for earlier amendments see The Community Interest Company (Amendment) Regulations 2009 (SI 2009/1942).

⁸ Organisations must have a defined and regulated social purpose. Charities, community interest companies or community benefit societies carrying out a qualifying trade, with fewer than 500 employees and gross assets of no more than £15 million may be eligible. The scope of SITR has just been raised to £1.5m (for organisations up to seven years old).

Public Contracting

For many CICs and other social enterprises, contracting with the public sector provides an important potential income stream but they still struggle to access public contracts. Often contracts are simply too large for social enterprises, including CICs, to deliver them; and especially where public authorities look for the cheapest price as opposed to long term value, social enterprises often lose out to larger commercial providers in the procurement. Many also struggle with procurement bureaucracy and risks that are written into contractual terms. These are structural barriers for social enterprises, but the underlying causes are often cultural. Public authorities, increasingly strapped for cash in times of public austerity, have become more risk averse and often focus on short-term cost savings. But things are changing. Increasingly public authorities are taking on board that social enterprises can deliver longer-term social value and integrated (social, environmental and economic) outcomes in ways that many commercial providers cannot, while also conducting their business more entrepreneurially than charities.

From 2013, when the Public Services (Social Value) Act 2012 came into force (hereafter the ‘Social Value Act’), public authorities have been under a legal obligation to consider economic, social and environmental well-being of the wider community, as opposed to purely commercial value for money, before procuring larger public service contracts with a value above the EU procurement thresholds (Boeger, 2017).⁹ Their duties are soft – the Act does not impose an obligation to act upon these considerations – and they only extend to larger public service contracts but not to the procurement of works and goods or smaller service contracts. There is room to argue that the Act should be strengthened further and more statutory guidance issued, but emerging research suggests some public authorities are embracing the principles of the Act more widely and have begun to procure all their goods, works and services in ways that are less bureaucratic and more focused on sustainable outcomes for the benefit the wider community, and that are therefore more accessible to smaller and social enterprises.

Can being a CIC make it easier for a social enterprise to access public sector contracts? On the one hand, the legal structure provides assurance to the public authority that social and commercial interests are integrated in the CIC organisation. The CIC’s formal commitment to account to its stakeholders and the ‘lock-in’ of this social purpose do offer public authorities a degree of confidence that the CIC provider will take account of the wider interest of the community and not just the interests of its shareholders when delivering the contract. Many public authorities, on the other hand, still lack awareness of these and other benefits that the CIC format can offer and there remains a misconception among some that CICs are essentially ‘like charities’, not commercial organisations. According to the Regulator (Regulator of Community Interest Companies, 2016, p. 11),

‘the misperception of social enterprises as wishy-washy dogooders remains among parts of the private and public sectors. Some social entrepreneurs feel that they have to work that much harder to establish themselves in a commercial world.’

The role of the CIC as a vehicle for public service spin-outs has given them a greater public profile and helped address these misperceptions to an extent. Most of the largest CICs are public service spin-outs, mostly in the public healthcare sector, and it is not uncommon for these organisations to operate on a multi-million-pound budget, with several hundred employees. Spin-outs (or public service mutual

⁹ UK Public Services (Social Value) Act 2012, section 1(3).

as they are called in England) were introduced around 2008 as an alternative to traditional public service outsourcing. Although it was a Labour government that introduced the spin-out model, the Coalition and now the Conservative government have continued it. The process involves setting up a new entity that is owned and controlled by staff, or a joint-venture between employees who own the new company; the public body (e.g. a local authority or NHS commissioning body); social investors who provide money; and users who will play a more active role in the 'spun-out' service. Structurally, the spin-out is similar to a management buy-out, with the difference that the resulting organisation is a social enterprise – usually a CIC - rather than a conventional company, owned by all staff and set up for a social purpose.

The growth of spin-outs has boosted the presence of social enterprises, and in particular CICs, in the public service sector, but it also underlines the importance of strong legal structures, effective regulation and good governance. Usually, the motivation for setting up a spin-out is to improve services and deliver them more cheaply – to provide better value - than the bureaucracy of the public sector could manage. The motivation is the same as for full privatisation, even if in the case of a spin-out staff and/or their managers are often the key drivers (and the alternative to spinning out is often full outsourcing or a closing of the service altogether). In these circumstances, the CIC's protection against 'mission drift' away from its original social purpose, especially the asset lock on restrictions on profit-distribution, stand between public service 'mutualisation' where social interest is central, and full privatisation involving providers that are driven exclusively by commercial profit and shareholder value.

Social Impact

In recent years, with the wider availability of social investment and introduction of the Social Value Act, there has been an increasing demand for social enterprises, including many CICs, to demonstrate their social impact, namely, what effect their activities have on the relevant communities in which they operate, including the well-being of individuals and families. This interest is not new. In fact, it is something the sector has been addressing for over 25 years, and there are plenty of products on the market to measure social impact, designed with social enterprise in mind (McLoughlin et al., 2009). But despite the saturation of impact measuring tools, methodologies and best practice, a sense of confusion continues and, related, there are still calls for more standardised procedures. At its core, social impact measurement uses the data collected about an organisation's activities to measure the change to people's lives and the environment, and how that change benefits society. Like charities, most social enterprises are familiar with monitoring, evaluating and reporting on their activities. But when it comes to measuring their impact and outcomes (the extent of behaviour change and the value it brings to society), the picture is more complex, and it is evident from their publicly available annual reports that currently only a minority of CICs are measuring their impact using independently verified standards.

There are several contributing factors why social enterprises, including many CICs, have found it difficult to identify or to follow agreed-upon methodologies for social impact measurement. One reason, it has been suggested, is the character of social enterprises as organisations that are accountable to a diverse set of stakeholders 'with disparate expectations and understandings' (Molecke and Pinkse, 2017), whereas the accountability of traditional firms extends largely to their owners and shareholders. Further, the expectations of those to whom social impact assessment is primarily addressed, including social investors in the private or funding authorities in the public sector,

are not always consistent. Recent research into the application of the Social Value Act at local authority level for example suggests there is still much uncertainty in how councils identify, measure and assess social value in their public service commissioning in procurement practice; producing 'a quite complex picture with councils using the Act in a myriad of different ways.' (Social Enterprise UK, 2016). There have also been calls for the Regulator to begin to standardise processes and make social impact measurement compulsory for CICs when they discharge their statutory obligations to submit an annual report and accounts; although taking into consideration the diversity of companies now registered as CICs, from individual social entrepreneurs to large (formerly) public sector spin-outs, the benefits of any moves towards standardisation should be carefully assessed.

But there is a deeper structural reason why measuring social impact is a matter of some complexity today. Different traditions of social impact measurement have shaped this practice in Britain, and the tension, at least in part, between their divergent approaches continues to be relevant today. An important tradition can be traced back to George Goyder's work who initially introduced the 'social audit' in an effort to make business more accountable to society at a time of rising globalisation (Goyder, 1961). By the early 1990s, the social audit movement was gaining traction in Britain, particularly amongst cooperatives and community enterprises looking for ways to communicate their social and environmental impact to their internal and external stakeholders. Influential in the context of this movement was also John Elkington's work, throughout the 1990s and 2000s, on developing social accounting along a 'triple bottom line' where financial data is seen as only one element alongside social and environmental outcomes (Elkington, 2004). Despite its financial roots, the theory behind the social accounting process, as with the social audit, questions the necessity to reduce of all meaningful information to financial form.

Responding to genuine interest in standardisation of impact measurement a group of cooperatives, community enterprises and practitioners established the Social Audit Network (SAN) in 2000. SAN combined and adapted the social audit and the 'triple bottom line' approach to accounting in order to create their own Social Accounting and Auditing process, for which they wrote a manual which is periodically updated, and they began to train practitioners and introduced an independent verification process (Social Audit Network, 2017). However, even during the early years, it became apparent that the process was onerous especially for smaller organisations who found it difficult to manage the additional work it required, and SAN has struggled to mainstream the product.

A new approach to social impact measurement began to develop and gain traction in the mid-2000s, as new entities were joining the social enterprise movement, including the CIC. At EU level, the Work Integration Social Enterprise (WISE) (Davister et al., 2004) attracted interest and renewed curiosity in impact measurement, due in part to the EU-funded EQUAL programme, meant that many non-profit organisations across Europe started experimenting with different impact measuring methodologies and tools. Social audit and social accounting became one amongst many such tools. During this period, in response to the diverse needs of a growing social enterprise sector both nationally and internationally, customised measures for specific types of impact were being introduced, including indexes and scorecards such as the Grameen Foundation's Progress out of Poverty Index or the Impact Reporting and Investment Standards.¹⁰ Some of these methods focused on measuring specific impacts, but others sought to measure the efficiency and validity of the activities a social enterprise

¹⁰ See, respectively, <http://www.progressoutofpoverty.org/> and <https://iris.thegiin.org/>.

performs to generate social impact, including methods based on logic models and theories of change (Rogers et al., 2000).

In the UK, the New Economic Foundation began testing an adaptation of a conventional business tool – ‘return on investment’ – to develop a new instrument for measuring social impact: Social Return on Investment (SROI) (Gargani, 2017). The process for collecting evidence of SROI is similar to those used in social accounting and auditing, but SROI maintains the principle that all impacts can be given a meaningful financial value. To a growing social investment market, being able to quantify the value of a social impact in financial terms was, and still is, an extremely attractive proposition, and in 2008 the UK Government began funding the development of SROI. It signalled a preference for SROI over other methodologies, including the more developed social accounting and audit. However, there are downsides to SROI, including cost and complexity. To be effective, this methodology requires banks of indicators and financial proxies which even today are still being developed. Questions over the methodology’s reliability, especially the risk of potential distortions when converting social into financial value, are the subject of ongoing research (Nicholls, 2017).

Based on this evidence and the history of social impact measurement to date, what seems apparent is that a one-size-fits-all solution is unlikely to meet the needs of all social enterprises, including CICs. The tension between the financially oriented SROI and the wider social audit is still ongoing. And questions continue to be raised whether further standardisation is useful: can standardised processes enhance multiple stakeholder engagement? Will these processes increase transparency and accountability without stifling innovation? To add a further dimension, research now indicates that certain social enterprises, including CICs, have openly started to question and ‘delegitimize’ the validity of formal methodologies for impact measurement on the basis that, with these methodologies social impact is immeasurable; data collection is an imprudent investment; the underlying theoretical logic is incomplete to establish the link between inputs, outcomes and impact; and the resulting measures are irrelevant to predict future success or guide decision-making (Molecke and Pinkse, 2017).

While the social enterprise movement continues to evolve and attract new entrants, the probability that we will see new or ‘blended’ (Emerson, 2003) forms of social impact measurement on the market seems more likely than an imminent agreement on standardised processes. This may in fact be something to welcome. After all, the light-touch regulation of the CIC format is part of its attraction, and it may be necessary for innovation to flourish and create space for entrepreneurs to develop new ideas about what social impact means in their specific context (Carstensen, 2011). As we move forward, the use of Information Technology, social media and data analytics will no doubt create another paradigm shift, as will the increasing interest from for-profit entities to consider their impact on society, which implies that the practice of social impact measurement is gaining relevance beyond the social sector (Molecke and Pinkse, 2017).

Advice and Awareness

Access to adequate advice and guidance is crucial in the development of the CIC model and social enterprises generally. Those wishing to set up a social enterprise are often not sure where to go to find the best vehicle for new start-ups or for growing their existing organisation. Still too many have not heard of the CIC. Solicitors may be able to help outline options and give information for them to make a good decision about the best vehicle, but other means of advice are also available through the Regulator, Government and local authorities, commissioning bodies and the wider CIC community.

The Regulator has a role to play in growing public awareness of the CIC brand and to support a public eco-system that is favourable to the CIC format, including its involvement in the recent CIC legislation review and the CIC framework for governance. In 2015, the ten-year anniversary celebrations saw the Regulator speak at events across the UK to publicise the CIC model and to support existing CICs and address their individual concerns. It has targeted especially local authorities and has encouraged them to better understand the role and purpose of CICs and to apply consistency when considering specific policies such as discretionary rates relief.

The annual community interest report provides an opportunity for CICs to showcase publicly what they do and how they measure it, which is not shared by ordinary companies. According to the Regulator, its collection of CIC reports over time have demonstrated that those CICs which are able to measure their social impact, understand their market and can demonstrate strong governance are most successful in attracting funding. The Regulator describes the reporting regime itself as a tool for success, not only because it generates transparency and maintains the integrity of the CIC brand, but also because it makes free data available to study good practice of how CICs are developing as a business model. It refers to ‘a huge body of evidence which tells the story of CICs and the wider social enterprise movement’ which not only the social enterprise community but also ‘an increasing number of academics and students’ are taking advantage of (Regulator of Community Interest Companies, 2016, p. 10; Nicholls, 2010).

Finally, CICs themselves have also taken-up the initiative to disseminate their business models and activities in the wider community, nationally and internationally, including in many developed countries in Europe and beyond (e.g. Korea, Japan, Canada, USA, Australia), and in developing economies that are in need of guidance on CICs. The CIC may have started off as a niche corporate experiment but the UK network, The CIC Association, describes CICs now as an ‘evolution that will change the way people do business in the UK.’¹¹ Especially larger CICs and public service spin-outs reach out to stakeholders, commercial businesses, policy-makers and researchers, working with the public sector to ensure that the CIC format is widely understood, that further funding opportunities are developed and that business talent can be attracted into the sector to grow its impact (Regulator of Community Interest Companies, 2016, p. 11).

Conclusion

The CIC format is attractive to those who believe that there is “another way” to do business and who wish to challenge the paradigm that profit is the only benchmark against which to account for a company’s success. The CIC allows founders to incorporate social activism and entrepreneurship in one organisation. CICs are set up with a social purpose - to “do good” in the wider community – but recognising, too, that investment and entrepreneurship play an important role in enabling this to happen. As the overview in this chapter has demonstrated, questions are left to be answered, and wider awareness is still to be raised, about the benefits as well as the limitations of the CIC form. Some of these are specific to the format itself, and others applicable to the social enterprise sector more widely. Clearly the CIC model does not suit all social entrepreneurs. Some people do struggle with the irreversible character of its legal architecture, including the asset lock, accountability requirements and restrictions on equity, while for others these ‘locked-in’ social features provide welcome assurance that a social purpose will remain embedded in the company. Once a CIC is set up it can only

¹¹ See <http://cicassoc.ning.com/>.

be changed on winding up; a hard-balancing act, not to be taken lightly. The format is not for every social entrepreneur but while CICs may not take over the world, the introduction of the model has played a decisive role in the development of the social enterprise movement in Britain in the last ten years, and in continuing consideration of running business without losing sight of the wider community without which it could not exist.

The CIC has offered important insights into the operability of a regulated business structure that is not a charity. So far, the CIC model offers an encouraging picture suggesting that the regulation of business for social purpose is workable, provided resources within the Regulator are well-balanced and -managed. It does involve making the choice between a commercial orientation whereby the Regulator remains light-touch (its current approach), and an interventionist approach that prioritises the CIC's social character and their social purpose, for which they ought to be publicly held to account, much like charities. At the same time, the current model also highlights an important paradox, namely that, as Stephen Lloyd remarks, 'the government has seen fit to appoint a regulator to potentially intervene in the affairs of what will often be small organisations, which it is not prepared to do with the likes of massive oil companies' (Lloyd, 2011, p. 38). The CIC's regulated business structure should be a reminder therefore that non-intervention and 'market-based' approaches to cooperate governance that rely on 'comply or explain' principles and widespread yet often ineffectual voluntary CSR policies, and that are so well entrenched in the UK's traditional corporate governance model, are not an inevitability. There are choices, and the CIC model is living proof that different alternatives are workable. It also involves making the choice between a commercial orientation, whereby the Regulator remains light-touch (its current approach), and an interventionist approach that prioritises the CIC's social character and their social purpose, for which they ought to be publicly held to account, much like charities.

The CIC structure itself has meanwhile not remained static, and its growing popularity has made apparent that a mission-driven version of the model – prioritising social purpose and reluctant to let in outside finance and control – can be too limiting for many CICs. A more commercial model is gaining some ground within the CIC community, that is more open towards social investment and equity finance, and the financial measurement tools to go along with it, and is actively seeking a competitive role as public service spin-outs or contractors. This is a fledgling development but the evolving ecosystem that surrounds CICs and social enterprises generally is likely to play a role too in how these shifts will develop into the future; especially the advent of more flexible mission-led business alternatives like the B Corp certification, but also the SITR with potential to further stimulate the social investment market.

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