

# ▶▶▶ How to create a company



**Social  
Business in  
PROGRESS**

# How to create a company

## Introduction

'*Social Business in Progress*' is a project that belongs to the PROGRESS programme, a financial instrument of the European Commission with the objective of supporting the development and coordination of EU policies.

The main objective of the project is to experiment and measure the effects, in Europe, of remarkable approaches in business (social business, social entrepreneurship and inclusive business) that contribute to the social integration and employability of disadvantaged groups.

This handbook is made up of three independent parts:

- **Part 1: "I am going to be the best entrepreneur"**. Aimed at fostering entrepreneurship among disadvantaged groups.
- **Part 2: How to create a company.** Help for those who want to become entrepreneurs.
- **Part 3: Social innovation and employment in the European Union.** The most important outcome of the project, showing the research and pilot projects accomplished by the partnership and the project conclusions.

The project partnership is formed by the following entities:

### Lead partner:

- APCC (Associação de Paralisia Cerebral de Coimbra), Portugal



### Co-partners:

- LCD (Leonard Cheshire Disability), UK



- Proceśy Inwestycyjne, Poland



- SDC (Saír da Casca - Consultoria em Desenvolvimento Sustentável), Portugal



- IVAS (Instituto Valenciano de Acción Social), Spain





This unit forms part 2. It aims, in a very brief way, to give you a starting point when thinking about creating a company. Although it is written from the perspective of the social entrepreneur, you should have in mind that the main difference between an entrepreneur and a social entrepreneur is that the latter is an entrepreneur with a social mission; the opportunities he or she identifies are solutions to society's social problems. In other words, only their motivations differ.

Entrepreneurship is, above all, an attitude towards independence and fulfilment. It is about identifying an opportunity and transforming it into a business through your knowledge and creativity.

All parts available at:  
[www.socialbusinessinprogress.org](http://www.socialbusinessinprogress.org)



## II ► Motivations

Being a social entrepreneur is very challenging. Not only do you want to achieve financial outcomes, but also social and/or environmental outcomes. And to achieve these outcomes, you need to engage with a diverse and large number of stakeholders (those who can influence or be influenced by your activity).

To start your activity, you have to define success – what you want to achieve. You also have to be aware of the demands this will have on you, because it often takes several attempts to achieve success.

You should choose to become a social entrepreneur if you are motivated to create positive change around social or environmental issues. But you should also be aware that this may be harder than you imagine; for example, attracting investment can be a big challenge because these kinds of enterprises aren't always or immediately highly profitable. For this reason, you should try to attract support through other means than money, and this applies not only to investment but also to employees.

## II► Identifying opportunities that can become a business idea

Once you have an idea that is still at an early stage, you have to think about the following:

- Can I define my market? Am I sure that there is a demand for what I want to offer? Have in mind that sometimes those who will benefit from your service or product might not be the ones willing to pay for it.
- Can I deliver this product or service successfully?

You have to investigate the market and see how potential competitors and/or partners are working. This will help you understand what would be the best operational model for your idea. And you also have to think about the skills and gaps you have that might be relevant to the fulfilment of your idea – in this way, you can look for partners who will be critical to the success of your project.

## II► Business model

### What is a business model?

The business model answers questions such as: What do you do? How do you do it? Why do you do it? It shows an integrated view of your social model, strategy and operational plans.

Moving from idea to business is a process with much iteration. When you start developing your business model, you start at the most strategic level and, as you go along, you will start detailing.

You can start by using a business model canvas<sup>1</sup> and work on several modules:

- value proposition - a promise of value to be delivered and a belief from the customer that value will be experienced;
- concerning the activity (key partners, key activities, key resources);

- concerning the customers (customer relationships, channels and customer segments);
- cost structure;
- revenue streams.

You can then begin to go into more detail.

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<sup>1</sup> [www.businessmodelgeneration.com/canvas](http://www.businessmodelgeneration.com/canvas)

## II▶ Defining the ‘problem’ and the solution

Your social model will evolve over time. As you better understand the ‘problem’ and its causes, your solutions will become more effective. It’s important to understand the context in which your ‘problem’ exists, and who is experiencing it, so that you can define your goals and the changes needed to help solve the problem.

Defining your proposal means you have to think about:

- What are you offering?
- Why will it address the needs of your audience?
- Why you are best placed to deliver this service?

Thinking about these questions is a very good exercise, because you will probably have to communicate your offer to different stakeholders, which implies having different value propositions.

### Who are the stakeholders?

Stakeholders are people or organisations who will impact your project/business or who will be impacted by your project/business. They can be internal, such as employees, or external, such as your target groups, suppliers or the local community. It is crucial to understand who your key stakeholders are and what their needs and priorities are, as this will help you define your value proposition.

Before you turn your plans into an organisation, you should plan a pilot phase for your project. This way you can test its viability.

First, you need to think about the parameters of the pilot, such as:

- where – you can start at a geographically defined area;
- who – you can start with a specific segment of your target group;
- how long.

You will also need to think about the targets:

- operational targets – amount of service delivered;
- social/environmental impact targets.

## II▶ Identify clients and value proposition

You need to connect your offer with your target audiences. To do this, you have to clearly define who they are, in order to define the value proposition to these audiences.

## II▶ Legal structure

What makes a social enterprise is its activity, not its legal structure, so there are different legal forms from which you can choose. Social entrepreneurs tend to adopt a legal structure rather than remaining self-employed because it can be a requirement from stakeholders that you engage with, it can be a requirement based on the type of activity that you are going to undertake or it can enhance your credibility. You should look for the main legal structures existing in your country and analyse the pros and cons of each.

It is important to get it right from the beginning, so you should consider getting legal advice and look into issues such as personal liability, ownership, funding, governance and profit distribution.

You will have to look for information on taxes, recruitment and legal structures available in your country/area.

## II▶ Governance

The governance of your project/business is the decision-making structure and is directly related to the legal structure that is chosen. An enterprise management structure can have a board of directors: a body of elected or appointed members who jointly oversee the activities of an organisation. Company members are shareholders who can also be referred to as owners. They can elect directors to manage the company on their behalf.

In structures such as co-operatives, the members also participate in the management. In a start-up, the most common situation is for the owner (member) to be the director.

You will have to look for information about the governance of legal structures available in your country/area.

## II▶ Financial management

Your financial situation will be key to achieving your social mission. Financial management is the process of planning, monitoring and evaluating all the financial aspects of your business – how money comes in and how it is invested. You will need to track revenues, funding, investment, operating costs, staff costs, purchases, payments to suppliers, payments to investors, etc.

To do this, you will have to make a profit-and-loss account where you capture all of the regular income and expenditure relating to your enterprise.

You have to understand how much investment you'll need and to predict your payback period.

## II ▶ Funding

You may need funding from third parties when you are starting and when you are scaling up. The start-up fund can be the hardest, because you don't have a track record. You have a business plan, but there isn't any guarantee that it will be sustainable. The sources of funding available to you will depend on the amount of trading income you expect to generate, the expected profitability and the legal structure.

Examples of funding sources are friends, family, angel investors, working capital, loans, grants, equity investment.

You can look for funding options under 'Social Finance Instruments' in the third part of this handbook.

## II ▶ Piloting and Refining

During the pilot phase, you have the opportunity to prove that your idea works – not only commercial success with key financial indicators, but also the viability of your social model demonstrating its social impact. If you can build strong evidence that your idea works and has social impact, this will help you market your product or service and obtain financial support.

To measure the social impact, you should develop indicators right from the beginning. You need to collect data and be able to interpret the data, so set up a simple system and process.

The track record of the operation and its impact will allow you to keep refining your business model. Pay attention to feedback given by customers and beneficiaries to changes that might happen in your external environment and to partnership opportunities where you can add value, capabilities or build a broader offer to your customers.

You should test your marketing strategy, i.e. how you plan to communicate value proposition to your target audience. To do this, you should consider: your brand identity; how you communicate; your position in the market; how your value proposition compares to that of competitors; how you will reach the target audience with your value proposition; which channels you need to use.

## II▶ Presenting your idea

When it comes to presenting your idea, have these ten topics in mind:

- What is the problem?
- What's your solution to this problem?
- What is your business model?
- Which process/technology enables this solution?
- What is your commercial approach?  
(Sales and marketing)
- Who is your competition?  
(Other players in the market)
- Team involved in the project
- Goals and targets
- Current situation and action plan
- Summary and call to action



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The seven-year Programme targets all stakeholders who can help shape the development of appropriate and effective employment and social legislation and policies, across the EU-27, EFTA-EEA and EU candidate and pre-candidate countries.

For more information see: <http://ec.europa.eu/progress>

The information contained in this publication does not necessarily reflect the position or opinion of the European Commission.”

The Social Business in Progress project partners are:

