

Interview

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## Dream catcher

Alison Benjamin meets the boss of Big Invest, whose groundbreaking buyout fund will transform private firms into socially focused businesses

**Alison Benjamin**

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Nigel Kershaw is not afraid of leverage buyout. He is about to turn on its head the infamous business practice that has made private equity firms public enemy number one for their slash-and-burn approach to the take-over of household names.

Next month Big Invest, a specialist finance company for social enterprise headed by the ebullient Kershaw, is launching its own social venture buyout fund. It aims to raise £10m to buy five private companies, but instead of stripping the companies' assets, laying off staff and selling the new acquisitions at breakneck speed for a 20% return on its investment, Big Invest will transform the private companies into social enterprises.

Kershaw thinks the comparison with private equity firms is "fucking marvellous". "Anything that goes on out there in business, I reckon you can look at and say: 'How can I turn that to create social transformation?'" says Kershaw, snorting with laughter. "So when someone says to me, 'Leverage buyout is a dirty word,' I think: 'How can we use that?'"

Kershaw is not a financier, which may be why he thinks capitalism's excesses can be subverted for social good. He is a printer by trade who teamed up with John Bird on the Big Issue more than 10 years ago, and is acknowledged as Bird's lesser-known right-hand man. "The good cop to Bird's bad cop", as one acquaintance puts it.

But Big Invest, which is owned by The Big Issue Company, has a team of top financiers who between them have worked for the World Bank, private equity firms and a leading social bank in the US. Its chairman ran the largest credit-rating agency in Europe. They are the ones who can translate Kershaw's dreams into reality.

Big Invest has its eye on smallish companies with a £10m turnover operating in the healthcare sector. It is working with the Young Foundation to identify potential buyouts and hopes to create employment for ex-homeless and disabled people.

The idea is not entirely new. It is being tried in Australia, where an organisation that develops social businesses has taken over a bonsai tree company that is now employing people with mental illnesses. Kershaw describes hearing about this antipodean experiment, 18 months ago, as his "eureka moment".

The difference with the UK version is that it is raising private finance, instead of grants, to fund the buyouts and needs to make a "market" return on its investment. Kershaw insists this can be achieved without cost-cutting and laying off staff.

"This is not about slimming down and asset stripping. Any staff who leave will be through natural

attrition. The bonsai managing director loved the idea of being bought out by a social business so much that he stayed on for two years to manage it," Kershaw enthuses. He dislikes the term not-for-profit to describe social business. "We're for loads of profit," he insists. "The issue is what you do with it."

He hopes to persuade Big Invest's investors - some of who are likely to be partners in private equity firms - to plough back the returns they make into the buyout social business.

As he explains the concept, it dawns on Kershaw that Big Invest is redefining venture philanthropy - a relatively new approach to charitable giving pioneered in the US by high-risk investors known as venture capitalists. Until now venture philanthropy, says Kershaw, has "mopped up the excesses of the market" by providing charitable vehicles in which venture capitalists can donate some of the huge sums of money they make through their work.

"What's different about our approach is that we want them not as philanthropists but as investors, using their work skills to deliver a financial and social return," he explains.

But wouldn't Kershaw - a former union stalwart and old-style socialist - rather there were no excess wealth to mop up? "I'd rather the Big Issue didn't have to exist," he says. "We should be like lemmings: find the solution [to homelessness] and jump off the cliff. But this rarely happens."

In the real world, he is happy to do business with private equity firms and play with their financial models.

The buyout loan is the latest initiative from Big Invest, which was founded in 2005 with £3.5m to lend to social business. Over the past 18 months, it has made 15 loans, including £250,000 to St Margaret's Bay Trust to create a zero-carbon conference and training centre in Kent, and £250,000 to fund the expansion of Belu, the first bottled water company in the UK to use compostable bottles.

Big Invest differs from a social bank in that it lends money in a more creative way, says Kershaw. With Belu, for example, instead of loan repayments, Big Invest takes a royalty when the business has sold a certain number of bottles, which, says Kershaw, gives Big Invest more of a stake in the business succeeding and prevents initial cashflow problems experienced by many start-up companies. Similarly, it has loaned money to a dental social business against how many teeth are going to be drilled. "Without an asset, such as a building, many social businesses have problems raising finance and growing", explains Kershaw.

The idea behind Big Invest was to expand the social business sector. There are now an estimated 55,000 social enterprises across the UK, but back in 1991, when Body Shop co-founder Gordon Roddick saw homeless people in New York selling Street News and decided to export the model to Britain's cities, the Big Issue was one of the earliest pioneers. "It was a business solution to a social crisis," says Kershaw. "That's the core philosophy."

A decade on, Roddick (who still sits on the Big Issue board), editor-in-chief John Bird and Kershaw (then the Big Issue's managing director), found themselves asking why there weren't more businesses like the Big Issue and Café Direct (the fairtrade coffee pioneers). They explored ways to scale up the sector.

The initial £3.5m came from a mixture of government grant, through the Phoenix Fund, and a tax incentive scheme for individuals and organisations to invest in social enterprise. It now hopes to expand its lending to £10m. But why should social businesses borrow from Big Invest when there are now a plethora of charitable foundations, government sponsored funds and ethical banks falling over themselves to fund the burgeoning sector?

"There may be lots of people wanting to lend money to you, but what you're looking for is people who understand you and are willing to structure their loans in ways that are different," says Kershaw,

outlining what he believes is Big Invest's unique selling point.

Isn't there a risk, given the vogue for social business and the government's embrace of the sector in order to offer innovation in public services, of companies "socialwashing" to get their hands on the cash? "There is a real danger that social enterprise becomes an end in itself," he replies. In response, he has posed the question: "Social transformation or privatisation?" at a debate at the Social Enterprise London conference later this year. "If we're just privatising the NHS and not creating social transformation, what is the point?" says Kershaw.

He congratulates the government for its social enterprise action plan, designed to create the right conditions for social business to thrive, but says that more must be done to reward higher risk investment in the sector.

Meanwhile, what is Kershaw's next City target? Hedge funds maybe? "Yes," he replies laughing again. "I'd like to get hold of their model to adapt it to meet financial and social objectives."

## **Curriculum vitae**

**Age** 56.

**Status** Married.

**Lives** South London.

**Education** Diploma in printing and publishing management, London College of Printing.

**Career** 2006-present: chief executive, Big Invest and chairman, The Big Issue Company; 1999-2006: executive chairman, The Big Issue Company; 1997-99: managing director, The Big Issue; 1995-97: operations manager, The Big Issue; 1990-95: freelance printing consultant, troubleshooter and project manager; 1989-90: works manager, Press Link International; 1987-89: No 1 printer, the Mirror Group; 1983-87; officer, Southwark Trade Union Support Unit; 1978-82: founder, Spider Web Offset and Panda Web Offset printers.

**Interests** People, reading and relaxing with his wife.

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