Social impact
and why it is important

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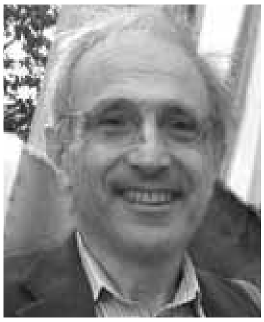
The primary purpose of a for-profit business is to make a profit for its shareholders. Sure, the business should try to be a good corporate citizen, to operate in an environmentally sustainable way and to balance the need for making short-term gains against its longer-term interests.



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The primary purpose of a social enterprise is to create some form of social impact in relation to the problem or need that it is trying to address. Sure, it has to be financially sustainable, and perhaps even generate a surplus which it can then split between paying dividends to investors (if it has a share structure) and applying towards its social objectives.

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Likewise a social investor is interested not just in the financial return, but also in the social impact that the investment will create. Before deciding to make an investment, a social investor will want to examine the social impact that the enterprise will make. This impact should be:

- Explicitly defined and publicly stated
- Measurable and then measured
- Managed and enhanced.

This does not always happen. Here is an example of an award-winning social enterprise which has the potential to do far better than it currently does through the better management of its social impact. The enterprise is called CanYou. It is based in Shenzhen and operates in 10 cities in China. It was the first social enterprise to be listed on the Shenzhen Stock Exchange. It provides jobs and hostel accommodation for physically disabled people. It operates a successful software business employing 5,000 disabled people. But there are an estimated 50 million physically disabled people in China, so CanYou is just scratching at the surface.

The first step is to define the social impact that the organisation is aiming to create. For CanYou, this might be:

- Improving the lives of disabled people by ensuring their secure long-term employment.
- Changing society's attitudes and policies towards disabled people.

The next step is to decide what will be measured. For CanYou, in seeking to fulfill its first objective, this might be the number of disabled people in employment – obviously the more who are, the bigger the impact being created. CanYou could increase the number in two ways. It could grow, increasing its sales and turnover, expanding its workforce in order to do this (employing more disabled people) and opening up in new cities. But if it could also help its employees obtain long-term and secure employment in the outside world. By doing this, those employees who leave could be replaced with other disabled people. And those who get employed elsewhere will not just be earning a livelihood, they will also be influencing the attitudes of their fellow workers towards disability (a double benefit).

As a purely commercial enterprise, CanYou would be proud of how long it retained its employees. As a social enterprise, CanYou might measure its success by how quickly its staff leave to go to new jobs, and year-by-year seek to raise the current 10% annual rate of staff turnover.

Other important measures of social impact that CanYou might adopt include how quickly its staff move out of its hostel into independent living, and whether they form family units – both being steps towards creating a more secure, long-term future (and thereby changing people's lives). Something else that CanYou might consider doing is to provide leadership training to its employees to encourage them to become advocates for the needs and rights of disabled people.

By managing its social impact better, CanYou could become an even better enterprise, creating more social impact for its investors and donors. What any enterprise seeks to measure should be something that it should decide for itself, taking professional advice where appropriate. The measures should seek to adequately reflect the social mission, but also use information which is relatively easy (and cheap) to obtain.

This Monitoring and Evaluation needs to be carried out by the organisation as a management tool to enable it to perform better, and not just something done to satisfy donors – where renewing or securing grants can create a pressure to view everything in the best possible light, rather than more realistically. Evaluation is not about getting more money, rather it is using information to increase the effectiveness and impact of the organisation.

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Many social enterprises (and charities) often forget their social mission in their struggle to survive. At board meetings, trustees will scrutinise the monthly or quarterly accounts in detail to ensure that the finances are in good order; but they seldom use the same rigour to examine and question how well the organisation is achieving its social objectives and how much better it could do with the resources it already has.

A first priority for the board should be to measure and manage social impact. It should make this an agenda item for discussion at each board meeting. A first priority for any social investor should be to ensure that the organisation is doing its very best to achieve its social mission, rather than simply looking at the quantity of work being done – impact and outcomes being much more important than outputs.

Balancing social impact and financial return

There are two other factors that a social investor needs to take into account. The first is whether the enterprise has or is able to develop a sustainable business model. An organisation needs to ensure that it is, and it will remain, financially viable, and that by being sustainable, it will be able to create social impact over the long term.

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This requires the organisation to plan its different sources of income, and also to adequately price its goods or services, whether they are being sold to the service user or to an intermediary such as a local authority. But most importantly, there needs to be a market for what is proposed and an adequate marketing effort made to reach that market. Too many projects start because people think that providing something would be a good idea, and they have not sufficiently explored whether a market really exists for what they propose.

Here are two examples. First, the 'Desolenator'. This is an innovative and award-winning piece of equipment that transforms sea water (and polluted water) into drinking water using solar energy. It is being developed to produce 15 litres of water a day, enough for a family. If the cost could be brought down from around $250 to $100, it could transform the lives of hundreds of millions of people who do not have access to safe drinking water.

At the moment, it is a product without a market. The market needs to be developed. Will it be sold to development agencies and distributed free to the poor? Will it be rented out to users? Will there be community water purification centres selling the water to families? And equally important, whatever the distribution mechanism, will people and families want to use it? The product has been developed, now a market for it must be developed. An investor needs to recognise this, and have sufficient confidence in the idea to want to help it move forward.

Recurrence is developing a new approach to business education relying on up-to-date, interactive case studies published online, rather than using the Harvard case study approach which relies on historic information in printed format (which can quickly go out of date).

The promoters have spent a lot of time and effort in demonstrating their ideas to business schools. Teachers and lecturers have warmed to the idea and indicated that they might use it. This is a good starting point for developing the enterprise, and provides an indication to the investor that the enterprise might work.

Without a market there is no social impact; without a market, there will be no viable business to invest in. These are important things for a social investor to think about.

Investing in social enterprise

There are three different approaches to social investing:

The first is to back the person and the idea. You find someone with passion and creativity who is tackling an important problem, and you want to help them succeed. Forget about business plans and due diligence, you are investing in the person who wants to make something happen. Instead of making a donation, you are investing, with the possibility of getting your money back or even making a profit if the idea works.

The second is to invest because you want to use your money to generate some sort of social impact. You look for a possible financial gain but also at the impact that your money will help create. If everything works out, you will get both. You can also think about how you, the investor, can contribute towards the success of the project by providing ideas, expertise and contacts. This approach is called impact investment.

The third is the primary objective of getting a financial return, whether this is interest on a loan or a profit on a shareholding plus any tax relief that might be available. There are investors out there who are looking to do good with their money, while wanting to invest to get a financial return. But some investors want low risk, a big upside and an early exit. These are not social investors!

What a social entrepreneur really needs is someone with shared vision and values, who can provide more than money, and who is patient – as success can take much longer to achieve than you might imagine.

I myself make a number of social investments, based on my wish to do good, but which also offer the possibility of making money for me, too. Some of these work out really well, such as City Car Club which is a sharing economy way of providing access to cars. It sold out to Enterprise Rent-a-Car which has the brand and the capital to take the enterprise to a larger scale. Some fail, such as Sleeping Bags, which turned hotel bed linen being discarded into desirable items such as toilet bags, shoe bags and newspaper bags for use by hotel guests. A huge amount of bedlinen is thrown away each year, and this was a way of highlighting the environmental problem and providing a solution. Despite the passionate entrepreneur and a leading advertising guru as the chairman, Sleeping Bags never achieved the volume of sales needed to make it work financially. Not everything succeeds, and a social investor must be prepared for failure. Wind energy, crowdfunding platforms and enterprise accelerators are other things that I have invested in. Doing this is a lot more fun than investing in the stock market, and it has potential to do good while also trying to make money.

The alternative investment market is growing, and it is not just social investment funds such as Big Issue, Triodos, Charity Bank and Bridges that are putting money into social enterprise. Crowdfunding websites such as Crowdcube and Seedrs are attracting smaller investors. The Charity and Community Interest Sector has been offered Social Investment Tax Relief as an incentive for raising loan finance (and equity where shares can be issued). And Green ISAs, which will offer tax relief on both interest and capital gains, are coming soon. The social investment market is growing. What we need are more social investors!

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