Social Enterprise and Social Investment
An Overview

Prepared by **the Editor, John Pepin** *(www.philanthropy-impact.org)*

There is no absolute consensus concerning the definition of social enterprise or social investment. This paper attempts to list some of the terms presenting definitions hoping to make it easier for the reader to understand the variety of concepts being used in the sector. Articles throughout this edition of the Philanthropy Impact Magazine will, in many cases support the definitions adding value as well as addressing the complexities of their application.

Social Enterprise in the UK

According to Social Enterprise UK The State of The People's Business publication[1] in 2013 'there are at least 70,000 social enterprises in the UK employing around a million people, the sector's contribution to the economy is values at over £24 billion'. When you add charitable organisations' gross revenues, half of which is from social enterprise activities such as commissioning and trading, the size and impact of social enterprise is significant.

John Pepin

Social enterprises for the most part have done relatively well in the recession. The above study identified that 'growth, optimism and innovation – are very healthy among social enterprises compared to mainstream businesses'[2].

Social Enterprise: Definition and Models

Social enterprise is an activity as opposed to an organisational type. It is one of the forms of activities that social entrepreneurs engage in.

Social enterprise activity does not exclusively need to be performed by organisations commonly called 'social enterprises'. Any voluntary and community sector organisation may also engage in social enterprise activity. Often the following words 'social enterprise', 'trading', 'earned income', 'commercial enterprise', 'co-operatives', and 'social businesses' are used interchangeably, although each has a slightly different emphasis on social and financial return. The difference is in how an organisation self identifies – some identify as social enterprises, others as charities or NGO's with trading arms or holding companies, and others as co-operatives. However, the ends are the same – a social, cultural, economic or environmental mission combined with financial return or financial viability.

The definition of the term 'social enterprise' continues to be discussed at length. In the simplest terms, a social enterprise is a business with more than one bottom line, measuring its performance on more than profit. Social enterprises may have double or triple bottom line measurements – financial; social or community or cultural; or environmental.

Venturesome[3] proposes three models, defining them from a social impact perspective. These include enterprise activity that focuses on maximising profit, with the profits going to support social ends ('profit generator model'), enterprise activity with social impact, with a balancing of commercial activity with social mission ('trade-off model'), and an enterprise activity that has a social impact generating financial returns that grow as the social impact grows ('lock-step model').

Corporate Social Responsibility, Venture Philanthropy and Social Enterprises

Corporate social responsibility (CSR) is the voluntary action that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society.

Social enterprise activity does not exclusively need to be performed by organisations commonly called 'social enterprises'. Any voluntary and community sector organisation may also engage in social enterprise activity.

There exist numerous approaches to CSR that businesses undertake, from developing employee benefit packages, to sourcing materials and services from 'ethical' producers or donating money to charity. One approach has been for businesses to play an integral role in establishing social enterprises through funding (sometimes using a venture philanthropy approach), contributing business expertise or gifts in kind. In addition private sector foundations or trusts traditionally give grants to charitable causes.

Another way companies get involved is through venture philanthropy. Research by Aperio[4] demonstrated that venture philanthropy investors are helping to develop social enterprises through providing grants, loans and other financial resources coupled with business acumen to start up, bring about a step change or grow enterprises by building organisational capacity. In addition, a number of funds invest in individual social entrepreneurs to help develop skills through training and mentoring as well as financial assistance.

Definitions: Social Investment and Venture Philanthropy

Social Investment is broadly defined as being the supply of finance and non-financial support with the objective of strengthening an organisation's social, economic, environmental or cultural impact whilst potentially seeking a financial return on capital and/or community or organisational financial sustainability and viability.

Some social investors, intermediaries and wholesalers may see the definition of social investment and impact more limited than described above. For example, Big Society Capital sees social investment as 'about lending or investing money to achieve a social as well as a financial return'.

A report entitled *Investor Perspectives on Social Enterprise* prepared by *ClearlySo* (published July 2011, *www.clearlyso.com)* addresses social investment from an institutional investor perspective. The report defines social enterprise as a societal mission related organisation that utilises a commercial approach. It distinguishes this from a social business which has a profit oriented purpose but which achieves a social impact.

It also outlines a number of different forms of investment:

- **Mission connected investment** 'as investment by foundations which promises a market return but also helps to achieve mission (New Economics Foundation, Mission Possible 2008)'
- **Programme related investment** 'as investment by foundations primarily for mission purposes which generate returns that are typically below market levels (New Economics Foundation, Mission Possible 2008)'.
- **Socially responsible investment** as 'the incorporation of environmental, social or governance issues into investment decisions and ownership practices'.
- **Impact investing** focusses on 'the impact an investment can make'.
- **Social enterprise investment** seeks a balance between 'social return and financial return'

Venture philanthropy (high engagement giving)

which invests capital and human resources in charities and social enterprises may be categorised as a form of social investment seeking a social return at the same time as attempting to achieve organisational and/ or community sustainability and viability. For more information go to European Venture philanthropy Association (*evpa.eu.com)* and Asian Venture Philanthropy Network *(www.avpn.asia).*

Note, investing for financial gains alone would not fall within any of the definitions listed in this section.

The UK Social Investment Market – Recent History and Timeline

Historically, that is, prior to 1995, there have always been rare examples of social investment practice – from the foundation of the building society movement in the 1740s as the original community finance institutions, through to prominent examples such as World In Need (now the Andrews Charitable Trust[5]). This is a charitable trust founded by Cecil Jackson-Cole in the 1940s which took what we now call a Venture Philanthropy approach – a notable early success being the development of Oxfam.

Four key trends shaped the development of social investment in the early 2000s:

- The promotion of social enterprise as an important means of public service delivery, by both Government and the trade body the Social Enterprise Coalition[6].
- The promotion of loan finance as the primary supply of capital to social enterprises e.g. the foundation and growth of Charity Bank, Adventure Capital Fund, Futurebuilders, Venturesome, Big Issue Invest.
- The increase in interest in venture philanthropy approaches[7], evidenced by the launch of funds such as ARK, Unltd, and Impetus and the formation of a trade body the EVPA[8].
- The exploration by grant making foundations of programme-related investment.

In the period 2004 – 2006, several market participants began to advocate the need to increase the supply of 'risk capital' or social venture finance[10,11], in the form of equity and equity-like finance. The drivers of this being: the inherent mismatch between the high risk of rapid growth and lower risk profile of loan finance; and the wish to implement high engagement models closer akin to venture capital than bank lending. Also in this period, a number of new venture philanthropy funds were established – often funded by the then booming private equity / venture capital and hedge fund sectors.

In 2007, two public bodies sought to stimulate the social venture fund market specifically targeting the sub-commercial Blended Value space. NESTA sought proposals for new funds providing Equity for Social Enterprises, and the Office for Civil Society[12] undertook a consultation on the supply of risk capital to social enterprises. This led in 2009 to an award of support from NESTA and investment totalling c£5m from the Office for Civil Society into Bridges Ventures Social Entrepreneurs Fund. Big Issue Invest's Social Enterprise Investment Fund also attracted funding from NESTA. These two policy interventions/ market stimulations have been pivotal in the establishment of an increasing range of social venture funds in the UK, which have attracted funding from public, charitable and corporate sources.

Since then there has been significant growth in social investment. Wholesalers such as Big Society Capital *(www.bigsocietycapital.com)*, which is exclusively a social investment wholesaler, have played significant role in financing intermediaries as an investor and as a champion of social investment. The Big Society Capital web site lists numerous intermediaries, some of whom are investors and others providing investment readiness support.

There is an issue of not having enough investable propositions. Amongst a number of funds is the example of two funds supporting investment readiness managed by the Social Investment Business *(www. sibgroup.org.uk/our-funds)*

- **The Community Investment Fund** launched in February 2014. The fund is owned and managed by our partners *Social and Sustainable Capital (SASC).* It is part financed by the *Social Investment Business Foundation* and *Big Society Capital* and provides loans and equity to community based social enterprises and charities in England.

- The £10 million **Investment and Contract Readiness Fund** is being delivered on behalf of the Office for Civil Society and aims to ensure social ventures are better equipped to secure new forms of investment and compete for public service contracts.

In summary UK social investment funds may be categorised according to the following:

- **Appetite for risk and the risk inherent in the use of funds.** This dimension measures the chances of the investment achieving its primary objective – social or financial allied to the use of funds e.g. an equity investment in a start-up organisation is higher risk than a loan secured on a building.
- **Financial instrument.** The different means used to supply funding to an organisation from grants, equity shareholding to bonds and secured loans.
- **Pricing – financial and social.** The target financial returns from each investment and across a portfolio of investments. The expected social returns from each investment and across a portfolio, and the means of measuring them.
- **Engagement and non-financial support.** The closeness of the relationship between investor and investee, and the level of engagement with operations of the organisation.
- **Stage of development of the organisation.** Does the investment fund support start-up projects, early stage/ incubation, development/ growth capital, publicly traded investments, mature businesses, refinancing and rescues?

In Summary:

Social enterprises, in the main, appear to be growing and to be profitable whilst achieving their social ends. Social entrepreneurs' optimism remains high. Social investment in social enterprise remains vibrant in the UK. However, the need for financial support continues on one hand, whilst on the other hand the search for investible propositions goes on. The investment process remains complex and costly as high engagement is necessary in many cases to support capacity building. Bringing together capital and expertise from philanthropic, government and commercial and corporate sectors, creating collaborative joint investment and capacity building strategies and plans will help to potentially create even more effective use of resources and greater impact.

The elements for growth are present. Legal structures are in place in the UK and social entrepreneurship is thriving. Various sectors' engagement, such as the corporate sector and the public sector, is growing. Transparency exists and there is a lack of corruption. Although intermediaries are present, more needs to be done to build the capacity of social enterprises to achieve greater returns. The ability to evaluate performance, to measure success and to be clear about value and risk-return is essential to future growth. Much still needs to be done to strengthen the social investment process; much has been accomplished and social entrepreneurs remain dedicated and optimistic.

[1] *Social Enterprise UK: The State of The People's Business page 6. http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf*

[2] *Ibid page 6*

[3] *Three Models of Social Enterprises: Creating social impact through trading activities Parts 1 and 2 (2008) www.venturesome.org.*

[4] *Aperio, 2008, Existing Venture Philanthropy Funds, Characteristics: A Preliminary Overview*

[5] *www.andrewscharitabletrust.org.uk/our_heritage.htm*

[6] *www.socialenterprise.org.uk*

[7] *See APERIO Europe paper listing the venture philanthropy funds world wide. www.aperio-group.com/resources/publicationstemplates.html*

[8] *European Venture Philanthropy Association, www.evpa.eu.com*

[9] *'Foundations and Social Investment', Esmee Fairbairn Foundation, 2005*

[10] *'Equity-like capital for social ventures', 2004, Bridges Social Ventures*

[11] *'The Financing of Social Enterprises: A Special Report by the Bank of England', Bank of England, 2003*

[12] *https://www.gov.uk/government/organisations/cabinet-office*

Article with permission from Aperio Group (Europe) Limited www.aperio-group.com