The business of being good: a new language for social organizations

Julia Morley traces the shift towards the language of business

Over the last ten years, the language used in the social sector has begun to shift. Increasingly, those who engage in social activities for the good of humanity speak the language of business. For example, in 2009, a report by the consulting think tank Monitor Institute praised a Tanzanian distributor of solar panels funded by a non-profit mezzanine fund (Freireich and Fulton, 2009). More recently, on 15 September 2014, the Sydney Morning Herald commended a social enterprise backed by AUD$95 million in investment capital for producing a surplus of $8.3 million and delivering returns of 12 per cent to its investors. Even the Pope has endorsed a G8 initiative to encourage social impact investing, welcoming attempts to develop 'an international framework capable of promoting a market of high impact investments ...'. Terminology such as 'mezzanine fund', 'surplus', 'social investor', 'return', and 'high impact investments' is markedly different from that traditionally used in the charitable sector, and is suggestive of a focus on transparency and efficient funding. For those interested in issues of market structure and regulation, this new way of talking about the social sector raises a number of interesting questions concerning accountability and market efficiency. Furthermore, the apparent move towards the commercialization of 'good work' raises moral concerns for everyone.

The linguistic shift in the social sector can be traced to structural and cultural changes in the 1990s. During this decade, the emergence of the social enterprise as an organizational form blurred the distinction between charitable and commercial activities. The term 'social enterprise' is not clearly defined and can be used to refer to a variety of different organizational forms (Teasdale, 2012). However, it is generally agreed that such an organization will use commercial strategies to maximize social value as it will re-invest most financial returns and social purpose must be its core objective. Social entrepreneurs provide the same kinds of social activities as charities, such as counselling young offenders, finding adoptive families for children in care or providing youth clubs in deprived areas, but they do so using innovative strategies and new funding sources, such as earned income from selling goods or services or from social investment. They may also attempt to deliver a combination of financial returns and social impact, known as 'blended returns' and many have registered as a new form of organization, the Community Interest Company (CIC). The CIC was introduced in the Companies Act (2006) to address the needs of social enterprises, allowing directors to be paid a salary and some financial distributions to be made, in contrast to the volunteer boards required by charities.

How are these changes in the organizational structures for doing good work connected to the language used by social organizations? The answer often given by social entrepreneurs is that they believe their chances of attracting funding are improved if they speak the same language as potential funders and can demonstrate their effectiveness. What might this mean for an after-school youth club aimed at reducing levels of criminal behaviour among local teenagers? Social investors might expect this kind of social enterprise to report 'outputs' such as an improvement in school grades and a reduction in both school dropout rates and criminal convictions. Those providing social investment funding may want social enterprises to demonstrate 'social impact', which is a somewhat nebulous term normally understood to be the long-term effect of their activities on the lives of both participants and members of the community. Some social enterprises go one step further and report their impact in financial terms. A report by New Philanthropy Capital has identified that Kickz, a UK social enterprise offering after-school sports clubs for young people in deprived areas, can generate financial savings of £17 million per year due to reductions in criminal behaviour. This, it claims, corresponds to a social return on investment of £7.35 for every £1 invested (Nevill and van Poortvliet, n.d.).

Many social investment intermediaries argue that social enterprises that do not adapt to the new environment of social investment will fail to attract funding, whereas those which embrace the new regime will prosper. Is this really the case, though? Some commentators, such as David Floyd of the social enterprise Social Spider, have pointed out that the supply of social investment funding is not as large as some have suggested. The £202 million of funding identified by Big Society Capital (2013) actually represents a very small part of the market for third-sector funding (Beanbags and bullsh!t.com). If this is the case, and other options exist for raising funds, why have social enterprises adopted business language, as if they are courting the attention of social investors? What – or who – might have persuaded social sector organizations to employ the language and practices of business?

To answer this question, we must turn to the activities of a group of elite investment professionals who have played an important role in disseminating the message that business approaches add value to social enterprise. These professionals have been involved in the creation of a number of different organizations within the new social investment space. These organizations include think tanks, such as New Philanthropy Capital and New Economics Foundation, which advise and provide training on social impact measurement; financial institutions, such as Big Society Capital, which provides liquidity and aims to stimulate investment, and other social investment intermediaries, such

as Social Finance and Impetus-PEF, which structure new ways of channelling funds to social enterprises. A significant proportion of the managers and advisers (and often founders) of these organizations have worked in private equity or investment banking, and many earned MBAs from world-class institutions, such as Harvard Business School and are well connected politically. They believe that their mission is to grow the market for social investment and improve accountability and efficiency in the social sector.

Using language peppered with terms such as 'private equity logic' and 'investment rigour', they argue that the use of business techniques will enhance the efficiency of social enterprises and lead to improvements in the effectiveness of interventions undertaken. Think tanks offer social entrepreneurs a plethora of opportunities for learning the language and techniques of impact-measurement or investment-readiness through training sessions or conferences. The website of the Investment & Contract Readiness Fund, developed by the Cabinet Office, argues that, 'as much-needed social investment impact funds become available, it is vital that social ventures are in a position to be able to take advantage of them to play a transformative role in how social value is delivered to our communities'. This statement lends weight to arguments that the supposedly 'evolutionary' change in the culture and language of the social sector in response to demand for social investment funding is, in fact, being orchestrated by social investment intermediaries and government agencies.

Impact measurement evangelists claim that the use of performance measurement metrics enhances transparency of social enterprises and allows social investors to make better funding decisions. But these calculations are not without problems. Academics such as Alex Nicholls (2009) of Said Business School have pointed out that commercial performance measurement tools may fail to reflect social value, particularly for social enterprises operating in spaces of 'market failure'.

It is well known that causal connections between social interventions and particular outcomes are extremely difficult to establish. Also, a double-counting of social savings may occur if multiple social enterprises address individual cases and all claim credit for outcomes achieved. And even if these technical problems can be overcome, the use of performance measures may be prohibitively costly. As a result of these problems, it may be difficult for some social entrepreneurs, particularly smaller organizations involved in long-term interventions, to attract social investment funding if it is dependent on the ability to demonstrate social impact.

Furthermore, it is well known by academics that the use of performance measures may generate undesired and unintended outcomes. A social enterprise facing short-term performance targets may be tempted to skew its social interventions towards those yielding short-term results, even if this is inappropriate for issues which require longer term interventions. There may even be a temptation for a social enterprise to 'game the system', by choosing to address easy-to-solve problems in place of harder ones, thereby enabling them to report higher success rates.

A different set of problems relates to the potential for the use of commercial language and tools to taint the altruistic actions of those working in social enterprises. Social scientists and moral philosophers have long questioned the effects of introducing any economic incentives to motivate altruistic actions. Since the 1970s, experiments have repeatedly shown that the commercialization of pro-social activities such as blood donation can have negative effects (Titmuss, 1971). Furthermore, profiting in any way from human misery by attempts to make financial returns may be viewed as morally unacceptable, diminishing not only the intrinsic value of such pro-social work to those committed to helping others but also possibly the trust of society in the motivation of such social enterprises. For these technical and moral reasons, we should be sensitive to the potential costs of introducing a new language of business in the social sector, even if it may deliver improvements in accountability and efficiency.

Given that we live in an age of austerity, it makes sense for the charitable sector to be concerned both with efficiency and attracting funding – and at the same time for funders to encourage social enterprises to maximise 'bang for buck'. On the face of it, the use of performance metrics and other business tools appear to encourage rigorous approaches to management and accountability. But their introduction is not without risk and the evidence of benefits mostly anecdotal. The social sector tackles hard problems that often have no easy solutions. Relying on management tools aimed at making organizations efficient and accountable may fail to deliver the desired outcomes, as complex social problems may be shunned, while public trust in the motivations of social enterprises may be damaged by their attempts to generate financial returns. It is not even clear that the shifting language of the social world reflects any fundamental change in the operations of social enterprises or if it is merely window-dressing. Given the infancy of the new market for social investment, the jury is still out on these questions. Watch this space.

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