WHY WE MUST EMBED THE SOCIAL IN SOCIAL INVESTMENT

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WHAT'S THE PROBLEM?

David Floyd, in the report of the Alternative Commission on Social Investment published in March 2015, coined the apposite question, "What's social about social investment?" David explored the different definitions of social investment, generally developed by policy makers and/or social investors, which focused on the repayment of capital and an expectation of both a financial return and a social impact, from the investment. He went on to investigate the expectations of those social sector organisations receiving the social investment and highlighted: "The practical expectation of social sector organisations and support organisations was that social investors would be able to offer more generous terms than mainstream finance or would invest in organisations that the mainstream wouldn't."

The social investment sector, led by Big Society Capital, has tried to ensure that a financial input produces a social impact. The social investees (charities, voluntary organisations and social enterprises) are concerned about the social input by investors. What has been overlooked is the extent to which policies and processes embedded within social investment sector are influencing the way we work.

The care home sector is an interesting parallel. We have seen the impact of private equity deals financed by high levels of debt on the sector. We know that regulators monitor outcomes for residents such as dignity and personal safety. However, there is also a crucial focus on who works in the sector and their training and experience.

Social investment will not be social unless its people and processes reflect an ethos, values, expertise and commitment rooted in experience of the challenges and opportunities it seeks to address.

HOW IS THE PROBLEM MANIFESTED?

I have worked in the broad social finance sector since 1994, moving from microfinance volunteer to first chair of the UK Community Development Finance Association (now Responsible Finance) to Charity Bank and many years of consultancy experience. My comments here are rooted in a genuine concern that we need to rebalance social investment in the following ways.

RECRUITMENT: EXCELLENCE VS APPROPRIATENESS

It's about fairness, diversity but also about who is most appropriate for a role. We have many super-bright, extraordinarily well-educated people working in social investment. Their CVs are glistening with the names of famous financial, consulting and legal firms: Morgan Stanley, JP Morgan, UBS, Goldman Sachs, Boston Consulting Group. However, I don't see a process which assesses whether that education and that experience are what is needed in the social investment sector.

What are the skills and experience needed to invest successfully to support those people and organisations that are tackling complex social issues? Financial and legal skills are necessary in this work, but they are not sufficient. Do

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those being recruited have the cultural competence to operate in a different culture? Lived experience of exclusion, understanding complex social issues, including poverty, homelessness and long-term unemployment, knowing the markets in which clients operate, how funding works, when growth is inappropriate, that sometimes, social impact is in survival – these are resources that have not been respected and valued.

The scales are weighted too heavily towards the elite, with like recruiting like and a lack of knowledge of the experience and expertise of the social sector itself. No-one experienced in the world of charities and public-sector contracts would have made the mistake of predicting a major growth in social investment based on winning and financing prime public contracts. The situation is worsened as city recruitment agencies, advisors and experts are replicating practices that deliver the same lack of equality, diversity and inclusiveness evident in the financial services sector.

PRODUCT DEVELOPMENT: FINANCIAL ENGINEERING VS SERVING CUSTOMERS' NEEDS

Yes, I'm thinking of social impact bonds, but also of the impenetrable complexity of many social investment agreements, quasi-equity and other financial engineering products. It seems that if you convene too many great minds and encourage them to innovate, the result can be fiendish complexity. The truth is that most social sector organisations are directed and managed by good people trying to do good work. They need simple social investment products and a bit of support when things go wrong. They do not need to be nailed to the floor by legal agreements that cover every possible eventuality, at a high cost to investor and investee.

I was lucky to be trained by Shorebank International, the consultancy arm of the former US community development bank. I was taught that you decide first if this is a customer that you want to work with and then if it is possible to tailor your financial instrument to work for them, as well as for the investor. The more complicated the financial instrument becomes, the less likely it is to benefit customer and community.

RESEARCH: SOCIAL RESEARCH AS WELL AS HACKING AND BRAINSTORMING

Good quality social research rests on two pillars: a sound methodology and an ethical approach. It usually involves a review of research already carried out on a particular topic, qualitative and quantitative research and the explicit articulation of conclusions based on evidence and logic. There are different ways of working in the social sector, but there are some common principles of working, such as inclusiveness, being driven by values, independence, empowerment, accountability and openness.

The preference in newer social investment organisations seems to be for hackathons and brainstorming. There appears to be little regard for previous learning, expertise, lived experience or evidence. There are few published evaluations and 'open data' availability is patchy. This may relate to experience in large financial corporations where there is a premium on fast action and quick decisions. This combines with a high staff turnover and a premium on short-term impact, resulting in a lack of corporate knowledge and wisdom built up over generations. We also need social research; intergenerational collaborations combining the enthusiasm of new ideas with history and learning.

WHAT ARE THE CAUSES?

Underlying these problems is a similar set of causes. Unfortunately, the social investment sector has been driven off course by good people with good intentions but insufficient experience of the world that social investment should reach. They have replicated the hierarchies and inequalities of the financial services sector and big business, because they know no different. There has been an imbalance in recruitment and that imbalance remains in terms of gender, diversity, class, experience, power and influence. The idea of learning from third sector experience seems to have no place in the social investment world.

WHAT DO WE NEED TO DO?

- Recognise that there is a problem, which has damaged the development of social investment.
- Understand that the financial services sector and its supporting organisations do not have all the appropriate skills and experience to address the problem.
- Develop deep (and meaningful) two-way engagement with the third sector.
- Improve recruitment policies and practice, supported by practitioners in inclusivity.
- Rebalance and train boards and senior management teams.
- Insist on building inclusive relationships and networks; learning from previous experience, research and reflection in planning new initiatives.
- Build user engagement into product service design and delivery.
- Fund and publish challenging evaluations of investments and programmes, with a quality standard required for publicly funded projects. ■

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