Emerging resource flows for social entrepreneurship; theorizing social investment

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Emerging Resource Flows for Social Entrepreneurship: Theorizing Social Investment

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Abstract

In the UK and elsewhere, a 'market' in social investment has been developing rapidly over the last 10-15 years, yet there has not been an academic study of the phenomenon to date. This paper aims to address this important gap in social entrepreneurship research. Empirically, the aim of this paper is to outline the nature, scale, and forms of these financial flows. Theoretically, the aim is to conceptualize social investment and build an analytic model of its different orientations. The paper suggests three future scenarios for social investment that blend, in different combinations, instrumental and substantive rationalities and logics.

1. Introduction

Social entrepreneurship needs investment capital to start-up, run, and grow[1] and a variety of institutional structures has emerged over the last ten to fifteen years to support such capital flows. These developments have stimulated a considerable practitioner and policy literature around the rationale for such social investment, the extent of the demand for it and the availability of funds (Bank of England, 2003; OTS, 2006, 2008; Unwin, 2006; nef/CAF, 2006; Nicholls and Pharoah, 2007; Emerson and Spitzer, 2007; Emerson et al, 2007). However, these new flows of finance have yet to attract a comparable level of academic interest. To date, scholarly work on social enterprise and entrepreneurship has been more concerned with definitions (Dees, 1996, 1998a, 1998b, 2003; Mair and Marti, 2006; Nicholls and Cho, 2006), with the business models developed by social entrepreneurs (Alter, 2006) and with the new ethical or public service markets that they are creating or addressing (DTI, 2002, 2003; Spear, 2006; Nicholls, 2007). The financial institutions and instruments to enable social entrepreneurship have received far less attention – even though surveys of social entrepreneurs repeatedly identify resources as being one of their prime strategic concerns (e.g. Harding, 2007). Not surprisingly, therefore, leading scholars in the field have suggested that more and better research in this area is urgently needed (Battle Anderson and Dees, 2006; Nicholls and Young, 2008; Nicholls, 2009).

This paper attempts to fill this research gap conceptually, empirically, and theoretically. It will offer a review of existing work on this emerging area and some tentative estimates of the scale of social investment activity. It will also suggest that the key theoretical challenge that the emergence of social investment presents to researchers is the need to conceptualize it in ways that respect its own logic of action, and that do not assume it is a peripheral variant of another, more established form of economic activity (such as mainstream financial markets, public spending, or philanthropic grant-making). In addressing that challenge this paper uses concepts from neo-institutionalism and the sociology of markets (Meyer and Rowan, 1977; DiMaggio and Powell, 1983, 1991: DiMaggio, 1988; Scott, 2001, 2008; Lounsbury and Glynn, 2001; Biggart and Delbridge, 2004; Mair and Marti, 2006) to reconstruct the emergent arenas and flows of social investment as a distinctive system of exchange that is enabling the funding of many different types of social entrepreneurship.

In this paper, social investment is defined as any flows of capital that start-up, sustain, or grow individual, group, organizational or sectoral action aimed primarily at generating social or environmental value, often in the form of public goods or positive externalities. This includes organizations that generate some combination of social and financial returns – which are typically called social enterprises. Two categories of social investment can be discerned: the first narrow, the second extended. Narrow social investment represents the strategic placing of resources in an undertaking in order to

[1] Social entrepreneurship is defined here as the product of any organizational, network, or individual activity that demonstrates sociality (namely a prime strategic focus on the public benefit in its context, process, and outcomes), innovation, and market orientation (Nicholls and Cho, 2006).

secure both a financial return and a positive social or environmental outcome (see further Emerson's, 2003, discussion of Blended Value). The social return or benefit is typically a public good or other positive externality that does not accrue only to the investor.

Extended social investment expands the concept further by including, in addition, cases in which investors do not seek or expect a financial return for themselves – their aim is solely to realize specific social or environmental benefits. However, this is not to say that such investment never leads to positive financial outcomes for the investee, but rather that such returns are not distributed outside of the social purpose organization (this is the distinction between not-for-profit and non-profit). This form of capital allocation reflects traditional notions of philanthropy as well as more recent – and often controversial - innovations in 'philanthrocapitalism' (Bishop and Green, 2008; Edwards, 2008) and 'venture' philanthropy (John, 2006, 2007).

The paper proceeds as follows: the next section presents a brief literature review and sets out the theoretical orientation use to conceptualize social investment here. Section three builds a typology of social investment to demonstrate its range and boundaries and includes empirical data that estimates the scope and scale of each category. Next the paper goes on to analyse the structural elements of the current social investment marketplace. Finally, the various strands of the paper are brought together to theorize three social investment scenarios going forward and to draw some preliminary conclusions. It should be noted at the outset, that much of the focus here is on the UK and USA, this is because these represent the most developed policy and practice context of social investment. However, international examples are included and it is hoped that the conclusions reached here should have relevance beyond the developed markets of the North.

2. Theoretical Context

Despite a notable increase in the quality, volume, and range of scholarly research in social entrepreneurship over the last five years (see Nicholls, 2009), social investment remains largely un-researched as a phenomenon in itself. Part of the reason for this would appear to be that – like social entrepreneurship itself (and, indeed, entrepreneurship before it) – this is a research topic that has yet to be well defined and recognized by scholars as worthy of examination. On the one hand, financial economists would argue that there is no such thing as 'social' investment, merely investment differentiated by risk-return options that do not (and, perhaps, should not) factor in social or environmental externalities or objectives (Hayek, 1944; Friedman, 1962; Harvey, 2005). On the other, scholars of the Third Sector have typically viewed capital flows into the creation of public goods in charitable terms – namely as gifts rather than investments (Clotfelter, 1992; though see Bernholz, 2004, and Anheier and Leat, 2006, for a recent change of focus towards investment in the sector). Similarly, in social policy and modern welfare economics state expenditure has been characterized by calculations based upon utilitarian cost-benefit analysis and Pareto efficiency rather than interpersonal and relative benefits and wellbeing (see Sen 1987, for an effective critique of such an approach). From this evaluative perspective the concept of social investment is also redundant since policy makers would argue that all their spending in ipso facto socially focussed to fulfil their democratic mandate (see, for example, Moore, 1995).

However, in the UK, this position has shifted somewhat with the development of greater interest in social enterprise within a range of government departments (DTI, 2002; OTS, 2008), with the result that a raft of initiatives has emerged to bring new investment into this sector.

The policy agenda around social enterprise in the UK has raised some important questions concerning social investment. To date, the assumption has been that this will be best achieved by finding new ways for social enterprises to align with conventional capital markets (OTS, 2006; 2008). This normative view of social investment requires, first, that any potential investees adapt their organizational strategy to approximate a conventional for-profit business and, second, that new intermediary institutions be developed that can 'dock' such social businesses with mainstream sources of capital. This approach has achieved some notable successes to date, but is constrained by the pool of potential social or environmental projects that can generate conventional financial returns (see Dart, 2004, for a critique of this approach).

Despite these apparent disciplinary challenges it is, perhaps, still surprising that scholars working on aspects of social entrepreneurship have largely ignored social investment. This is not to say that there is no research at all on the subject, but rather than what there is falls either into the category of grey literature focussed at practitioners (e.g. Bolton and Kingston, 2006; nef/CAF, 2006; Unwin, 2006) or working papers, the most notable of which are in the Skoll Centre series (eg Nicholls and Pharoah, 2007; Hartzell, 2007; Emerson et al, 2007 etc). An important issue for the development of new scholarly research into social investment is, therefore, which disciplinary and theoretical approaches provide the most fruitful approach to its analysis. Partly, this will, of course, be determined by what research questions are being asked. Given the dearth of research to date on social investment the research agenda must lie in searching out and synthesising empirical data to build a sense of the scale and scope of the phenomenon and building foundational, theoretical concepts. This paper will locate itself within a sociological tradition that views markets as emergent and culturally embedded institutions and economic behaviour as being the product as much of personality and context as elegant predictive modelling (Sen, 1987; Offer, 1997, 2006). There is a surprisingly long tradition of conceptualising investment in this richer, more humanized, context that is of direct relevance to the analysis of modern social investment.

A century ago the economist Alfred Marshall (1907) drew a perhaps startling comparison between the chivalric behaviour noted in medieval combat and the possibility of a reformed business economy. He imagined a system of business that strove to create wealth but that also embraced the 'public spirit' and 'delighted in doing noble and difficult things'. Marshall recognized that maximising profit should not be the sole purpose of business enterprise nor would such an economy be acceptable to society. Further, he acknowledged the significance and influence of the rise of co-operatives and mutual funds under the guidance of 'that noble if weird prophet of socialism', Robert Owen. Marshall realized that the process of wealth creation was as critical as its outcomes and concluded with a clarion call for 'economic chivalry' both individual and within the wider community: 'surely, then, it is worthwhile to make a great effort to enlist wealth in the service of the true glory of the world', to take 'a delight in succouring those who need a helping hand'.

Nevertheless, the dominant economic model at the end of the century following Marshall bore little resemblance to his vision of economy chivalry. As the 'dismal science' – both in theory and practice – developed during the twentieth century Marshall's proposal appeared to be increasingly distanced from real economic activity in which a model of the individual, rational, utility maximising actor came to dominate economic discourses in the guise of a neo-liberal agenda prioritising the action of free markets in business and investment (Harvey, 2005) - a theoretically derived version of Smith's 'invisible hand'. However, as many economists have acknowledged, the reality of financial exchange suggests something quite different. Institutional economists have long suggested that financial exchange decisions are made in complex, culturally embedded, contexts that do not necessarily support an individual, utility maximising, model and which aim for a complex range of benefits and returns (Sen, 1987).

As a consequence, Marshall's vision may seem an unlikely model of economics today, but it drew on a well-established Western ethical tradition that put obligation to others before personal entitlement (Offer, 1997, 2007). Smith (Sutherland, 2008; Haakonssen, 2002) recognized this dimension to economic life in both his major works and it also found expression in Mills' (Sher, 2001) version of Benthamite utilitarianism. Polanyi (1944) famously identified a 'great transformation' from socially embedded reciprocity to free market, atomized, price setting exchange as occurring towards the end of the eighteenth century in the UK, though the historical accuracy of this has been widely disputed (e.g. Rose-Ackerman, 1996).

More recently, in an important article, Granovetter (1985) reformulated Polanyi's argument for markets as social structures embedded in culture and the notion of an Economy of Regard (Offer, 1997, 2007) has revitalized discourses around reciprocity and cooperation within economic action (Gintis et al, 2004). Scholars of Game Theory (Sen, 1987) have also demonstrated the real impacts of exchange reciprocity in applied situations. Cantor et al (1992) used multiple theoretical lenses to explore market logics and derive a set of standard features and institutionalists within economics and organization theory have challenged the de-socialisation of neo-liberal economics, calling instead for an economics that re-embeds markets and exchange in their social and cultural milieu. Of particular relevance here is work on the sociology of markets and market formation. Morgan (2008) identified three theoretical approaches to the latter: the markets as politics approach (Fligstein, 2001; Fligstein and Stone Sweet, 2002); markets as structures of network relationships (Burt, 1992; Leifer and White, 1987); markets as calculative mechanisms drawing upon Actor Network Theory (Callon, 1986, 1998, 1999). Each of these approaches explicitly acknowledges financial flows and exchanges as being the consequence of socio-cultural variants, as much as rationalist price-setting practices.

This and other work on the sociology of markets is usefully synthesized in Biggart and Delbridge (2004) which develops a neo-Weberian typology of four distinct systems of exchange. The authors develop their typology by showing that each system assumes a characteristic economic logic, one that implies suitable goals, strategies and evaluative criteria, and that supports relationships among the suite of actors typically involved. Moreover, these systems all have institutional qualities, are strongly impacted by network relationships; and are constituted, constrained, and shaped by their cultural milieu. Where universalistic norms hold sway, the paper identifies two distinct orientations towards exchange: instrumental, that is driven by a logic of outcomes; and substantive, that is driven by a logic of process. The former is institutionalized in price systems and neo-classical free markets; the latter reflects a 'moral system' approach to social relations that does not give precedence to outcome efficiency only. While such a basis for action tends to be grounded in strong moral precepts, the authors rightly emphasize that this need not mean an inflexible, rule-bound approach to social action. The distinction between these two systems of exchange neatly captures the difference between the economics worlds of the conventional financial markets (and indeed most atomised and anonymous markets) and the emerging social investment market (and also of the market for fair-trade, organic and other 'ethical' purchases). The discussion that follows explores the nature and workings of this social investment 'market' – viewing it as a distinct system of exchange where actors pursue their interests and goals instrumentally while accommodating specific moral considerations in terms both of outcomes and processes.

3. A Typology Of Social Investment

This section offers an analytic reconstruction of social investment activity. The aim is to accommodate the obvious differences in approach and context while still suggesting the underlying commonalities of orientation and logic shared by actors across this field. There is evidence too of incipient institutionalisation in the structures of social investment (see particularly section 4) as well as in an emerging set of organizing narratives that provide a cognitive underpinning to this system (for example, blended value returns). These developments suggest that social investment is not simply a set of ad-hoc arrangements in response to passing currents of social or environmental concern.

The combination of instrumental and substantive rationalities indicative of social investment (Weber's term is *wertrational*) reflects the pragmatic way in which many social entrepreneurs pursue social outcomes. However, such blended rationality can be expressed in either normative or transformative action. The first defines one stream of social investment that demands a willingness to adapt and apply business approaches and practices (of measurement, planning, control, rational organization) as the way to enact or help deliver solutions to specific social problems. Such investment typically aims to ameliorate circumstances in short-term interventions. However, adopting business practice provides the social entrepreneur with a wide range of strategic options, some contradictory (Quinn, 1988). Indeed, the integration and reconciliation of competing claims and dilemmas is at the heart of strategic leadership and management (Hampden Turner, 1990).

The second stream within social investment is more resistant to adopting business logics wholesale and typically follows a pragmatic approach to engaging with conventional markets, trying to subvert them from within (acting 'in and against the market') and avoid the danger of mission drift or investor capture (Dart, 2004). This stream typically aims at systemic change and is more radical and disruptive than normative action seeking a broader or deeper transformation of society marked by more explicitly political, critical, and counter-cultural orientations (Stryker, 2000; Davis et al, 2005). In reality, there is seldom a simple dichotomy between amelioration and transformation.

Nevertheless, some such distinctions (eg, between centrists and radicals, reformers and revolutionaries) are familiar, even inescapable, in political analysis.

A second meta-distinction in social investment concerns the sort of outcomes sought by the investor (and offered by the entrepreneur): whether a ‘blended’ combination of social and economic returns or a purely social ‘return’. The former will normally arise when projects work in and through conventional markets; the latter are likely to be more common when projects operate outside of mainstream markets (though see Nicholls, 2007, for the potential of ethical consumption).

Taken together, these two distinctions generate a range of options for the social investor in seeking to realize specific social outcomes and highlight four broad manifestations of social investment (Table 1). Furthermore, these four social investment orientations form a typology of social investment that is explored next (Table 2). In each case the scope and scale of the associated capital flows is also estimated from a wide variety of sources.

INSERT TABLE 1

Socially Responsible Investment (SRI)

The growth of SRI over the last 25 years has been well documented and is now a multi-trillion dollar business. Eurosif (2008) identified two categories of SRI investment:

- *Core SRI*: elaborated screening strategies impacting portfolio construction and implying a values-based approach. Investments are characterized by ethical exclusions (more than two negative criteria) as well as different types of positive screening (e.g. best in class)
- *Broad SRI*: mainstreaming of SRI reflecting the growing interest in this area by institutional investors. Investments are characterized by simple exclusions, engagement and integration of environmental, social and governance risks (ESG) into conventional financial analysis

In 2007, the total amount of SRI assets under management in Europe was \$3.8 trillion (£2.2 trillion) or 17.5% of the total in the region and a compound annual growth of 42%. Of this figure, broad SRI amounted to \$3.04 trillion of assets under management (81%; £1.7 trillion) and core SRI amounted to \$706.6 billion (19%; £0.5 trillion). In the same period, the total SRI market in the USA amounted to \$2.7 trillion (£1.5 trillion). This represented 11% of the total of all assets under management and a compound growth of 9% annually (compared to only 3% across the market as a whole: Social Investment Forum, 2008).

The gradual emergence of social concerns in the preferences of some investors has long been recognized by researchers in the financial services industry. How important the investors’ social concerns are to them, and the substantive social benefit realized by these investment products are matters of debate, of course – not least because much SRI is based on negative screening alone that uses quite limited criteria. The point here is simply that investment for *more than* financial returns is now being sought by a growing body of investors, and becoming institutionalized within the most financially focussed sector of the economy. The cluster of roles and practices associated with SRI are increasingly linked through institutional structures of professional networks, conferences and publications (eg Eurosif; EIRIS; UKSif).

SRI has yet to provide significant resources to social entrepreneurship, preferring to allocate funds to more conventional firms that can deliver market rate (or above) financial returns whilst also fulfilling other social or ethical objectives typically via a screening process. However, SRI is still included here because it represents a significant potential pool of capital for some social entrepreneurial activities in the future, particularly those that can go to scale and provide reliable financial returns. Microfinance is a case in point as the successful public offering of Compartamos demonstrated.

Social Enterprise Investment (SEI)

Social enterprise models explicitly combine social and financial return (Alter, 2006). Social enterprise can be characterized as Type 1 social entrepreneurship (see Nicholls, 2008, for a discussion) – namely organizations that apply business models and thinking to achieving social and environmental aims. The UK government – which has expended considerable policy energy on supporting the development of a social enterprise sector – defines social enterprises as 'businesses trading for a social purpose' (OTS, 2006). Typically, social enterprises access start-up capital from a diversity of public, private, and charitable sources and earn income from either government contracts (to deliver public services as, effectively, an arm of the state) or from competing in mainstream markets (for example, Fair Trade coffee). Sources of investment include shareholders in 'alternative public offerings' (eg cafedirect), co-operative organizations (eg Baywind) or individual savers seeking ethical banking (eg Charity Bank in the UK or the steady growth of Triodos Bank across Europe). New legal forms have also been introduced explicitly to support further growth in the sector (eg the Community Interest Company in the UK and the L3C form in the USA).

There is no single source from which the size of the SEI market can be derived. However, there are a number of data points that help generate an estimate of this pool of capital for the UK. In terms of income:

- It is estimated that there are over 55,000 social enterprises in the UK (2006) with a turnover of $48 billion (£27 billion: DTI, 2006)
- In 2007, UK co-operatives turned over $48.5 billion (£27.4 billion) and had assets of $15 billion (£8.5 billion: Co-operative Monitor, 2008)
- Government procurement contracts accounted for over 50% of the $74 billion of UK charity income (2008) with the result that many of these organizations effectively function as social enterprises (NCVO, 2008)
- The ethical consumption market in the UK was valued at $51.9 billion (£29.3 billion) in 2005 (Nicholls, 2007)

In terms of assets:

- As of 2007, the total amount of social equity investment (i.e. share issues in UK social enterprises) amounted to $89 million (£50.1 million: Hartzell, 2007)

International figures are much harder to identify, though there are clearly many social enterprises around the world (see, for example, Bornstein, 2004). However, there is data for the most developed social enterprise sector globally: micro-finance. According to Deutsche Bank (2007) the estimated total loan volume of micro-finance institutions amounts to $25 billion (£14.3 billion) globally (Unitus Capital, 2008). The UK represents the most developed social enterprise market in the world, so the MFI figure can be taken as a proxy for the non-UK asset base with an estimated income of 20% of the total loan portfolio, equalling roughly $5 billion (£2.8 billion).

Social Impact Investment (SII)

The third category of social investment captures capital allocation that seeks no financial return from the investee but is focussed instead on specific social returns. SII has traditionally be the domain of philanthropists, charitable foundations, and governments. In recent years, however, there has been significant innovation in SI with two marked currents emerging. From the 1980s onwards a series of reforms took place in government in the USA and the UK that became known as new public management or reinventing government (Osbourne and Gaebler, 1995). These reforms demanded more evidence based policy and a clearer emphasis on the efficiency and effectiveness of policy interventions. The state was remoulded along more 'businesslike' principles with an emphasis on new metrics of impact and more efficient processes. In SII terms this has lead, among other things, to a trend in outcome funding for projects.

In philanthropy and charitable giving, business practices have also proved influential in the development of venture philanthropy (VP: for a review, see John 2006). VP was developed by a new generation of high net worth entrepreneurs for whom conventional models of giving were inefficient and unreliable. VP follows private equity methods in particular by offering highly engaged (and demanding) grant giving linked to clear and agreed outputs and outcomes.

Both of these models, then, explicitly draw on the idea of commercial investment funding and the reconstruction of the funding relationship in comparable, investor-investee terms. How different and how appropriate the 'new' practices really are remain controversial, with some commentators claiming the differences may be more rhetorical than substantive and that the venture model may, in fact, be entirely inappropriate for philanthropy (Edwards, 2008).

In order to calculate the size of the SII capital flows several data sources must be combined. For non-state grant-giving these include: charitable income; the percentage of charitable and philanthropic assets invested for positive social as well as financial returns known as Mission Related Investment (MRI); philanthropic and charitable foundation grant giving. State expenditure on SII can be identified as support for long-term projects rather than short-term contracts for public service delivery (though much of this may fall under SEI above). State SII focuses on capacity development for growing the effectiveness of public goods. The UK government has pioneered a number of innovative approaches to SII to increase the impact of public money (Nicholls and Pharoah, 2007), for example:

- Bridges Community Ventures Ltd (BCV), the first fund to provide investment specifically for small businesses in deprived areas (2002). BCV raised \$35.4 million (£20 million) from the private sector and \$35.4 million (£20 million) in government matching investment (Howard, 2004)
- Future Builders (2005) worth \$443 million (£250 million), which offers investment packages of grants/loans/technical for highly selected organizations with reasonable prospects of winning service-delivery contracts
- The Adventure Capital Fund (2002), worth \$21.2 million (£12 million), that offers longer-term financial and development investment to support enterprise growth
- A \$17.7 million (£10 million) challenge fund for social enterprise (2008) in recognition of the need to stimulate growth
- A Community Asset Transfer fund of \$53.1 million (£30 million) to support local authority asset transfers into community ownership
- UnLtd (2001) funded by \$177 million (£100 million) of public money from the Millennium Fund

These to date grants and interventions total \$747.4 million (£426 million). Future plans include the establishment of a social investment wholesaler capitalized by the dormant, unclaimed, assets held by UK banks – a source of capital that is estimated to be in excess of \$708 million (£400 million: Mathiason, 2007). There are no similar targeted initiatives identifiable in the USA, but it will be assumed that, at least, the equivalent of such modest spending is found elsewhere.

Social entrepreneurs aiming at delivering social and environmental goods and services more effectively can benefit from SII, this can include filling institutional voids in provision as well as correcting social market failures. For example, the Institute for One World Health has used Gates Foundation SII to builds markets for orphan drugs in Africa. Similarly, the Department of Health in the UK has set up a multi-million pound social enterprise fund specifically to broaden the delivery base of primary health and build long-term improvements in healthcare models.

Social Change Investment (SCI)

The fourth category of social investment supports Type 2 social entrepreneurship, namely innovative action that aims to transform extant structures, institutions, and power relations - often by realigning cognitive frames of reference - to address social and environmental problems (Davis et al, 2005). Such entrepreneurship is increasingly described as social innovation (Mulgan, 2007) and is often institutionalized in social movements or the advocacy campaigns of some social enterprises. Supporters of social change have long been willing to think long-term and fund campaigning organizations to bring about desired social change. This practice seems to be diffusing and becoming more widespread. One reason may be the decline in support for political parties as vehicles for social change. Another may be because forms of political campaigning are now increasingly accepted as legitimate uses of charitable funds. Jubilee 2000 (the 'drop the debt' campaign) is a case in point. Not all such campaigning is charitable: Greenpeace is, arguably, an exemplar of a social movement organization that has built up and sustained financial relationships with hundreds of thousands of active supporters in the UK alone over many years. These relationships, and the campaigns they afford, are both orchestrated and enacted by adopting and adapting numerous business practices: they are staffed by people who have media and technological skills as well as environmental credentials and who regularly source the professional expertise of creative communications and direct mail agencies.

The scope of SCI can be calculated by combining the assets and income of campaigning NGOs, social movements and other progressive, social change organizations. In 1995, the Johns Hopkins Comparative Nonprofit Sector Project identified the total aggregate expenditure of the non-profit sector globally as $1.3 trillion (£0.75 trillion, excluding volunteer input). Of these organizations, Salamon et al (2003) suggest 64% are focussed on service delivery, whilst the balance are engaged in 'expressive' fields of action such as advocacy, civil rights, and environmental activism. More recently, these figures were augmented by Anheier et al (2008) who suggested that were over twenty one thousand NGOs operating globally in 2007 with expenditures on humanitarian projects alone of $3.5 billion (£2 billion). To derive a figure for this source of social investment two assumptions will be made. First that the current size of the non-profit sector is twice what it was in 1995 – amounting to expenditures of $2.6 trillion (£1.5 trillion). Second, that the proportion of all non-profit expenditure which may be considered socially progressive is equivalent to the 'expressive' fields of action noted by Salamon et al (2003) and, therefore, represents about 36% of the total or $0.9 trillion (£0.5 trillion). Clearly there will be some double counting against the figures listed elsewhere for charities, so this figure will be halved to arrive at a conservative estimate.

INSERT TABLE 2

Calculating the scale of social investment capital flows is difficult and can only be estimated on the basis of a range of assumptions and from a wide variety of data sources. Nevertheless this section suggests that such data can be assembled to explore the estimated size of the social investment landscape (Table 3). The final figure derived here is $**2.36 trillion** (£1.35 trillion). This looks plausible, given that, as a benchmark, McKinsey estimated the social capital market to be worth $1.4 trillion (£756 billion) in the USA alone (Wood, 2008).

INSERT TABLE 3

Having identified the discrete strands of investment opportunities within social investment, this paper will next sketch out the institutional structures that are building the landscape to facilitate such capital flows.

4. Institutional Structures

Reflecting the structure of conventional capital markets, Nicholls and Pharoah (2007) suggested three groups of player as constituting the social investment marketplace (see Table 4):

1. Supply-side investors or capital providers. These institutions and individuals provide the funds for social investment typically in the form of either return (debt, quasi-equity) or no return (grants) instruments. The capital providers include: individual or institutional investors along a spectrum of risk-return expectations from market-rate to patient capital; individual or institutional philanthropists, foundations, and charities; public sector grant-givers and procurement contractors. The first category ranges from 'conventional' investors with little interest in social impact who have identified social- or environmental-purpose organizations that offer above market return opportunities to individuals (and it is typically individuals rather than institutions) that aim specifically for social- or environmental-impact investing, even if this produces sub-market returns.
2. Market intermediaries and support services. These are either the financial intermediaries, which act as middlemen between the capital providers and ultimate capital users, or the advisory institutions that provide consultancy services to the investors in this market. In addition to specialized social investment finance institutions (e.g. Shorebank), there is also an increasing interest in social investment from mainstream financial institutions such as investment banks. For example, Morgan Stanley has worked with Blue Orchard to launch the first public collateralized debt obligation of loans to microfinance institutions. The state is also an important player, in the UK particularly, outsourcing the investment of public money via quasi-independent intermediary organizations such as the Future Builders and Bridges Community Investment Fund. Support services in this space include management consultancies (Bridgespan, LaFrance Associates), sector specific research groups (the Foundation Strategy Group, New Philanthropy Capital), legal services (Bates, Wells, and Braithwaite), and bespoke social investment banks (Triodos, Brewin Dolphin)
3. Demandside or capital users. These are the social purpose organizations that are either start-ups or are at a point of investment readiness for growth. Capital users include not-for-profit charities, for-profit social enterprises, community development financial institutions, co-operatives, and, in the UK, Community Interest Companies.

INSERT TABLE 4

5. Discussion: Implications and Prospects

At the field level, social entrepreneurship often blurs the traditional boundaries between market, state, and civil society (Nicholls, 2006) and creates new hybrid forms of organisation, the most notable of which has been social enterprise. Social investment for such action is also blurring the traditional distinctions between instrumental and substantive rationality, market and non-market investment, as well as recalibrating conventional risk and return paradigms through blended value models. As a consequence, the four distinct social investment orientations identified here are interpenetrating and adapting each other and the mainstream market in dynamic ways. For example, Citibank is now selling securitized micro-finance debt as an asset class, mutual building societies (such as the Nationwide in the UK) are increasingly back in fashion and may start buying up publicly listed competitors, and social entrepreneurs are selling shares to the markets (eg Ethical Property Company) as well as partnering with multi-national corporations (eg Grameen Phone). These changes are driving new legal forms, support services, and institutional structures. The question remains, however, whether social investment represents a parallel, normative, system running alongside conventional capital markets or a transformatory challenge to the mainstream status quo.

Clearly, social entrepreneurship and social investment are interdependent. They will co-evolve (or shrink) since either can restrain or stimulate the other. A market in social investment is clearly developing and, though still small compared to global financial markets, it does now handle appreciable sums. Social investment works like other markets to link together and align disparate actors, resources, and projects over time and it does so because, not withstanding, their differences. Those involved share certain key orientations; their exchanges are expressed in and through a cluster of accepted practices (incipient institutionalisation) and underpinned by a cultural (or more precisely, sub-cultural) validation. As a system of exchange there are still strong currents of individual and organizational self-interest. However, unlike conventional financial markets (embedded in communities that in their professional work share neo-liberal assumptions and values - with the self construed in narrow economic terms), self-interested behaviour in social investment markets is based on a much broader and more enlightened self-interest and governed ultimately by moral precepts and commitments to social causes. Understood dispassionately in its own terms - without assuming it is either self-evidently beneficial or just a deviant and ineffectual variant of business, government or philanthropy – it may become possible to appraise existing arrangements more appropriately and to develop policy more realistically.

The social investment market is emergent and still developing. Whether and how far this will happen is, of course, uncertain and depends on broader social and political currents, as well as the further development of social entrepreneurship. Some of these factors can be illustrated by considering three future scenarios for social investment.

Scenario 1 Business As Usual: Absorption

The first possible path for social investment is that it becomes part of the mainstream. This has several advantages – namely access to vastly increased quantities of capital – but also hazards – namely mission drift and value capture by non-socially motivated investors. This scenario would be the product of Social Enterprise Investment opportunities going to scale (both in terms of individual organizational growth and increased deal flow) and profitability growing such that they could be included in a serious way within Socially Responsible Investment portfolios. A good deal of policy effort in the UK has been expended on exploring how far social investment can 'dock' with conventional capital markets and resemble mainstream investment opportunities (OTS, 2006). This ambition has also driven a good deal of the work in constructing intermediary institutions and systems in the field. Such a normative approach may clearly be valuable for those social enterprises that can trade as conventional business whilst also maintaining a social mission, but would freeze out the transformative types of social investment. It is also quite unclear how many social enterprises can go to the necessary scale for mainstream investment and, even in those that could, it remains to be demonstrated that growing in organizational size necessarily increases social or environmental impact. Furthermore, since a good deal of social enterprise is reliant upon state contractual funding acting as service providers it is not clear how in what ways these organizations could access mainstream funds. Finally, there remains the thorny issue of ownership. Many social entrepreneurs are unwilling to hand over ownership and control of their ventures – a prerequisite for most equity funding.

Scenario 2 Cottage Industry: Parallel Growth

The second scenario is that social investment will continue to operate on the margins of the mainstream intersecting with it where mutual interest makes this viable (i.e. around social enterprises that are at scale), but also working as a separate, parallel system supporting the wider social economy in a traditional manner. This scenario would see transformative social investment continue to be supported by charity and philanthropy, or by re-investment from within parts of the social enterprise sector. Such a scenario emphasises that the broad practice of social investment under substantive rationality alone is not a novel phenomenon: in fact, ample historical precedent exists for the placing of funds specifically to generate social, for example:

- Quaker and other philanthropic business
- The cooperative movement in its various forms
- 'Business-like' behaviour by charities and religious orders in many different fields over centuries
- Strategic philanthropic funding by Rockefeller, Carnegie and others in the USA during the 19th and early 20th centuries
- Arms-length public entrepreneurship by both local and national government (19th century municipal enterprise, the BBC, the Open University)
- The funding of campaigning bodies and new organizations in support of grass-roots activism in the labour, women's and environmental movements

Scenario 3 An Economy of Virtue: Transformation

The third scenario represents a more radical development. Here social investment continues to enter the mainstream, but rather than being captured by current conventions and institutions, serves to transform them from within. The growth of ethical consumption provides a possible template for this transformation (see Nicholls, 2007). Whilst the market for ethical goods and services remains less than 1% of all transactions in the UK, its principles have proved to be far more influential. For example, the Fair Trade model has inspired consumers to demand both increased supply chain transparency and better supply chain practices across the entire retail industry (see Nicholls and Opal, 2005). In this scenario social investment would be both symptom and cause of a re-alignment of capital investment that demands that risk and return calculations are re-embedded in their social and environmental context, something that is already happening in terms of the carbon footprint of many industrial businesses. Social investment may combine with the continued growth of ethical consumption and state regulatory responses to the current financial crisis to synthesize a new Economy of Virtue (see Offer, 2007). The latter would respond to Sen's (1987) argument that ethics and economics have been theoretically separated for too long in an artificial representation of utility, rationality and efficiency that has conspicuously failed to deliver maximum welfare and has exaggerated inequality. An economy built upon the innate human virtues of fairness and interpersonal regard may offer not only a new economy better suited to the cultural complexity of today's global trade but also a return to a more humanistic model of exchange and economic interaction that had – temporarily – been displaced in the past century by the rise of corporate power and marketing. From this perspective, Marshall's call for economic chivalry may yet be realized by the simple power of new market forces.

Historically, a growing and productive economy has provided surpluses and savings to the financial industry that are then converted into investment capital for the continued growth of the economy in a virtuous cycle. However, today, the global financial system is under stress and the market conventions upon which it has been build are increasingly the subject of critique much of it searching for new models of finance, investment, and the economy. Many of the arcane financial instruments that were thought to generate so much wealth in the past are now discredited and worthless, suggesting a need to reconnect the financial and 'real' economies in a more transparent and meaningful way. Under pressure from policy makers and society in general such a re-embedding of investment will also need to take greater account of the social and environmental externalities typically ignored in investment risk and return calculations in the past. Those who doubt this is practicable, or who seek models for how it may be done, may usefully explore the developing landscape and institutions of social investment.

It is as yet unclear which of these three scenarios represents the future for social investment, but it is clear that this emerging space has the potential to act as a catalyst of institutional entrepreneurship across the larger financial system (Lounsbury and Glynn, 2001).

This paper has presented, for the first time, an empirical and theoretical account of the early stages of a new social investment marketplace. However, it is acknowledged that there are research limitations in this work. First, by focussing largely on the UK and USA this paper has not fully explored the cultural and institutional issues that may shape social investment very differently across the world (this is particularly relevant given the lack of internationally agreed accounting standards for such capital flows). Second, the paper has not tested its theoretical propositions empirically. Third, by choosing to focus on the blended rationality of market formation in this space, the paper has failed to explore the instrumental economic modelling that may offer explanatory or contradictory conclusions concerning the future evolution of social investment in practice. These limitations, of course, also suggest starting points for future research into what remains one of the most important issues facing social entrepreneurs individually and collectively across the globe.

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	RETURN SOUGHT	
ORIENTATION	**Financial *and* Social Returns**	**Social ‘Returns’ Only**
Normative (Social Amelioration)	**Socially Responsible Investment (SRI)**	**Social Impact Investment (SII)**
Transformative (Social Change)	**Social Enterprise Investment (SEI)**	**Social Change Investment (SCI)**

Table 1: Social Investment Orientations

CATEGORY OF SOCIAL INVESTMENT	CONTEXT AND RATIONALE	FLOWS OF FUNDS
Socially Responsible Investment (SRI) (*Associated terms*: green & ethical investment)	*Business and Finance* CSR Improve business's social/environmental performance Develop socially valued industries or businesses	Equity investment from individual and institutional investors directly to chosen investees, or through specialist investment funds to negatively/positively screened businesses and industries
Social Enterprise Investment (SEI) (*Associated term*: social business)	*Third Sector* Supporting social enterprise Building a social economy	Grants and/or soft loans and/or quasi-equity investment from government/charities/social enterprises/sympathetic associations/individuals directly to chosen investees or through specialist funds to social entrepreneurs, community businesses, coops, CICs, credit unions
Social Impact Investment (SII) (*Associated terms*: venture philanthropy, community investment)	*Public Sector* and *Independent Grant-Makers* Capacity development	Grants or procurement contracts from government (some times through specialist funds) to social enterprises, charities and community organizations, Grants from individual or institutional donors directly to chosen investees or through specialist intermediaries
Social Change Investment (SCI) (*Associated terms*: social innovation, campaigning, grass-roots activism)	*Social Movements* Political change Systemic reframing at societal level Disruptive innovation	Membership fees or donations from individuals directly to investees or via specialist intermediaries Grants from transnational bodies or progressive institutions

Table 2: Social Investment Typology

SOURCE	TYPE	USA	TREND %	UK	TREND %
CAPITAL MARKETS	SCREENED ASSETS	515.1	11	706.6 (Europe)	42
OPERATING CHARITY	MRI ASSETS	90	16	22 (Europe)	16
OPERATING CHARITY	INCOME	260	-	74	-
FOUNDATION	MRI ASSETS	100	16	13.3	16
FOUNDATION	GRANTS	40	-	5.8	17
SOCIAL ENTERPRISE INVESTORS	ASSETS	25 (MFIs)	-	0.09	-
SOCIAL ENTERPRISE INVESTORS	INCOME	5 (MFIs)	-	50	-
GOVERNMENT	GRANTS	0.8	-	0.8	-
SOCIAL CHANGE ORGANIZATIONS	EXPENDITURE	450 (global)	-	-	-
SUB-TOTALS		1485.9		872.59	
TOTAL					**2358.49**

Table 3: Estimated Size of the Social Investment Market ($ billion)

Supplyside	**Intermediary**	**Demandside**
The State/Taxpayers	Credit Unions	Charities
Members of Co-operatives	Microfinance Institutions	CICs
Philanthropists	Stock Markets	Co-ops
Foundations	CDFIs	Micro-entrepreneurs
Ethical Investors	Investment Banks	Not-for-profit Social Entrepreneurs
Venture Philanthropy Funds	Private Brokers	Green Tech Entrepreneurs
Commercial Investors	Government Brokers	For-proft Social Entrepreneurs
	Government Procurement Officers	
	Professional Services	
Examples Office of the Third Sector FB Heron Foundation Sainsbury Family Charitable Trusts Bill and Melinda Gates Foundation CAN/Permira Breakthrough Fund	*Examples* GEXSI London Bridge Capital Charity Bank Blue Orchard Accion Catalyst Fund Management Calvert Social Investment Foundation Bridges Community Ventures NPI Shanghai FutureBuilders Venturesome New Philanthropy Capital	*Examples* Ethical Property Company Cafedirect ECT Baywind Mondragon Guide Dogs for the Blind People Tree

Table 4: The Landscape of Social Investment