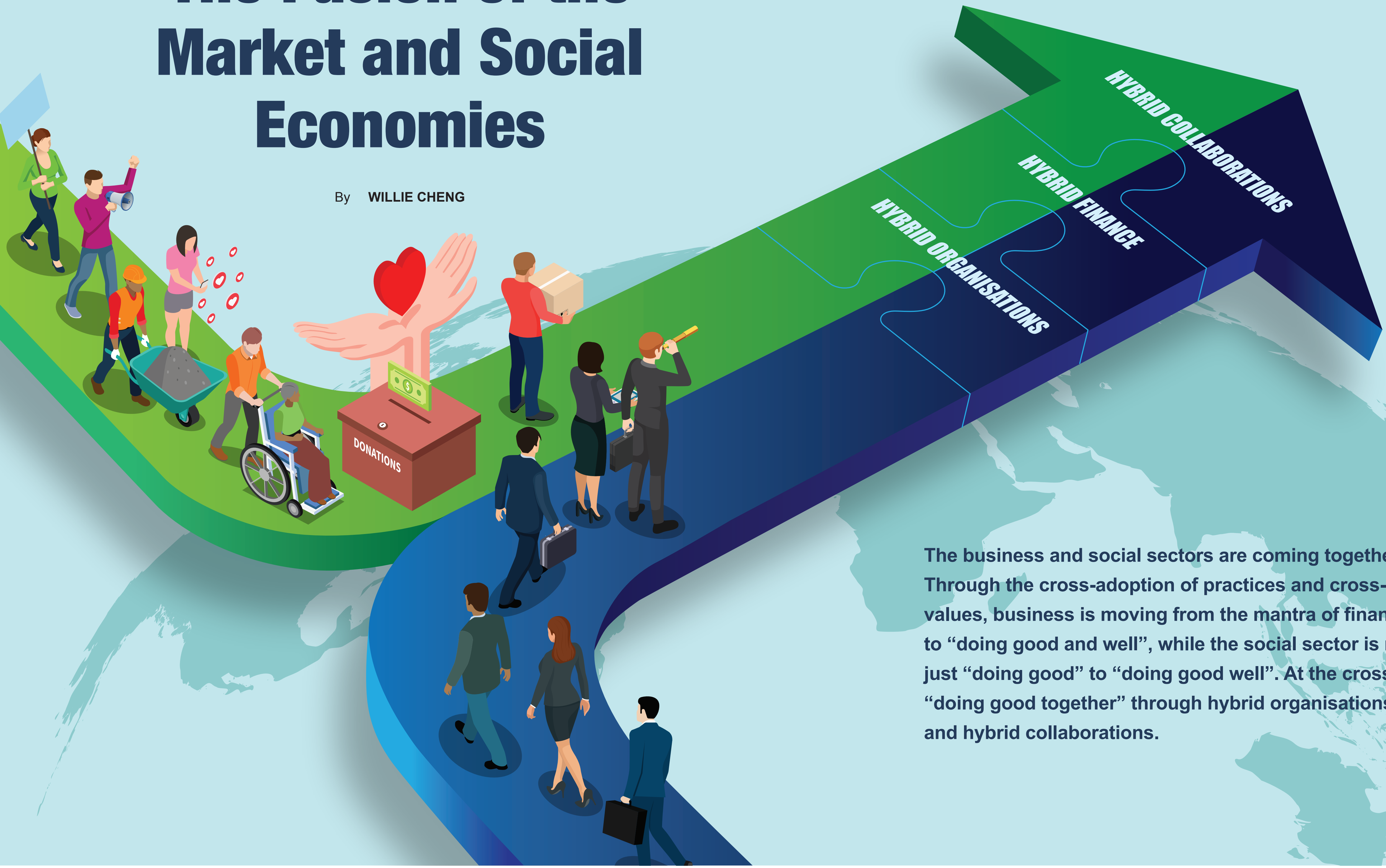
FEATURES 7

The Fusion of the Market and Social Economies

By **WILLIE CHENG**



The business and social sectors are coming together in several ways. Through the cross-adoption of practices and cross-pollination of values, business is moving from the mantra of financially "doing well" to "doing good and well", while the social sector is moving from simply just "doing good" to "doing good well". At the crossroads, they are "doing good together" through hybrid organisations, hybrid finance and hybrid collaborations.

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It used to seem pretty straightforward: The commercial world stood at one end and the nonprofit world at the other. One was for profit, while the other was not. Two mostly separate worlds where their purpose, basis and culture differed, but they coexisted – symbiotically.

The focus of business was about "doing well" (financially), while the nonprofit sector was about "doing good". The social sector depended heavily upon the rich resources available in the corporate world to function. At the same time, it would point out and pick up the people and broken pieces left behind by capitalism's excesses.

However, in the last two decades, there has been an observable convergence of the twain. Players from each sector are criss-crossing into the other and influencing what is happening on the other side. As a result, they have become increasingly intertwined or, one could even say, fused.

This fusion of the market and social economies is taking place at several levels.

First level: ideas and practices

At a basic level, fusion occurs with the adoption and adaptation of ideas and practices between the two worlds.

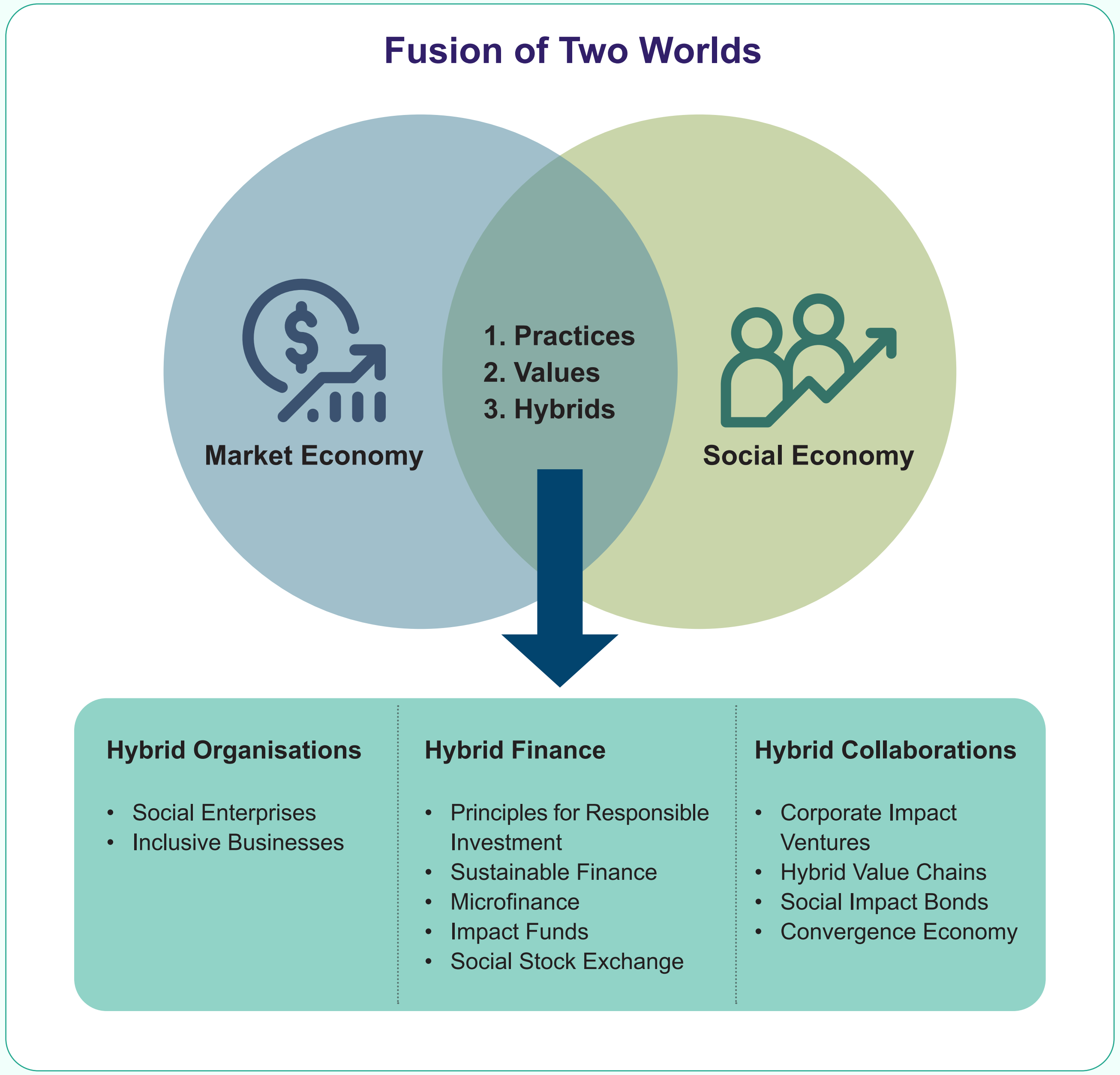
Much of this commingling is the result of corporate executives helping out in or shifting to nonprofit organisations (NPOs), bringing with them their corporate thinking, and bringing back a better understanding of social needs and values.

One area of significant impact is in philanthropy and funding of NPOs. In the early 1900s, Andrew Carnegie and John D Rockefeller changed the nature of philanthropy from alms-giving to organised philanthropy with the discipline and rigour of corporate processes. The professionally-managed grant-making pioneered by the Carnegie Foundation and Rockefeller Foundation has become the model for philanthropic funds and foundations.

Later, successful technocrats such as Pierre Omidyar and Jeff Skoll pushed the envelope further by applying venture capital-like approaches to philanthropic giving. In what is known as venture philanthropy, the giver, like the venture capitalist, is personally engaged with the investee and focuses on building the NPO's capacity (instead of funding the mission-related programmes). Early venture philanthropy organisations include the Skoll Foundation, Omidyar Network, Acumen Fund and Social Venture Partners. Those who emerged in this region have come together under the Asian Venture Philanthropy Network.

Another market-based approach of growing popularity is prize philanthropy, where financial awards and prizes are used as incentives to drive social change. Some of these are recognition awards (e.g. Nobel Prize, Pulitzer Prize), while others provide recipients with resources to pursue their work even before they start or complete a proposed project. For example, the Global Learning X Prize was launched to create mobile apps to improve reading, writing, and arithmetic in developing nations. The X Prize Foundation gave out US$1 million (S$1.35 million) each to the top five teams to develop the app, and US$10 million to the grand prize winners.

The reverse – where the social sector's influence on the corporate sector can be felt – is in the growth of corporate giving. Many corporations



have included corporate volunteerism and philanthropy as part of their corporate social responsibility (CSR) programmes.

Second level: values

At a deeper level, fusion results in the cross-pollination of values, slowly altering each sector's DNA.

The commercial sector has always been driven by economics. It is mainly about self-interest and survival of the fittest. On the other hand, the social sector is driven by the values of generosity and compassion. The commercial sector charges for everything at market rates, whereas the social sector is used to receive goods and services for free or at subsidised rates.

But over time, the values espoused by the social sector about doing good and taking the long view on society's interests and the planet have gradually flowed into the business sector. The sustainability movement and its emphasis on environmental, social and governance (ESG) factors are driving businesses towards a more compassionate form of capitalism.

This new capitalism emphasises two key imperatives: (1) companies should fulfil the needs of not just shareholders but the broader group of stakeholders (including employees, suppliers, environment and community), and (2) companies and the people who run them should focus on values (human and community) and not just value (profits and economic gains). For this reason, many corporates are moving from "doing well at all cost" to "doing good and well".

Similarly, the two-way osmosis means market values have permeated the social sector as well. Meritocracy, efficiency and accountability are being driven into, and are now widely accepted, by nonprofits as they are pushed from the era of just "doing good" into one of "doing good well".

Although the nonprofit sector promotes selflessness, it also increasingly recognises the role of enlightened self-interest to incentivise performance. Nonprofit leaders now openly discuss the uplifting of remuneration and the use of incentive structures to enhance the performance of NPOs and their staff, and the sector as a whole.

Third level: hybrids

The result of the cross-adoption of practices and cross-pollination of values is a convergence of the social and market economies. It is like a third economy has emerged, one with hybrids of the two – hybrid organisations, hybrid finance and hybrid collaborations – where the two sectors do good together while meeting their respective objectives.

The box, "Fusion of Two Worlds", summarises the convergence that is occurring.

Hybrid organisations

Hybrid organisations seek to marry social and business objectives. While there are different shades of hybridity, the two main kinds are known as social enterprises and inclusive businesses.

Social enterprises are businesses with social missions. They sit at the centre of the social-business hybrid spectrum (see box, "Social-Business Hybrid Spectrum"). On one end, there are charities focused on their mission with little or no regard for business. On the other end, are pure commercial organisations focused only on maximising profits.

According to the Singapore Centre for Social Enterprise (raiSE), there are over 350 social enterprises in Singapore. Most of them are small and medium enterprises, started by individuals (e.g. Bettr Barista) or charities (e.g. ABLE Social Enterprise Accounting Services). Those started by the government (e.g. Yellow Ribbon Singapore) and the labour movement (e.g. NTUC FairPrice) are much larger in scale.

The world's largest social enterprise is BRAC, with businesses in dairy, food, handicraft retail and agriculture; it operates in 11 countries across Asia and Africa and employs over 110,000 people globally.

Often lauded for their entrepreneurial zeal in fostering social change, social enterprises rely on the goodwill generated by their social missions to survive and thrive. Unfortunately, many do not get past the need for goodwill support. Still, the social enterprise scene has continued to mushroom in Singapore, in part due to capacity builders (foundations, government, institutions, companies) who provide funding, incubation, mentorship, competitions and other support.

Inclusive businesses are shining examples of socially responsible businesses (as shown in the box, "Social-Business Hybrid Spectrum"). They focus on providing products and services to the bottom of the pyramid (BOP). The BOP refers to the largest but lowest socio-economic group. The sizing of this group varies. The BOP Hub, which seeks to design and incubate businesses for this group, defines them as the 4 billion in the world who live on less than US$8 per day.

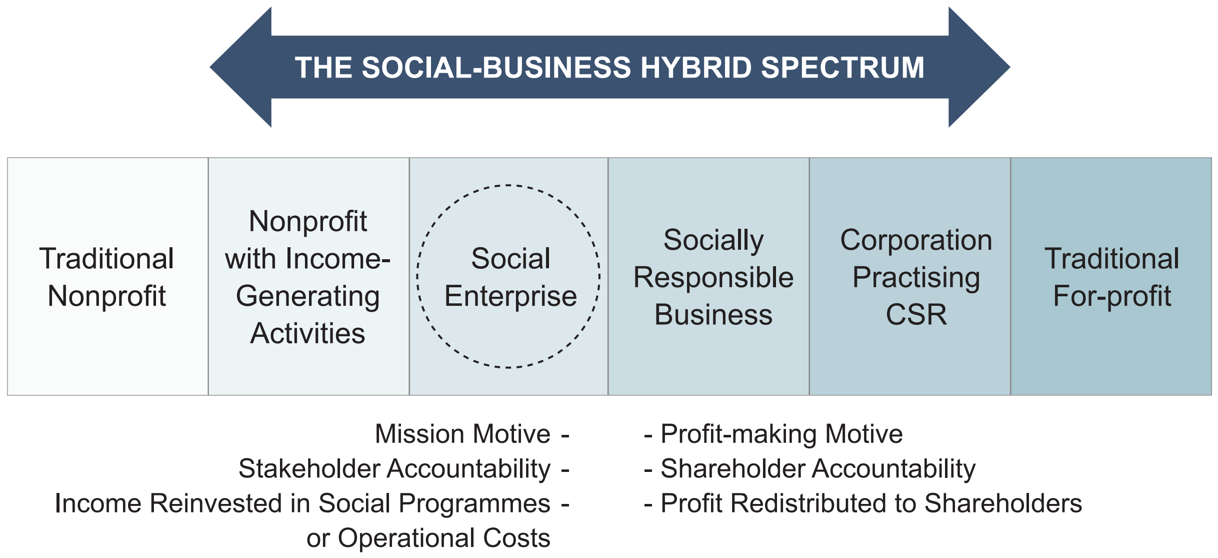
Inclusive businesses seek to implement profitable business models in this hitherto invisible and under-served market. They do so by involving the poor both as producers and consumers.

Inclusive businesses are usually found in developing countries, with BRAC as a prime example. Those based in Singapore tend to have their client focus in the developing countries. For example, WTO SaniShop operates a franchise that empowers local entrepreneurs in Cambodia to provide toilets to rural households. And Wateroam develops filtration systems to provide clean, affordable drinking water for communities in rural and disaster-hit regions.

Hybrid finance

Hybrid financing vehicles have also emerged to supplement the donations, grants and sponsorships that nonprofits traditionally rely on. Many of these financial options – programme-related investments, sustainable finance, microfinance, impact funds – are often a combination of grants, debt and equity

Social-Business Hybrid Spectrum



Source: Kim Alter, "Social Enterprise Typology", *Virtue Ventures* instruments adapted from the financial services industry.

For example, a programme-related investment is a loan, equity investment or guarantee made by a foundation to an NPO or a hybrid organisation. As the investment is made in pursuit of charitable rather than financial objectives, the foundation does so at below-market rates but expects an eventual return of the capital.

Sustainable finance refers to financing that appropriately considers ESG criteria. It includes green bonds (for projects that positively impact the environment), social bonds (for projects that contribute to positive social outcomes) and sustainability bonds (for projects with both environmental and social positive effects).

It should not be surprising that hybrid financing is often associated with hybrid organisations. Microfinance, which provides microloans (from as little as low as US$100 to US$25,000) to low-income individuals and groups, is arguably the most successful form of social-business hybrids.

The funding of social enterprises and inclusive businesses has led to impact investing where investors seek both financial returns and measurable social and/or environmental impact. Depending upon the investor's strategy and motivations, the targeted financial returns can range from below market (sometimes called concessionary) to risk-adjusted market rates. Impact investing has taken off in a big way. According to the Global Impact Investing Network, impact investing has grown by double digits annually in the last decade, from US$50 billion in 2010 to US$715 billion in 2020.

With the hype in impact investing, many individuals and institutions have sought to create social stock exchanges to list and trade social enterprises and inclusive businesses. Over the last 15 years, social stock exchanges have been set up in Brazil, South Africa, Kenya, Mauritius, Portugal, the UK, Singapore, Canada and the US. Even though most have floundered and are no longer in operation, India is currently eyeing the setting up of a social stock exchange.

Hybrid collaborations

The convergence of issues, interests, values and practices has led to solutions requiring the collaboration of diverse players from the social, business and public sectors. Such engagement can take many forms.

One basic form is corporations investing in hybrid organisations for both social and economic returns. A prominent example is Grameen Danone Foods, a joint venture between an NPO (Grameen Bank) and a corporation (Groupe Danone) set up to provide affordable nutrition to malnourished children in Bangladesh using fortified yoghurt.

Such joint ventures have led to the emergence of corporate impact venturing, a subset of corporate venture capital, where regular corporations provide funding to inclusive businesses with the expectation of financial, strategic and social or environmental returns. Rather than create their own inclusive business models from scratch, these corporations are investing in field-tested models, while providing much-needed finance and expertise to social entrepreneurs.

Patagonia was one of the first corporations to set up a dedicated venture fund in 2013 to invest in startups "building renewable energy infrastructure, practising regenerative organic agriculture, conserving water, diverting waste and creating sustainable materials." Since then, other corporations have followed suit, including Amazon, Salesforce, JPMorgan Chase, Merck, Adidas and Ikea.

The mutual benefit of these investments has stirred other organisations to proactively foster such collaborations. For example, Ashoka, has developed the concept of Hybrid Value Chains to scale social ventures by leveraging its business and social networks. It can match Ashoka's over 3,500 leading social entrepreneurs to businesses that need to access low-income markets. Ashoka then facilitates the venture which often calls for changes in business frameworks, values and skills of the stakeholders.

An innovative hybrid financing solution that brings together the public sector, philanthropic sector and NPOs delivering services in a win-win situation is the social impact bond. This is an outcome-based or pay-for-success contract where a public sector commissioner commits to pay for significant improvements in social outcomes (such as reducing reoffending rates or the number of people admitted to a hospital) for a defined population. Venture philanthropists and impact investors then invest in and work with NPOs to achieve these outcomes. They get their investment back and more when the outcomes are delivered.

The first social impact bond, launched by Social Finance in 2010, succeeded in cutting the recidivism rate of prisoners in a UK prison. Since then, 194 social impact bonds with over US$421 million in upfront investments have been launched in 33 countries. An analysis of nearly 50 completed contracts found that the outcomes were achieved, and investors were repaid in all cases save for two.

In Singapore, Tri-Sector Associates, which promotes outcome-based funding models, has developed a variation to the social impact bond – the social impact guarantee. In this arrangement, a third-party guarantor will reimburse a front-end social impact funder for any unachieved impact. It recently piloted this instrument for YMCA Singapore's Vocational and Soft Skills Programme with two foundations.

Collaborations involving the many diverse players across all three sectors (business, social and public) can be particularly impactful in international development. Accenture calls these multi-stakeholder alliances between commercial organisations, hybrid organisations, NPOs, foundations, public donors and governments the "convergence economy". One example is Refugee United, a joint venture in Uganda formed by Ericsson, MTN Group, the UN High Commissioner for Refugees and the Clinton Foundation to provide a service to reunite the diaspora of refugees using mobile phone technology.

Fusion economy

What is clear is that the lines are blurring between the social and commercial sectors.

Social-business hybrid organisations, finance and collaborations are pulling both sectors closer into a brave new world, where doing good and doing well are fundamental values embraced by all key players in a more fused economy. ■

Willie Cheng is a former chairman of SID. This article is adapted from his latest book, Doing Good Better: Choices and paradigms in the social ecosystem.