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Creating And Quantifying Social Impact Investments For The People Sector

Toolkits And Best Practices



- To futureproof the social sector, it needs to undergo three shifts: from donation to investment, from working in silos to collaborating with others, and from doing good to creating social impact.
- To achieve these shifts, new knowhow and skills would be required.
- The "7 elements of social entrepreneurship" framework, based on the business excellence model, can be used to address the skills gap and guide an organisation towards success.

IN MY PREVIOUS ARTICLE, PUBLISHED IN THE SEPTEMBER ISSUE OF THIS JOURNAL, I examined the driving forces behind the evolution of the social sector. They can be summarised into four points, namely the changing expectations as a result of the change in Singapore's demographics, resource scarcity caused by the high cost of living, increasing demand for People sector services due to our rapidly ageing population, and the digital awakening that the nation experienced as a result of COVID-19.

I also evaluated the current state of Singapore's charities and, consequently, identified the gaps and shifts that the People sector will need to address and adopt, to become future-ready. Through our research,

the gaps we have identified can be grouped into the three main categories of demand, supply, and matching. To address these gaps, we have hypothesised three shifts that the social sector will need to undergo and they are: from donation to investment, from working in silos to collaborating with others, and from doing good to creating social impact. To achieve these shifts, the current model for the People sector would need to be reengineered, and the product of this reengineering process is the three key social innovations (Figure 1).

SOCIAL INNOVATIONS

As mentioned in the previous article, there are three key social innovations (social investment, social alliance, and social excellence) which need to occur for the sector to move towards impact investment – a necessary and fundamental shift to prepare the People sector for the future of work (Figure 1). Impact investment is the result of the cumulative efforts of the three social innovations, which embody the concept of doing good, doing right, and doing well.

Social investment

Social investment is a way of ensuring the sustainability of an organisation and is to be used in conjunction with other methods of income generation for charities, such as donations and grants. Before the charities or potential investors consider social investment, they will need to fully understand the reasons, considerations

FIGURE 2 3 MAIN QUESTIONS CHARITIES SHOULD ASK THEMSELVES BEFORE THEY START IMPLEMENTING SOCIAL INVESTING



and how they wish to invest. These considerations include the reasons for the extra funding, risk management plan, and a robust business plan (Figure 2).

One, understand the reason(s) for the extra funding. Before SSAs consider social investment as a potential income source, there must be a clear purpose for the extra funding. This would ensure that the extra funding would be maximised for social impact. Moreover, if SSAs are unable to convince themselves about the reason for the extra funding, it is unlikely that investors would be persuaded. A potential cause for needing extra funding would be for SSAs to embark on new initiatives and thus require funding to purchase relevant assets.

Two, ensure that proper risk management plans are in place as social investment requires a sound investment strategy. Therefore, charities are required to pay their investors, whether these are in principal, instalments, interest or dividends. Hence, it is critical that charities have a detailed

understanding of all their charity's cashflows including positive cashflows like donations or grants, and negative cashflows like utility bills and transport expenses. With this understanding, non-profits would be able to plan a robust risk management plan and prepare for certain scenarios. These scenarios include when SSAs are unable to pay investors or when certain types of assets, such as transport vehicles, cost more than expected. For scenarios like these, a potential resource SSAs can tap into is their reserves. Clearly, managing reserves will become even more important should charities embark on social investing.

Three, ensure that your charity has a robust business case to present to potential investors. As investors become more sophisticated and thus more selective, they are looking for charities which are able to provide the highest return-on-investment (ROI) in the form of social impact. As such, it is critical that SSAs are able to present a robust business plan to investors to convince them to invest in your SSA. Also, as part of the business plan, charities will need to have a detailed understanding of their operating model to determine their competitive advantage, what makes them unique and what the investment capital will be used for.

Only charities which are able to provide satisfactory answers to the above three points should begin to operationalise their social investment plans.

• Social bond, social equity, social revenue

Social investment comprises two elements. The first element is social capital, which includes social bonds, social equity, and social revenue (Figure 3).

FIGURE 3 RELATIONSHIP OF SOCIAL INVESTMENT AND ITS PRODUCTS (SOCIAL INVESTMENT LEADS TO SOCIAL RETURNS WHICH CAN BE EVALUATED BASED ON SOCIAL METRICS AND STORYTELLING)

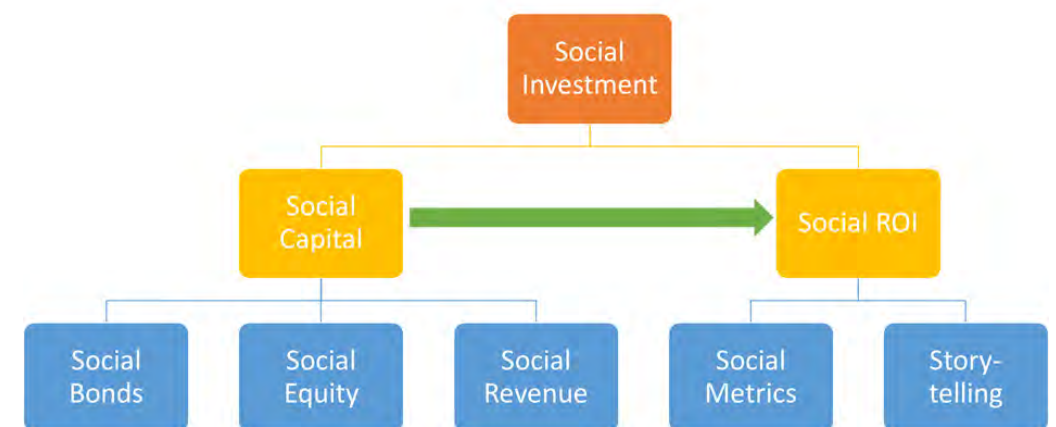


FIGURE 1 3 KEY SOCIAL INNOVATIONS IN POSITIVE FEEDBACK LOOP



As investors become more sophisticated and thus more selective, they are looking for charities which are able to provide the highest return-on-investment in the form of social impact.

The second refers to the ROI for investors, also known as social ROI. Social bonds are investment products where the investors provide capital to the charity organisations that would be required to return the original investment sum with interest to the investors at the end of the agreement. Social equity is a concept where the investors buy shares from charities and thus own a certain percentage of the charity. Social revenue refers to the goods and services that the government and private sector outsource to charities. Social revenue also refers to services that your SSA charges to those that can afford to pay to subsidise the programme for those who are unable to pay. As indicated previously, social ROI refers to the outcome of the investment, which could be capital or other social impacts.

• Social ROI

As developing social ROI can be a daunting task, I have provided a framework that has been contextualised for the People sector (Figure 4).

In Step 1, map the stakeholder needs and sort them according to priority so as to determine the critical needs that must be addressed. In Step 2, determine the outcome for stakeholders, specifically the tangible and intangible outcomes. In Step 3, develop the social measurements which include the formulation of social metrics. In Step 4, establish the baseline standards, which would require stakeholder surveys. In Step 5, measure social impact by comparing the state of things before and after your intervention. You should also investigate the opportunity cost of your intervention.

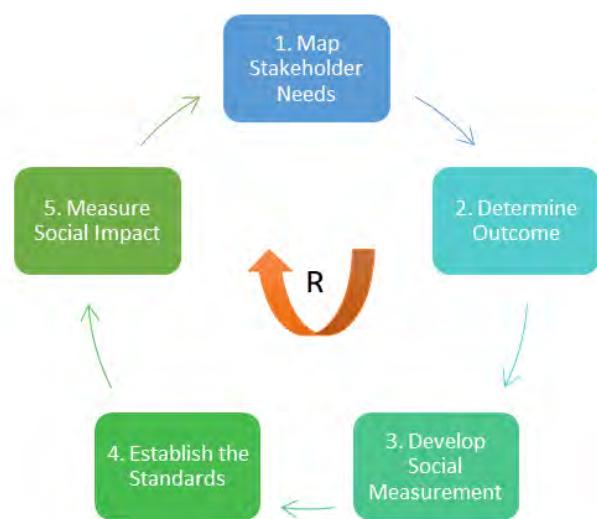
This recommended process would enable SSAs to quantify the tangible social impacts of their programmes and allow them to properly report to their investors. The intangible social impacts are more complex as there are no fixed measures that SSAs can use to report the findings. Instead, to report on this aspect, SSAs should use storytelling, detailing the changes and intangible impact they have made. Also, a crucial part of this recommended process is to continuously update and improve the social ROI process through feedback generated from the resultant social impact report.

Social excellence

To improve the sector’s productivity, People sector organisations will need to pay attention to operational excellence. There are three ways which operational excellence can be achieved, namely value creation, productivity, and technology.

First, for value creation, the People sector will need to adopt process reengineering. An example of process reengineering is redesigning the roles of volunteers. For People sector organisations which regularly recruit, engage with and rely on volunteers, there are more efficient ways to utilise their skilled volunteer base. As charities tend to have limited headcount, it would be difficult to fully rely on staff to complete every single task within the organisation. Instead, non-profits could reevaluate the current tasks that volunteers are doing and determine how they can leverage on the skills of volunteers to help achieve more. Additionally, this development would be aligned to the volunteers’ expectation of purposeful volunteering, thereby creating

FIGURE 4 5 GUIDING STATEMENTS TO QUANTIFY SOCIAL ROI (IT WILL BE CONTINUOUSLY IMPROVED UPON)



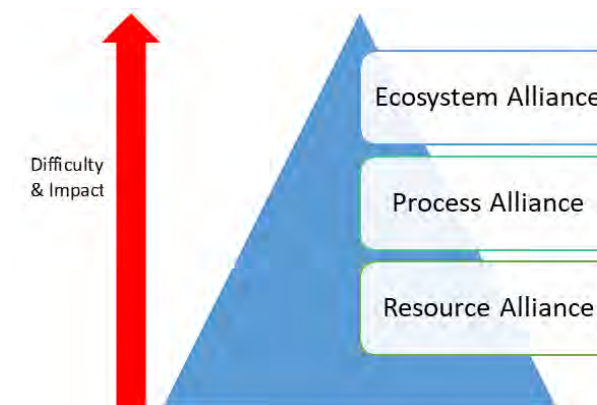
a mutually beneficial scheme for both volunteers and charities. For example, volunteers can be put in charge of tasks such as volunteer management, which allows them to take ownership of their volunteering journey. This would free up the staff to do higher-value work.

However, there may be issues when relying on skilled volunteers as they may serve on an ad hoc basis, leading to discrepancies in the consistency of vital corporate services. A potential solution to address this issue is for charities to get a group of skilled volunteers to perform these tasks. The skilled volunteers could then arrange among themselves and schedule “shift duties” for volunteers involved in the project. This system allows for a smoother service delivery, empowers the volunteers to take ownership of the project and converts your ad hoc skilled workers into a permanent service provider unit.

Second, to improve productivity, SSAs will need to “do more with less”, that is, deal with the higher expectations from our stakeholders while working with a lower supply of resources. One solution is to incorporate lean management, which requires redesigning the job scope of the staff. To maintain a lean but highly productive team, each individual staff would need to be upskilled to handle more complex and difficult projects, including through collaboration with other SSAs.

Third, wherever possible, leverage on technology, such as automating or digitalising tasks. For instance, instead of manually documenting volunteer records, SSAs could utilise Excel spreadsheets. This would be more environmentally friendly, records can be shared more efficiently, and it takes less time to sort and store the records and data. Technology can also be used in more complex ways, such as using artificial intelligence to craft customised donation appeals within minutes, with the right prompts. Another use of technology would be in digital marketing where digital platforms are used for outreach activities aimed at the public. Charities can also subscribe to corporate software service packages, such as for accounting, customer service management, volunteer management, and human resource management. As more routine tasks become automated, staff are freed from lower-value duties and can take on more critical decision-making responsibilities. For charities which can implement more complex technology, data analytics should be incorporated into the organisation’s decision-making process as it gives non-profits the ability to make quicker and well-informed decisions.

FIGURE 5 INCREASING DIFFICULTY AND IMPACT OF CREATING ALLIANCES



Social alliance

To enhance the sector’s collaboration capabilities, People sector organisations will need to form alliances with each other for the purpose of increasing collaborations and to leverage on each other.

There are three main types of social alliances (Figure 5), comprising resource, process, and ecosystem alliances. Among them, resource alliance is the easiest and least impactful while ecosystem alliance is the hardest and most impactful.

The first type of social alliance is resource alliance, such as joint funding and shared volunteers. As multiple small SSAs may work on similar causes, it is likely that one’s campaign may cannibalise the work of other similar SSAs. Furthermore, with a small team, the outreach each individual SSA has would be limited. Thus, for outreach initiatives to connect with more donors and volunteers, SSAs could pool their resources together and form a single large-scale marketing campaign to raise awareness of the SSAs with similar causes. This would create a much greater awareness impact than having multiple small-scale and disjointed campaigns.

Another trend among today’s donors is the rise of “giant” donors, usually philanthropists or foundations, that generously give away large sums of money in service to the community. These donors are more sophisticated and place heavy emphasis on generating great social impact for society. By forming resource alliances and sharing resources, charities would be able to organise more large-scale donor events, such as

benefit concerts and galas, which are regularly attended by “giant” donors, potentially attracting more funds than through small-scale events.

The second type of social alliance is process alliance, which includes shared services. I often say, “Do what you do best and outsource the rest.” As SSAs have limited headcount, it may be more costly to have inhouse corporate services such as facilities management, human resources, and finance. It would be more efficient for SSAs with similar needs to come together and produce shared services that all partnering organisations can tap into when required.

The last type of social alliance is the most difficult type of alliance, also known as ecosystem alliance. Ecosystem alliances refer to alliances of charities that exist within the same value chain. For instance, one such value chain would be the medical value chain which not only consists of the hospitals and community clinics, but also SSAs which follow up with discharged patients. Within this cluster of SSAs, there are many different charities which fulfil separate functions. For example, patients with chronic illnesses who have been discharged from hospital would require external assistance to monitor and manage their physical health, mental health, and financial situation. Often, these services are provided by different SSAs which may not be coordinated. It would be more efficient for SSAs in the same value chain to form alliances, to bring greater convenience to beneficiaries. Such alliances would allow for easier information sharing, greater transparency, and lower turnover time.

With the Healthier SG movement that requires us to move up the value chain from curing to prevention, the ecosystem alliances will become even more critical.

SOCIAL ENTREPRENEURSHIP

To achieve the aforementioned shifts, new knowhow and skills would be required as the sector may not have the necessary skills to properly implement all aspects of impact investment. To address this skills gap, based on the business excellence model and SkillsFuture’s

critical core skills, I have developed a theory of success called Social Entrepreneurship.

Known as the “7 Elements of Social Entrepreneurship” (Figure 6), this model comprises seven different elements – leadership, strategy, process, people, knowledge, beneficiary, and results – all of which work in tandem to ensure organisational success. For more details about each element, please refer to my social entrepreneurship article, “Social Entrepreneurship: Building The Next Generation Of The People Sector”¹, published in the December 2022 issue of this journal.

For the strategies to be successfully implemented, the most crucial element of social entrepreneurship that needs to be developed is leadership. This is because leaders make things happen. There has been a shift from leadership to stewardship, and moving forward, the shift would be from stewardship to collective leadership. Traditionally, leaders have been viewed via the one-man leadership lens, where only one person directs the whole organisation. Currently, the leadership model has shifted to stewardship, where leaders of today think beyond their own organisation and look to find opportunities for collaboration. Collective leadership elevates this thinking, where “thinking for others” is a concept that is embedded into the organisation’s overall leadership strategy, allowing for smoother collaborations.

Having collective leadership would also instil resilience into your board and upper management as everyone, coming from diverse backgrounds, would have his or her unique experiences which, when combined, produces the collective wisdom to deal with almost all issues that SSAs of today and tomorrow will face. Hence, having diverse collective leadership is crucial as this leadership style allows organisations to achieve alignment, action, and speed through the process of shared vision, action, and experience.

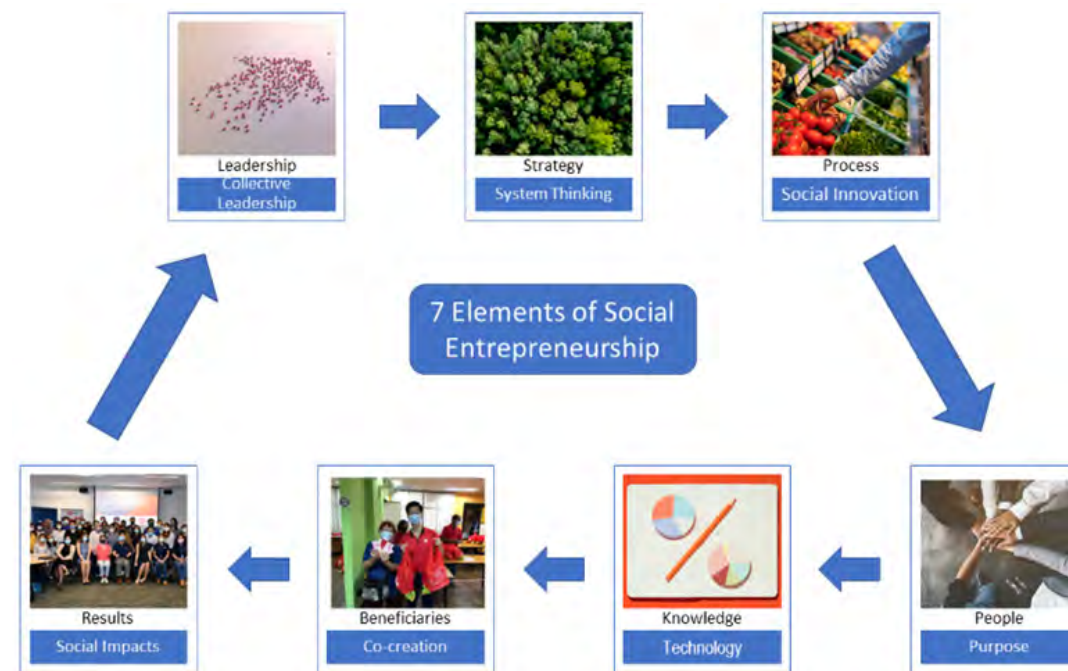
CALL TO ACTION

To remain relevant to our stakeholders and to ensure that our stakeholders continue to



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FIGURE 6 7 ELEMENTS OF SOCIAL ENTREPRENEURSHIP



enjoy high levels of service, the sector needs to answer to three calls to action.

First, there will be a need for new policies, new regulations, and new tools for the People sector. For instance, to implement social bonds, social equity and social revenue, new governance policies about social investing with the non-profit sector is required. Without the appropriate regulations, it would be incredibly difficult to gain the trust of the potential donors, and many are unlikely to fully comprehend the concept from the get-go. Thus, successful implementation of this would require governmental support and recognition. Training would need to be modified as new skills and complex skills would be required to operationalise sophisticated impact investment. New best practices and knowhow will need to be developed for other charities to learn from.

Second, no theory is as good as actual experience. While I may have proposed some

frameworks for social innovation, to ensure that they are contextualised to Singapore’s People sector, the best way is to run a pilot with an established SSA which is willing and able to manage the risks. The lessons we learn from the pilot run will provide salient feedback for best practices and templates, and allow us to scale up the programme to the rest of the People sector.

Third, if you are keen to conduct research to co-develop best practices for Singapore’s People sector, and to see your research’s impact on Singapore’s social policies, please reach out to me via ISCA or the Centre of Excellence for Social Good (CESG). It is only through working together that we can achieve the new social compact. ISCA

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¹ <https://journal.isca.org.sg/2022/12/16/social-entrepreneurship/pugpig-index.html>