A RESPONSE FROM CRAIG DEARDEN-PHILLIPS FOUNDING CHAIR OF SOCIAL CLUB

WHY SOCIAL INVESTMENT IS ABOUT MORE THAN MONEY

IN HIS BRILLIANT BOOK, *'THE INVESTED INVESTOR'*, THE BRITISH 'ANGEL INVESTOR' PETER COWLEY SPELLS OUT WHAT MAKES FOR SUCCESSFUL INVESTING. HIS BOOK READS VERY MUCH LIKE MANY OF THE POINTS RAISED IN THE ABOVE PIECE ABOUT INVESTMENT IN SMALL AND MEDIUM SIZED SOCIAL VENTURES.

The stand-out word is resilience. Businesses of all types need money to grow, sure. But they also need talent, knowledge, networks and mentoring. This gives businesses, social or otherwise, the ability to withstand the inevitable problems not in the business plan.

To this end, 'Invested investors' also offer domain-expertise, industry contacts, business advice and new opportunities for entrepreneurs to learn and grow.

But what has been long-practised by commercial investors hasn't always been evident when you look back at the early days of social investment. This almost certainly doesn't reflect a lack of desire to support impactful organisations. More likely it highlights some naivety, and that social investment is itself a nascent sector with limited resources and expertise. In the absence of these tools, early social investors operated a bit like banks: semi-detached, all about the business plan and financial model, not always realising that more help was needed than a cheque and a breathe-down-the-neck quarterly review of the P&L.

It has probably taken several failed investments, and the subsequent reflection, to awaken this slightly hubristic sector to the reality that for social investment to work its magic, investors need to be more fully immersed in the success of the businesses in which they invest, as outlined in the lessons mentioned above.

Of course, the challenge of the more immersive approach, as described above, is that this doesn't come cheap. Piled on top of the high risks of the investment itself are hefty costs associated with helping the organisation actually succeed. All those operational meetings, feedback loops and peer support networks (like the one I run) cost a lot of money. And organisations with sufficiently profitable business models to absorb the real costs of social investment are, in reality, quite rare.

This – rather than the absence of available capital – is probably why the number of socially-motivated organisations taking on unsecured loans isn't growing as quickly as expected.

What does all this tell us about the future of social finance? Three things. Firstly, the evidence from the Social Investment Business and others suggests that all future social investment offers need to go beyond the provision of capital and include other resilience-building support.

Secondly, it logically leads to a recognition not-quite-there in the current social investment marketplace that zero or negative financial returns may be the necessary price for stellar social returns.

And, thirdly, as Peter Cowley points out, investing is about people as much as spreadsheets. Therefore, social investors who can build up the skills and resilience of investees are probably going to have more success than those who just throw money at them.

All obvious, perhaps, but these seem to be lessons that the social investment sector has chosen to learn the hard way.

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