

FROM THE EDITOR

Welcome to Knowledge Connect, the quarterly literature review by the Centre for Social Impact (CSI). This review seeks to stimulate dialogue by connecting readers to the latest social impact thinking worldwide. The publications summarised are both critical and supportive of current practice. The opinions expressed reflect the sources named, and are not necessarily those of CSI.

This inaugural edition of Knowledge Connect focuses on market dynamics. From the expansion of social investment in the UK, the dawn of non-profit IPOs, and excesses in US philanthropy, we examine ideas flowing from the social marketplace. What's working? What's not? And, what's an appropriate role for the State? Spotlighting a current debate in Australian policymaking circles, we highlight an Australia Institute piece on the potential costs and benefits of a National Compact between the federal government and the social sector. Finally, Peter Shergold, Chief Executive of CSI, reviews Geoff Mulgan's most recent book on mobilising public power for the common good. Peter's review pinpoints a shared concern for both government and the not-for-profit sector: how to accurately measure social impact.

Please enjoy these summaries and links to the complete publications, where available. Also, feel free to contact us with ideas and suggestions for future editions at Knowledge.Connect@gmail.com.

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Editor, Knowledge Connect

IN THIS EDITION

- 1. Financing Civil Society**
From Venturesome
- 2. Non-Profit Capitalism**
From *The Economist*
- 3. Achieving Breakthrough Performance**
From *Stanford Social Innovation Review*
- 4. Rich Bitch**
From the *New Yorker*
- 5. Can the Rich Save the World?**
From *Alliance Magazine*
- 6. Agreeing to Disagree**
From The Australia Institute
- 7. The Art of Public Strategy**
Book review by Peter Shergold

1. "FINANCING CIVIL SOCIETY: A PRACTITIONER'S VIEW OF THE UK SOCIAL INVESTMENT MARKET"

by Louisa Mitchell, John Kingston, and Emilie Goodall, Venturesome; September 2008.

This article is essential reading for those seeking to better understand the emerging social investment marketplace. In a nutshell, social investment aims to achieve both social and financial returns. Laden with case studies from the UK, the authors argue that social impact organisations are most effective when they strategically target social investors instead of becoming caught in the vicious cycle of short-term fundraising.

Mitchell, Kingston, and Goodall delineate seven organisational models ranging from those that are purely grant dependant to completely commercial ones:

1. Charity with fundraised/grant income
2. Charity with "on mission" trading/contracting
3. Social benefit enterprise
4. Social purpose business
5. Socially responsible business

6. Business generating profits for charitable spend
7. Commercial enterprise

The authors offer a pragmatic approach to capital planning that taps into social investment right across the spectrum. They say that organisations must clarify their financial needs: separating working capital requirements for day-to-day expenditures from their growth capital needs for strategic development. Then, with a clear picture of funding demands, organisations can proceed to target the right pool of investors.

Critics of this article may point out that the case studies cited have overwhelmingly positive investment returns. With tumultuous times in the global financial markets, a question may be raised over how the social sector will deal with the downturn. Perhaps the answer to this question will be the focus of the next installment.

For more information on Venturesome see: <http://www.cafonline.org>

2. “NON-PROFIT CAPITALISM”

The Economist, print edition; September 11, 2008.

Under the banner: 'The Business of Giving', *The Economist* reports on the latest trend in not-for-profit fundraising circles: the Initial Public Offering (IPO). IPOs were the golden child of the dot.com era, occurring when a company floats its stock on a public stock exchange and the shareholdings become publicly available. Now, some non-profits in the US have launched their own 'IPOs' as part of their fundraising efforts, following a growing trend within the social sector for the adoption of business practices. There are, of course, precedents for applying market thinking to social problems such as Muhammed Yunus' pioneering work on microfinance. But instead of promising a cash return to investors, these new IPOs offer instead a perpetual interest in the organisation seeking funds.

The Economist reports that around \$200m of this 'philanthropic equity' has been raised by non-profits in the past few years and another \$100m is currently sought.

Yet some believe this new IPO approach is 'gimmicky'. Do non-profit IPOs represent a new theft of capitalist lingo for social purpose? In time, the marketplace will be the indicator of whether donor/ investors respond to this approach with their dollars.

For the complete article see: http://www.economist.com/business/displaystory.cfm?story_id=12208564

3. “ACHIEVING BREAKTHROUGH PERFORMANCE”

by Mark Gottfredson, Steve Schaubert, and Elisabeth Babcock, *Stanford Social Innovation Review*; Summer 2008.

How might social sector leaders position themselves to weather economic storms and ultimately flourish? Drawing on extensive consulting experience and not-for-profit management, authors Gottfredson, Schaubert, and Babcock outline a path to 'breakthrough performance'. The authors define this as: "the kind that positions non-profits to create high levels of social impact and lasting change."

To achieve such status, they identify four principles:

1. Costs of serving should always decline
2. Market position determines your options
3. Clients and funding pools don't stand still
4. Simplicity gets results

Interestingly, these are the same four principles they view as essential to breakthrough performance in the for-profit sector: Despite

4. “RICH BITCH”

by Jeffrey Toobin, *New Yorker*; September 29, 2008.

For a tale of philanthropic extravagance, we need not look far from Wall Street. In the *New Yorker*, contributor Jeffrey Toobin tells a fetching story of a cashed-up pooch named Trouble. Trouble, a female Maltese, was left US\$12 million in a trust fund by her owner; the notorious New York hotel tycoon, Leona Helmsley. Ms Helmsley's bequest and the establishment of her foundation (purportedly worth between \$3 to 8 billion) have triggered howls that US philanthropy has gone to the dogs. Mostly because this exorbitant philanthropic legacy has one primary mission: canine care.

Toobin questions whether and how trustees should abide by their fiduciary duty to oversee the new foundation. It is Ms. Helmsley's legal right to dispose of her billions any way she sees fit, but given the dollars are tax exempt under the American tax code, Toobin asks whether it's morally acceptable to give such a large sum to pets when there are so many humans in need.

Should the State use this case of the 'rich bitch' to tighten the leash on what qualifies for tax exemption? Or, are Trouble's critics barking up the wrong tree?

For the complete article see: http://www.newyorker.com/reporting/2008/09/29/080929fa_fact_toobin

5. “CAN THE RICH SAVE THE WORLD?”

AN INTERVIEW WITH MATTHEW BISHOP AND MICHAEL GREEN,”

Caroline Hartnell, *Alliance Magazine*; October 1, 2008.

Matthew Bishop coined the term ‘Philanthrocapitalism’ in an essay for *The Economist* in February 2006, referring to the movement to make non-profits more like businesses and create new markets for goods and services with positive social impact.

In their new book: *Philanthrocapitalism: How the rich can save the world*, Bishop and co-author Michael Green probe the potential they see when philanthropy combines with capitalism to benefit society. They cite examples of the philanthropy of Bill Gates, Ted Turner, and Warren Buffet who are now joined by a cadre of developing world billionaires.

In her interview, journalist Caroline Hartnell asks the authors some tough questions such as: “Isn’t it undemocratic for the super-rich to have so much unaccountable power?” In response, they counter that the new philanthrocapitalists’ long-term focus actually represents a step toward more equitable power relations within the sector.

But Bishop and Green acknowledge that in order to regulate the philanthrocapitalist market, it may be time to establish a new social contract - which would include expectations of transparency and accountability - between the super-rich and everyone else. How such a social contract would be negotiated or enforced was left unanswered.

For the complete interview see: <http://www.alliancemagazine.org/node/1584>

6. “AGREEING TO DISAGREE:

MAINTAINING DISSENT IN THE NGO SECTOR,”

Gemma Edgar, *The Australia Institute*; August 2008.

The Rudd government is currently floating the idea of a National Compact to strengthen its relationship with non-governmental organizations (NGOs) as part of its social inclusion agenda for Australia. Gemma Edgar of the Australia Institute provides a detailed discussion of the pros and cons of such a Compact, with a particular focus on implications for advocacy NGOs. On the plus side, a Compact would aim for a better partnership between government and NGOs by setting standards for funding, policy consultation, and transparency.

On the downside, Edgar points to the inherent risks of a process which may attempt to homogenize the sector and may merely result in a vague, unaccountable agreement.

Compact negotiations are particularly precarious for NGOs that need to defend their independence from government, such as certain advocacy groups. Moreover, there are costs of time and expense required to negotiate a Compact.

If a text is agreed, it carries no formal enforcement mechanism and imposes no obligations on future ruling parties. Additional time and expense would be required to educate and promote the Compact within the sector as well as with government agencies to ensure it is properly utilised.

On balance, Edgar concludes that a Compact is not worth the effort required. Instead, she argues NGOs may have better returns on their time by galvanising public support for their work and the social sector generally.

For the complete article see: <https://www.tai.org.au/file.php?file=DPI00.pdf>

For the Australian federal government website on the National Compact see: http://www.socialinclusion.gov.au/A_National_Compact.htm

7. BOOK REVIEW

THE ART OF PUBLIC STRATEGY: MOBILISING POWER AND KNOWLEDGE FOR THE COMMON GOOD, GEOFF MULGAN, OXFORD UNIVERSITY PRESS; 2008.

Book reviewed by Peter Shergold, Chief Executive, the Centre for Social Impact

Geoff Mulgan, Director of the Young Foundation in London, is well-known to Australians for his active role in promoting social innovation. Already he has spoken twice at CSI events.

As befits someone who has previously served as senior policy adviser both to Gordon Brown and Tony Blair, he is also a perceptive thinker on political life. A couple of years ago, in *Good and Bad Power*, he examined the origins of the State. Drawing on his extraordinarily erudite reading of history and philosophy, he examined the moral qualities that democracies need to renew themselves in ways that serve their citizens.

Now, in a bold new book, he explores how governments can think and act strategically in a political world which often undervalues long-term decision-making. How, he asks, can democracies create the spaces for thought, learning and reflection that allow them to plan for a socially inclusive, environmentally sustainable and more caring future? How can power be harnessed in pursuit of innovative public policy? How can knowledge be translated into political action?

The challenge is that solutions lie not so much in technology but in the education and skills of people (human capital) and the value of institutions. Social enterprises and governments hold this in common: that their success in creating beneficial public outcomes, and being able to assess those achievements, is remarkably hard to measure. For this very reason considerable effort has gone into working out not only what public interventions cost – whether driven by governments, social enterprises or a partnership of the two – but also attempting to measure the value they create.

This is, as Mulgan emphasises, far more complex than in the world of business. Statements of profit and loss, and returns to shareholders, give at least a rough and ready measure of commercial success. In contrast “value is rarely easy to grasp and is never an objective fact”.

One particularly interesting aspect of the book for those organisations who seek, through their mission, to deliver and evaluate community benefits is Mulgan’s work on development

of a model of public value. Mulgan moves beyond the familiar territory of stated preference (how much people say they would pay for an outcome) and revealed preference (how much people have shown themselves willing to pay for similar outcomes).

He exposes the notorious unreliability of such metrics. Equally persuasively, he reveals how the use of discount rates to judge the worth of contemporary social investments in the years ahead tends to devalue the future. People, it turns out, set more store on the future lives of their children and grandchildren than do the strictly rational consumers who populate economic theory. For a mission-driven, not-for-profit organisation “it is simply inappropriate to devalue future rewards – the cause is everything”.

Do not come to this book, or in particular Chapter 12, expecting a simple answer to the metrics of public value. Indeed, Mulgan recognises that a single measure of net benefit, which has been the holy grail of social accounting, often destroys relevant information in its conglomeration of variables. Different dimensions of value are not commensurable. Value is not one-dimensional.

Rather, attempts to measure social value outcomes are important because of the democratic conversation they engender. This, at heart, is Mulgan’s thesis. The search for metrics, to be successful, should give rise to a process of negotiation between states and their citizens on the value of values. Such discourse will be enhanced by statistics that can inform strategic decisions on choice, opportunity cost and trade-off, including between the present and the future. In my view it is a discourse which can be enhanced by the evidence-based advocacy of not-for-profit organisations.

This is an intelligent, well-argued and sometimes challenging book on strategy as a public good. Its arguments are highly relevant to the development, delivery and defense of community benefit and public good by social enterprises. I recommend it.

The Art of Public Strategy, published by Oxford University Press, will appear later this month. To order please see: www.oup.com.