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‘SOLVING’ SOCIAL PROBLEMS WITH MARKETS AND MEASUREMENT: A CRITICAL STUDY OF SOCIAL IMPACT INVESTING

THESIS SUBMITTED FOR THE DEGREE OF

DOCTOR OF PHILOSOPHY

JESSICA DAGGERS

DEPARTMENT OF POLITICS

BIRKBECK COLLEGE,
UNIVERSITY OF LONDON

JANUARY 2019

I declare that the work presented in this thesis is my own.

Signed ……..

Jessica Daggers

ACKNOWLEDGEMENTS

This thesis began, like many others, with an unworkably broad idea. Perhaps there is something to be investigated in the way 'the economic' and 'the social' are being combined in fields like social enterprise? It is only in retrospect that I can appreciate the skill and patience with which Sam Ashenden guided me through the long process of writing this thesis. But it has always been clear to me how fortunate I have been to have a supervisor who has been available and fully supportive throughout my time at Birkbeck, even when I spent several months abroad or was struggling to clear space for study. I cannot thank Sam enough, and I will miss my regular visits to her office on Gower Street.

My thanks go also to Alex Nicholls, who acted as second supervisor. Alex always challenged the approach I have taken and pushed me to articulate the connections between my argument and broader discussions in the field. He has also provided me with opportunities to meet and work with people in the social investment market, opportunities that have enriched my understanding, and strengthened the thesis. My thanks go to Alex for everything he has done.

Maxime has been simply the best. The thesis has been around almost as long as he has been here to offer me unlimited love and support, not to mention cups of tea and IT services. Writing this thesis has been an immensely important and meaningful part of my life, and Maxime has welcomed every aspect of it. Because of him I have got more out of it than I thought possible. Thank you, Maxime, and I will do everything I can in return as you finish your own doctorate.

I also enjoy unwavering love and support from my parents, Jenny and Alan, who are always so understanding. Special thanks to Mum for proofreading the thesis at top speed, and thanks to them both for their unquestioning acceptance of whatever I decide to do.

ABSTRACT

Advocates of social investment claim it is a new way to solve society's most intractable problems. They have proposed and begun to develop a market for social investment finance, where social sector organisations can go to find appropriate sources of finance, and investors can invest their capital for both social and financial return. In this thesis social investment is construed as a Foucaultian 'programme of government' that operates within a form of liberal governmentality. Governing the self-interested individual is a central concern of liberalism, and the concept of interest proves fruitful in pulling apart contrasting lines of reasoning about what social investment should look like. First, I argue that the more radical of these versions of social investment puts forward an entirely *technical* vision of social change, one that assumes interests can ultimately be aligned without conflict. This vision relies on two mechanisms, the market and measurement, which together establish a factual, value-free basis for action. The technical nature of these mechanisms lends a neutral appearance to social investment, but I argue, second, that framing reality in this matter has a series of effects. Ultimately, the purpose of the thesis is not to attack social investment or assess whether it is a good or bad thing, but to arrive at a position where its neutrality is uprooted and its effects can be identified. The thesis therefore establishes grounds for much-needed ongoing critique of the effects of pursuing a technical vision of social change.

ACRONYMS AND ABBREVIATIONS

BSC	Big Society Capital
CBA	Cost-Benefit Analysis
CDFI	Community Development Finance Institution
CIC	Community Interest Company
EVPA	European Venture Philanthropy Association
GECES	Groupe d'Experts de la Commission sur l'Entrepreneuriat Social
GIIN	Global Impact Investing Network
IAC	Impact Assurance Classification
ICRF	Investment and Contract Readiness Fund
IMP	The Impact Management Project
IVAR	Institute for Voluntary Action Research
KLF	K L Felicitas Foundation
MAWG	Mission Alignment Working Group
MFI	Microfinance Institute
NPC	New Philanthropy Capital
PWP	Profit-with-Purpose Business
RCT	Randomised Control Trial
SI	Social Investment
SIB	Social Impact Bond
SIFI	Social Investment Finance Intermediary
SIIT	Social Impact Investing Taskforce
SIM	Social Impact Measurement
SITF	Social Investment Task Force
SITR	Social Investment Tax Relief
SROI	Social Return on Investment
SSO	Social Sector Organisation
TSO	Third Sector Organisation
UN SDG	United Nations Sustainable Development Goal
WEMWBS	Warwick-Edinburgh Mental Wellbeing Scale
WGIM	Working Group on Impact Measurement

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INTRODUCTION

On Thursday 23rd January 2014 Ronald Cohen, an influential figure in the development of the social investment market in the UK, gave a speech at an official function of the City of London at Mansion House. Cohen, a man who made his name bringing the model of high risk 'venture capital' investment to the UK, presented to his audience a potted history of philanthropy and the social sector in the UK. Charities, he explained, have over the past couple of centuries "tried their very best to improve the lives of those left behind", but by the 1930s "governments had begun to realise that philanthropy alone could not cope." Thus we saw the rise of the welfare state. But the welfare state is no longer fit for purpose:

> Today, welfare states designed for the twentieth century are throwing up their arms in the face of the struggle against the new century's social challenges. They realise that they are not best placed to innovate in bringing solutions to social issues.[1]

Cohen paints a picture of a world where the mechanisms that we have so far relied on to address social problems have shown themselves to be inadequate. "If both traditional philanthropy and government have struggled to do so, how should we tackle social issues?" Homing in on the problem, he brings our attention to the *financing* of those organisations that seek to address social problems, that is, the "social sector". "What is the common characteristic of the charitable social service providers who are the backbone of the social sector?" he asks. The answer: "They are small and have no money. The Social Investment Task Force estimated that three-quarters of them had insufficient capital to look ahead more than three months." So they are undercapitalised; they are also run in a way that is not focused on effectiveness. "Traditional philanthropy has focused on the act of charitable giving rather than on achieving social outcomes."

Cohen then turns to the way out of this predicament:

> I began then to see the challenge in different terms: how can we do for social entrepreneurs and organisations what we have successfully done for business entrepreneurs? How can we connect them to the capital markets? How can we harness the most powerful forces of capitalism: entrepreneurship, innovation and capital to tackle social issues more effectively? How can we fund those who are capable of creating and implementing innovative solutions so that they do achieve scale appropriate for the population group and the severity of the social issues they address? How can we help them achieve real impact in resolving the social issues that ruin so many lives? The Social Investment Task Force could see already in 2000 that the answer would require innovation. Just as venture capital was a novel response to the investment needs of high-risk, innovative businesses, so we now need a novel response in order for high-risk, innovative social organisations to access capital markets.[2]

The solution, he proposes, is to look to the sector that, until now, has not been involved in sorting out social problems. What would happen if we look to the successes of private business for inspiring a way forward for the social sector? What would happen if the innovation and risk taking of venture capital could be replicated here?

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[1] Ronald Cohen, *Revolutionising Philanthropy: Impact Investment. Speech given at The Mansion House* (2014).
[2] Ibid.

By the time this speech was given in 2014, the idea of social investment had inspired an impressive catalogue of achievements: new primary legislation, millions of pounds being moved from one place to another, a variety of new institutions and companies, and reams of research. Cohen was closely involved in many of these initiatives, and echoes of the vision he sets out in this speech are found in many articulations of social investment. Clearly this vision was persuasive.[3]

There is, however, a striking degree of variation in opinion over what precisely social investment *is.* Let us put ourselves in the shoes of a social sector organisation (SSO) trying to pin it down. We might start with definitions provided by official bodies, such as the UK Government. A 2016 strategy paper titled *Social Investment: A Force for Social Change* contains the following statement:

> Social investment is a tool to help organisations increase their social impact. It helps many social sector organisations do more by providing the capital that they need to deliver their services, grow or become more sustainable.[4]

This tells us that social investment is aimed at SSOs, and the word 'capital' implies that the finance is repayable. This implication is confirmed in a document from Big Society Capital (BSC), one of the more prominent social investment institutions:

> Social investment is appropriate repayable finance that charities, social enterprises and communities can use to grow, become more sustainable and increase their impact on society.[5]

The 'sister' organisation of BSC, The Access Foundation, states that its role is "to make it easier for charities and social enterprises in England to access the capital they need to grow and increase their impact."[6] Their definition is:

> Social investment is repayable finance which creates both social and financial returns. It is provided to charities, social enterprises and socially motivated businesses.[7]

Putting these three definitions together, the SSO might ascertain that social investment is a kind of financial investment where there is an expectation that the money will be repaid, and that some kind of social good or social impact is created by the organisation receiving the investment. There are slightly different takes on who the recipients of social investment are: they might be charities, social sector organisations, social enterprises, socially motivated businesses, or even 'communities'.

Before we think about what the differences and overlaps are across these categories, we need to take account of two other very similar terms: impact investing, and social impact investing. The OECD produced a report in 2015 with a definition of 'social impact investing' that sounds very similar to social investment:

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[3] The term 'social investment' is used in relation to an entirely separate area of enquiry related to reform of the welfare state. One account characterises it in terms of "the promotion of labour market participation through activation and investment in human capital" in contrast to "the reduction of welfare benefits and the use of negative incentives to move people from welfare to work." Francesco Laruffa, 'Social Investment: Diffusing Ideas for Redesigning Citizenship after Neo-Liberalism?', *Critical Social Policy* (2017). p2

[4] HM Government, *Social Investment: A Force for Social Change. 2016 Strategy* (2016). p6

[5] Big Society Capital, *Better Finance, Better Society* (2015a). p2

[6] https://access-socialinvestment.org.uk/us/mission/ Accessed 7th February 2017.

[7] https://access-socialinvestment.org.uk/us/mission/ Accessed 6th February 2017.

> Social impact investment is the provision of finance to organisations addressing social needs with the explicit expectation of a measurable social, as well as financial, return.[8]

The most noticeable difference here is that the 'social return' is described as *measurable*. The earlier definitions do not seem to preclude the measurement of social impact return, so the difference here may be one of emphasis. Measurement is a component that also features in the definition provided by the Social Impact Investment Taskforce, which states that:

> Social Impact Investments are those that intentionally target specific social objectives along with a financial return and measure the achievement of both.[9]

This version, however, does not specify what kinds of organisation should be the recipients of this kind of investment. In this sense it is closer to the definition of impact investing. The Global Impact Investing Network (GIIN) states that impact investments are:

> Investments made into companies, organizations, and funds with the intention to generate social and environmental impact alongside a financial return.[10]

So is impact investing the same thing as social investment, or as social impact investing? Is it in fact important that social return is measurable, or measured? Does social investment have to be into a social sector organisation – and what precisely *is* a social sector organisation? Researchers looking to this phenomenon of social investment (or social impact investing, or impact investing) find themselves plagued by these definitional problems, which hinder attempts to establish basic facts, such as the volume of activity in the market. This passage, for example, comes from an article published in the *Journal of Business Ethics*:

> Although this lack of definitional, conceptual, and terminological clarity is explainable—since it is also typical for related, nascent research domains such as social entrepreneurship or SRI [socially responsible investment]—it is nevertheless problematic. First, a fuzzy concept jeopardizes the credibility of the entire idea, as well as that of associated organizations and could lead to so–called "impact washing". Second, a lack of definitional, conceptual, and terminological clarity may hinder the market growth and broad adoption of impact investing, since it makes it difficult for mainstream investors to understand what it is and form an opinion about it … Last, definitional, conceptual, and terminological clarity is also vital for academics…. In the absence of definitional and terminological clarity, it is difficult for a concept to gain legitimacy and for respective theories to be developed.[11]

There have been attempts to achieve clarity and consensus: one social sector organisation produced a report that carefully separates out different meanings, in an attempt to "find consensus … to act as our 'touchstone' and help us all communicate more consistently and effectively."[12] But, as this thesis explores at length, terminological difficulties are only the surface level manifestation of faultlines that run deeply through the attempt to combine financial practices with those of the social sector. I am not going to aim for a definitive version of social investment that will provide clarity and consensus for the

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[8] OECD and Karen E Wilson, *Social Impact Investment: Building the Evidence Base* (2015). p10
[9] Social Impact Investment Taskforce, *Impact Investment: The Invisible Heart of Markets* (2014). p1
[10] https://thegiin.org/impact-investing/need-to-know/#s1 Accessed 6th Feb 2017.
[11] Anna Katharina Höchstädter and Barbara Scheck, 'What's in a Name: An Analysis of Impact Investing Understandings by Academics and Practitioners', *Journal of Business Ethics*, 132 (2014). p451
[12] Phil Caroe, *What Do We Mean by 'Social Investment'?* (2016). p4

field. On the contrary, I am interested in *exploring* these faultlines. How, then, can any analytical grasp be achieved on a topic that resists any definition?

The clue is contained in Cohen's speech. Social investment – or impact investing, as he called it on that occasion – is described not in concrete terms, as a specific kind of practice, but as a *solution to a problem*. The problem is a status quo where the social sector is reliant on grant funding, has insufficient access to capital, and pays scant attention to the effectiveness of their activities. This is a problem that can be addressed by introducing the practices of the private sector. Cohen's claim is that entrepreneurialism has had a transformative impact on the UK economy and its citizens, and that the transformative success of these entrepreneurs was enabled by "the creation of a totally new investment class, venture capital and private equity." The social investment market, then, "is for social issues what venture capital is for high-growth young businesses."[13] It is a way of not just opening up new sources of capital, but also stimulating the kind of innovative, risk-taking behaviour that is evident in the private sector and almost entirely lacking in the social sector. Viewing matters in this way, we can move towards grasping social investment in terms of a *problematisation.*

The concept of problematisation brings us to the theoretical material that will ground our analysis. Problematisations lend structure and coherence to programmes of government. This is a Foucaultian notion rooted in his concept of governmentality. The practices that make up a programme of government are not unified or centrally controlled. They are diverse and varied. It is the shared problematisation that holds them together. This is one of the reasons why this is a theoretical approach well suited to the study of social investment: it allows us to recognise the common ground at the core of what social investment is, while recognising that it incorporates diverse and varied practices, without clear borders. It then becomes possible to enquire into the reality of social investment as it is understood and practiced, rather than building a (social) scientific analysis on the grounds of a static, analytical definition.

In deciding what terminology to use, there are rules of thumb that can be helpful in some situations: 'social investment' tends to be more closely associated with the UK context and with the endeavour to capitalise the social sector, while 'impact investing' is more often used to a more US-centric attempt to encourage investors to invest for social as well as financial return. 'Social impact investing' is a hybrid term that attempts to bring these two areas together in international discussions. But all three of these terms are used to refer to either or both of the two problem-solutions. I am forced to choose one of these terms simply because I need a way to refer to the topic of enquiry.

For clarity, the approach I have taken is as follows: I have chosen to use the term 'social investment' throughout, but I use it to refer to the programme of government based on the problematisation described above, *not* to privilege those aspects of this space that tend to be referred to as social investment by actors in the field. In other words, I am not treating any given author's choice of terminology as significant, and I will continue to use the term 'social investment' even when the excerpts I have taken from documents refer to 'impact investing' or 'social impact investing'.

Why is this a topic that warrants a PhD thesis? Having worked as a consultant in the UK social sector since 2012, I have seen first hand the changes brought about by the introduction of social investment onto the policy landscape. It has attracted large amounts of public money, and provoked a huge amount of soul searching over how charities and social enterprises should best be funded. The

[13] Cohen (2014).

questions raised are not just about financial mechanisms and the role of profit, but also the need for measurement and evidence of social impact. These changes can be seen across a wider geography, too, with the same themes being discussed in other countries, with reference to international development, and in global NGOs such as the UN. Currently, the voices that promote and advocate social investment are louder and clearer than any that attempt to assess whether it is a direction that collectively we want to take.

More broadly, the issues brought together under social investment have relevance beyond this programme of government. The idea that practices developed in the economic sphere can be translated across to the social (non-economic) sector, and that profit-generating activities can be combined with the pursuit of social good, are found elsewhere. They are foundational to the types of investment practice that are close neighbours to social investment – impact investing, responsible investment, microfinance, and others. These claims also characterise other areas of practice such as social enterprise and corporate social responsibility. These practices, in various ways, all challenge an economic model in which 'business' is required only to comply with the law, and take no responsibility for its position in society. These questions are central to the way in which Western societies in particular are governed. Similarly, the emphasis on measurement of social impact is by no means isolated to social investment. The imperative to measure and report on outcomes, and to demonstrate impact, is a far-reaching phenomenon in public life, faced by the social sector, education providers at all levels, the NHS, and in countless other contexts. A study of the techniques and concepts underpinning social impact measurement for social investment, therefore, can have much wider significance. In this manner social investment touches on a number of areas of practice that pose significant questions for the way in which our society is organised.

Social investment is therefore having a real influence on the way things are done, which itself is a reason to study it, and yet academic enquiry has not yet caught up with the changes in practice. A study I co-authored in 2016 explored the current landscape of academic research into social investment, finding that there were still relatively very few academics working in the area, and very little peer-reviewed published work.[14] That study frequently came across the sentiment that "more research is needed" to understand these new ways of doing things, but I would assert that there is a particular need for *critical* enquiry. If we were to mimic the urgency which is often found in the literature on social investment we might even suggest that there is a pressing need for engaged critique of an area of practice that is galloping ahead unchecked. The overblown and audacious claims of social investment have so far gone largely unchallenged. This thesis undertakes an extensive critique of the reasoning employed in the name of social investment. This does not amount to an attack on social investment, or an argument against its continued development. Instead it is a call for a more considered approach to changing the mechanisms used to bring about social change, one that recognises the effects of putting these apparently neutral mechanisms into play while discounting other ways of doing things.

The rest of the Introduction proceeds as follows. The next section gives a detailed account of the approach taken in this thesis, including a discussion of its epistemological foundations, and the source materials or 'data' used to inform the analysis. The following section situates the research within a broader picture of academic writings, before the final section gives an overview of the thesis argument.

[14] Jess Daggers and Alex Nicholls, *The Landscape of Social Impact Investment Research: Trends and Opportunities* (2016b).

APPROACH

What, then, does it mean to 'critique' social investment? What do I mean by 'critical enquiry'? In the first instance, I mean that everything about social investment is put up for question. As we wade into the reams of reports on articles on the issues, at every juncture we ask: what assumptions have to be in place for this to be a meaningful set of statements? What counts as a 'fact'? What goes unchallenged? And what is dismissed as irrelevant or unimportant? Over the course of the thesis I will demonstrate that this is an approach that yields dividends, as it is the best way of gaining analytical purchase on a field of activity that is built on very shaky foundations. In other words, we do not ask what the facts are, but rather how different versions of social investment manage to present themselves as a logical response to 'the facts'.

Of course, more precision is needed. I have arrived at an approach where Foucault, and the subsequent working-through of his ideas by the Governmentality scholars (namely Peter Miller, Nikolas Rose and Michael Power), provides the primary grounding, along with the work of Mary Poovey. This was a long process, taking place over a number of years, in which I went back and forth between the literature on social investment – this was a debate unfolding as I worked, as I started my thesis in 2012 – and the wide variety of theoretical works available to help investigate it. I also went back and forth between my role as student and my role as consultant. My professional role gave me insight into how the claims of those evangelising about social investment were seen through the eyes of those finding themselves to be part of the 'demand side' or the 'supply side' of this new market. Eventually, I found a way to use Foucault and Poovey's ideas to formulate the problem in a way that made it amenable to analysis, and to yield the insight present in this thesis. My use of these texts is quite self-consciously partial, and oriented wholly to the explication of social investment. I make no attempt to represent these writers' overall arguments, or to reflect on different possible interpretations, or gaps in their reasoning, except where such observations have implications for my chosen topic.

There are three core ideas to be introduced at this point: 'programme of government', 'rationality of government', and 'production of knowledge'.

My starting point is to frame social investment as a programme of government. A programme of government is a loosely connected array of ideas and practices which share a common goal – in this case, building a market for social investment. Programmes of government rely in part on the production of knowledge. The 'social investment market' itself is brought into existence through processes of knowledge production., while doing social investment also involves ongoing processes of knowledge production. Finally, we use the term 'rationality of government' to draw the wider context in which social investment takes place into our analysis. It is a way of referring to what we might think of as the 'background knowledge conditions' shaping the formulation of this programme of government.

Each of these terms has extensive implications, which are explored in detail in the first few chapters of the thesis. Importantly, they share a common characteristic. They all draw attention to the *reasoning* of those involved in the day-to-day doing of social investment. They point us towards the arguments that are made, opening up the logic that is employed by actors in the space to examination. As a result, these terms introduce a particular formulation of the relationship between theory and reality, and between scholar and practice. It is important to set out this formulation clearly, as it has significant implications for the way the research has been conducted.

Much of the time in scholarly writing, 'theory' is seen as the domain of the scholar or philosopher, while 'reality' is inhabited by agents engaged in different forms of practice. On this model, scholars attempt to come up with theories that 'explain' reality. They test how well their theory can be 'applied' in particular cases. Empirical evidence supports or contradicts the theory. There may be settings where such assumptions are helpful, and enable insight, but I would like to be clear in setting out an alternative. Actors' reasoning is a form of theorisation. After all, people act in certain ways, they pursue one course of action over another, because the reasons for doing so are compelling. (To be clear, this enquiry does not extend to any kind of psychological theorisation of human action. I am interested in the way these reasons are presented for the consumption of others.)

In this way, a different relationship is formulated between *my* 'theories', as scholar, and the 'reality' I seek to investigate, because the 'reality' is in fact a form of theorisation. This is not just a semantic difference. I emphasise the reasoning of actors because I believe this is the most appropriate form of analysis, that will yield the most insight. Why is this? Because over the first several years of the attempt to build a market for social investment, there has been so little conceptual stability in what social investment *is* that attempts to go beyond the way it is thought about to the 'reality' of the market are significantly compromised. They rely on assumptions that, much of the time, are not justified. For this reason this thesis does not attempt to report on the 'objective' reality of social investment. I do not attempt to give facts about the market, its size or development. I do not attempt to report on which types of measurement practice are most commonly used, or to provide comparisons between the 'theories' of SI and what companies 'actually' do, or what 'really' happens. The only point at which I attempt any kind of discussion of the 'reality' of social investment comes in the final chapter, where I point to several examples of the reasoning internal to social investment coming under strain when brought into contact with certain aspects of reality. The puzzle of lower-than-expected demand for social investment, and the challenges of capturing impact through measurement techniques, are brought into focus here.

Furthermore, it appears to me that the 'theory vs reality' version of scholarly research often yields results that lay claim to how things 'really are', to some greater insight arrived at through diligent pursuit of academic 'method' in handling 'data'. Such insight is usually unrecognisable to those engaged in doing the thing being studied. At the very least, such work is generally focused on meeting the standards needed for academic publication. While I do not wish to attack the idea that academic communities should have their own conversations, potentially in language inpenetrable to outsiders, I think there is room for research that also seeks to communicate with actors outside academia, particularly in a field as live as social investment.

Another risk to the 'theory vs reality' version of research is that what is said by scholars is prioritised over what the source materials are communicating. I was guilty of this at the outset of my studies – I was convinced there was a way of building a theoretical framework, based on the different sectors of the economy, that would give me a way of exposing the flaws in the models of social enterprise and social investment being put forward by practitioners. All this approach delivered was a headache each time reality refused to conform to the categories I was creating. Sometimes scholars manage to create a categorisation that is good enough to gain traction, to change the way people see a certain phenomenon, and to open up new avenues of research. But much of the time, the self-conscious attempt to create 'theory', especially when it attempts to consolidate and build on existing work, does little to elucidate whatever is being studied, and does more to demonstrate simply that the author has done their reading. These comments are particularly pertinent in this case. It would be not be fruitful

to ask how the reality of the social investment market contrasts with the theory. Neither category is stable, and the reality of social investment can only be constituted with reference to the way it is thought about. This may well change in the coming years, if the categories used to understand social investment stabilise and become more consistent. Should this happen, the most appropriate approach for studying the field will also change.

Ultimately, one of my main motivations in writing this thesis is to develop a critique of social investment that speaks to the way it is thought about and done by actors in the field. I believe this is the best way to open up new conversations over how things are being done, and how they could be thought about, and done, differently.

So how do we gain insight into the reasoning of actors in the social investment market? There are two kinds of source material in this thesis: a range of documents, and a set of interviews.

There are hundreds of documents contributing to the social investment debate. We can refer to them collectively as the 'social investment literature'. These hundreds of reports and articles are mainly published online – the so-called 'grey literature' – though there are also peer-reviewed articles, and some books and book chapters. This literature provides us with a window into the reasoning of actors. Each of these documents presents the idea of social investment for public consumption, or responds to it, either re-presenting these ideas for a new audience, or exploring some aspect in more depth, or presenting the results of some kind of data-gathering exercise. They provide a wealth of insight that is drawn on extensively over the course of the thesis. While many of these documents are explicitly focused on the UK context, many of them are geographically non-specific. Some have been included that refer to other national contexts. While the overall focus is on the UK, where social investment is an influential set of ideas, geographical boundaries are generally not an important factor in this analysis, because the boundaries for our analysis are provided by the shared problematisation. Much of the discussion and reasoning is global in scope, not restricting itself to a particular national context.[15]

I also use a series of recorded interviews between Oxford University researchers and senior figures involved in the creation and initial operation of Big Society Capital.[16] The interviews were completed in 2013 to inform a case study of BSC, but the researcher involved left before the case study was completed, and I was asked to complete the project.[17] I therefore gained access to interviews with 14 individuals discussing how it was that BSC came into existence, and gathering opinions on what success would look like for the organisation. I was present at one follow-up interview in 2015 with one of the original participants. BSC is an important institution in the UK social investment market, and will be discussed in more detail below.

At this stage, it is important to explain why I chose to include this material, and why I decided not to do my own interviews. I will answer the second question first. Published material is preferable to interviews. It is better suited to my approach. Written texts present a more polished version of a set of ideas, where there has been a process of editing and some effort put into ensuring consistency in the logic being presented. This provides helpful insight – it is the output of a process of deep consideration of what is meant, being put into the public domain for scrutiny by others. Often, the process is one of collaboration, and so written documents are the result of the synthesis of multiple

[15] One exception to this is a number of examples in chapter 5 of formal attempts to define the social sector.
[16] The significance of BSC is explained on page 50 below.
[17] Jess Daggers and Alex Nicholls, *Big Society Capital: The World's First Social Investment Wholesale Bank* (2016a).

views, a conscious attempt to find common ground, a presentation of reasoning and logic that (to a greater or lesser extent) makes sense to everyone involved. Interviews, in contrast, are not edited, and, for most individuals, will not set out the logic and reasoning on an issue as clearly as a written document. Often, interviews are used to help researchers orientate themselves in a field, to understand where actors place emphasis, and what they consider unimportant. Because I was already an actor in the field in my professional capacity, I gained this insight through other means. This is not to say that interviews would not have yielded any insight – people might say things in interviews that they would not publish – but the additional investment of time in setting up and conducting interviews did not seem warranted when the SI literature already offered such rich insight.

It was, however, a welcome stroke of luck to gain access to the BSC interviews, which gave me additional insight into the creation of an institution central to the growth of the SI market. I decided to use them, but they do not play a central role, despite BSC's central position in the SI market. This is because the idea of social investment is significant precisely because they extend so far beyond a single institution. They have captured the attention of a wide range of actors. Though the argument might be made that this is simply because of the capital held by BSC – its resources dwarf the rest of the market – that would be a simplistic analysis. The idea of social investment captures attention because it promises nothing less than a 'revolution' in the way social problems are 'solved'. Such claims might easily have been dismissed as bombast, and on some fronts they have been, but they have been taken seriously by a critical mass of people. BSC is therefore only one component of this new reality. After spending considerable time familiarising myself with the contents of the interviews, I therefore decided to use them as a source in the same way I have used the literature – as examples of reasoning that I have drawn on in the course of elaborating my argument.[18] No part of the argument relies solely on the interview material; rather, the interviews help consolidate the argument.

As a final set of comments before we move on to considering the broader research landscape, we might consider how defensible this approach is, and where its potential weaknesses lie. My argument is that the strength of this approach, and the analysis it yields, should be judged on its *usefulness* in thinking through the matters at hand. Rather than striving for some kind of objectivity, I present this argument as my best judgement of a situation that I have examined in great depth. My aim is to *persuade* the reader. It is not my concern to identify the 'correct' explanation to the exclusion of other, 'incorrect' explanations. The weaknesses of this approach will come to light as and when they are exposed by alternative explanations and perspectives, alternatives which themselves have something to offer. This is one of the senses in which I regard the approach and the argument to be two sides of the same coin; one cannot be judged without judging the other.

SITUATING THE RESEARCH

This approach, which will of course become clearer as the thesis argument unfolds, has implications for how we think about the relevance of existing research. For example, there is no clear distinction between the social investment literature described above as 'source material' and the academic research

[18] The interviewees have remained anonymous and are not identifiable from the way I have described them. The interviewees had already signed a form agreeing their comments could be used for academic research in addition to the primary purpose of informing the BSC case study. As a courtesy, they were also informed by email that I had was intending to use their anonymous comments, and given an opportunity to request their comments be removed from the data. None of the interviewees objected to being included.

on social investment that would form part of a conventional literature review. We can conceive of a distinction between academic and practitioner research, but this distinction does not have much purchase, as some of the conceptually most detailed research is from 'practitioners', while some of the research published by individuals based at universities is driven by commercial considerations, and bears none of the hallmarks of 'academic' work.

Instead of attempting to review all potentially relevant literature, therefore, we will start this section with a tour of the different areas of literature that are in some way relevant to social investment. The discussion is arranged under a series of headings, though many of the works described could sensibly be placed in multiple locations. As we go, at various points I will differentiate the theoretical approaches taken by others from the approach I have developed. This aim here is partly to illustrate the range of possibilities, and the impossibility of pursuing all of them. It is also to provide orientation for the reader, clarifying how this piece of work interacts with existing scholarship. This section concludes with a detailed analysis of the approach taken by sociologist Emily Barman in her book *Caring Capitalism*, as a rare example of scholarship that takes a similar approach to a similar topic – impact investing.

FOUCAULT AND FOUCAULTIAN SCHOLARSHIP

We will start with other scholarship related to Foucault. My interest in Foucault is transactional, in the sense that I have taken aspects of his work that are helpful to me, and left the rest of it behind. There is a huge amount more to Foucault's oeuvre, and I make no claims to be a Foucault scholar, or to make an original contribution to the secondary literature commenting on his work. Others have gone to great lengths to put forward an overarching account of Foucault's work (such as Mark Kelly[19]). Texts such as these put the aspects of Foucault's work that I have used into the context of his life's work, or lay out multiple different interpretations. In contrast my focus is not on ensuring a faithful reproduction. I am not aware of any texts using Foucault to look at social investment directly. There are examples of Foucault being used to analyse social entrepreneurship, that take up different aspects of his work, and use them in different ways.[20] The work of David Beer is worth mentioning briefly, as he describes his affinity with Foucault's approach in building his account of 'metric power', and draws on a number of the same authors I have used, including Hacking and Porter, in exploring the growing role of metrics in governing everyday life.[21] Though he touches on many of the same themes as this thesis, his project is quite different in scope, as he attempts to provide insight into metrics in general, rather than taking a detailed look at a single area of practice. Unfortunately, a fruitful comparison between our findings is made more difficult by aspects of Beer's analysis. He draws on a very wide range of scholarship, but is unclear about what relationship he has with those texts, and precisely how they inform his own argument. I have encountered the same issues with Emily Barman's

[19] Mark G E Kelly, *The Political Philosophy of Michel Foucault* (2009).
[20] Pascal Dey, 'On the Name of Social Entrepreneurship: Business School Teaching, Research, and Development Aid' (2008); Pascal Dey, 'The Symbolic Violence of "Social Entrepreneurship": Language , Power and the Question of the Social (Subject)', in *Third Research Colloquium on Social Enterpreneurship* (2010); Pascal Dey, 'Governing the Social through "Social Entrepreneurship": A Foucauldian View of "the Art of Governing" in Advanced Liberalism', in *Social Entrepreneurship and Enterprise: Concepts in Context*, ed. by H Douglas and Suzanne Grant (2013); Chris Steyaert and Pascal Dey, 'Nine Verbs to Keep the Social Entrepreneurship Research Agenda "Dangerous"', *Journal of Social Entrepreneurship*, 1/2 (2010).
[21] David Beer, *Metric Power* (2016).

work, and so I will save a detailed explanation of what this means for the discussion of her work below.

POLITICAL THEORY AND POLITICAL SOCIOLOGY

Another expanse of scholarship to explore is the study of politics. We will take neoliberalism as a starting point, because it frequently appears in discussions in this field, and benefits from clarification. There are several relatively recent book-length treatments of neoliberalism itself, such as those by Colin Crouch,[22] William Davies[23] and Wendy Brown.[24] These texts are interesting because they talk about both markets and measurement in charting changing philosophies of government over the past few decades. Indeed, neoliberalism is discussed in the body of the thesis due to Foucault's examination of a handful of foundational texts.

I have not used the concept in analysing social investment, however. This is partly because my interest is not in neoliberalism itself, but in the way (Foucault's construal of) neoliberalism helps me to understand social investment. The question then becomes whether neoliberalism is a helpful set of ideas and concepts to bring into the analysis. I decided that this was not the case, because neoliberalism is used in such a variety of ways that giving it analytical weight would open up more questions than it would answer. This observation is confirmed by Rajesh Venugopal's examination of the way the term's usage has developed since the 1980s. It has proliferated in multiple different settings, and has come to be used in contrasting and sometimes conflicting manners. "The terminological proliferation of neoliberalism is such" he writes, "that a single moniker is shared by a confusing array of hypothesized real-world processes that are not just different, but stand in contradiction to one another."[25] At the very least, this suggests that the term should be used with caution, and some time devoted to acknowledging this broader confusion.

I have chosen to avoid these difficulties by giving neoliberalism only a very minor role in my analysis, which I do not think suffers as a result. Scholars like Crouch, Harvey and Brown have done the opposite, setting out to develop a detailed, nuanced accounted of neoliberalism that helps to explain certain aspects of contemporary political life. So while we may touch on some of the same themes and topics, these writers are oriented to very different ends. Where this thesis is very contained in its scope, seeking only to explain a specific programme of government at a specific time, these writings on neoliberalism are very broad in scope.

Looking to political sociology and theory more broadly, given the importance of the market to social investment, a way to narrow down a very wide field is to look to writings on (the politics of) markets. There is a collection of works that ask what role the market *should* play in a political system, with the argument often being made that there is some kind of sphere that should rightfully be beyond the reach of the market. Margaret Somers argues that the notion of citizenship is being undermined by market-based logic, and that the protection of a healthy civil society is required.[26] Deborah Satz orientates her work around egalitarianism, arguing that markets are blind to differing levels of need, treating every individual as a market participant of equal standing whether they are wealthy or

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[22] Colin Crouch, *The Strange Non-Death of Neoliberalism* (2011).
[23] William Davies, *The Limits of Neoliberalism: Authority, Sovereignty and the Logic of Competition* (2016).
[24] Wendy Brown, *Undoing the Demos: Neoliberalism's Stealth Revolution* (2015).
[25] Rajesh Venugopal, 'Neoliberalism as Concept', *Economy and Society*, 44/2 (2015). p178
[26] Margaret Somers, *Genealogies of Citizenship: Markets, Statelessness and the Right to Have Rights* (2008).

starving, and should be limited regarding the provision of certain basic goods.[27] Margaret Radin writes on commodification, warning of the market "chipping away at the nonmonetisable aspects of life",[28] while Steven Lukes' study *Invasions of the Market* charts the "increasingly market-driven" nature of social and political life.[29] Michael Sandel, like Satz, is concerned about the implications of market exchange for equality.[30] These concerns could certainly be brought forward in relation to the social investment market, which promises to reconfigure 'traditional' structures, bringing the market to bear on solving social problems, in new ways.

There are several points of differentiation between the approaches these studies take and the approach taken in this thesis. They are broader in scope, seeking to elaborate a particular concept (such as commodification or equality), rather than a concrete programme of activity. They also rely on an intuitive separation between different spheres – the market, state and civil society, or perhaps the public and the private – that I wanted to problematise. That is, this intuitive separation is used in elaborating the notion of social investment, and I wanted to ensure I could gain sufficient perspective on what role these assumptions are playing.

Finally, these texts all set out an argument, in one way or another, for how things *should* be. They make a political argument, seeking to persuade the reader that certain sets of affairs are either desirable or undesirable. This is something I emphatically am *not* doing in relation to social investment. In fact, here we are brought back to one of the distinctive aspects of Foucault's work. Colin Gordon draws attention to it:

> His [Foucault's] object is not to arrive at *a priori* moral or intellectual judgments on the features of our society produced by such forms of power, but to render possible an analysis of the process of production itself. It turns out in fact that this scrutiny of power in terms of knowledge and of knowledge in terms of power becomes all the more radical – and this is indeed the condition of its possibility – through its rigorous insistence on this particular kind of neutrality.[31]

Foucault's analysis is neutral in the sense that he refuses to advocate for one set of affairs over another. He strives to understand how something works, to elucidate his own analysis, and to allow others to take this analysis back into their own particular everyday experiences, better equipped to see what is being asked of them, and how things might be done differently. I strive for this form of neutrality[32] – instead of advocating a world that has more, or less, social investment in it, I am seeking to change the way it is seen. The complexity of social investment is such that I see no point in striving to conclude whether it should be supported or resisted. Nor do I attempt to offer a solution, or argue for a particular way of doing things as better than what we find in practice. In Foucault's words:

> The necessity of reform musn't be allowed to become a form of blackmail serving to limit, reduce or halt the exercise of criticism. Under no circumstance should one pay attention to those who tell one: 'Don't criticise, since you're not capable of carrying out a reform.' …

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[27] Deborah Satz, *Why Some Things Should Not Be For Sale: The Moral Limits of Markets* (2010).
[28] Margaret Jane Radin, 'Market Inalienability', *Harvard Law Review*, 100/8 (1987).
[29] Steven Lukes, 'Invasions of the Market', *Working Paper* (2004).
[30] Michael J Sandel, 'What Money Shouldn't Buy', *The Hedgehog Review*, Summer (2003).
[31] Colin Gordon in Michel Foucault, *Power / Knowledge* (1980). p237
[32] For clarity, the neutrality of my analysis being referred to here is entirely connected to the series of comments made in the course of the thesis about the neutrality of social investment.

> Critique doesn't have to be the premise of a deduction which concludes: this then is what needs to be done.'[33]

'SOCIAL SCIENCE' STUDIES

The next area of literature is scholarly in tone and approach, but does not anchor itself in any particular set of academic ideas. The point of anchorage for these studies is the research method they have adopted – which is why I have labelled them 'social science' studies – and the topic being examined. In this way we have fields like 'evaluation studies', 'entrepreneurship studies', and so on. These studies often rely mostly on a 'practitioner' literature to formulate the research question.

There are a number of papers that might be referred to as 'social investment studies'. Rizzello et al turn their analytic attention to the definitions debate, setting out to "explore the stance of existing studies on impact investing in order to clarify the concept and to identify focal points and trends, as well as inconsistencies and research gaps," relying on a "bibliometric analysis of the literature on the topic" to provide insight.[34] A similar effort is made by Höchstädter and Scheck, whose article attempts to clarify just what is preventing consensus from being established over terminology and definitions.[35]

On a different tack, Jay Wiggan notes the growth of interest in SI but perceives a lack of attention being paid to UK Government discourse. He seeks to "enhanc[e] our understanding of the development and representation of impact investment in the UK."[36] Wiggan takes it for granted that Government discourse is worthy of analysis by virtue of its status as Government discourse, which from my perspective is arbitrarily limiting, and attributes too much influence to the Government's support of these ideas. The tool he chooses, a "critical policy discourse analysis framework", he borrows from another scholar and "applies" to the case of SI, and presents as a "transparent" method. In this sense he relies on method to bring weight to his findings, rather than the strength or persuasiveness of the argument.[37]

Neil Reeder et al. explore the matter of social impact measurement in the context of SI, casting a "critical eye on the roles and responsibilities within impact measurement", making clearer the "clash of suppositions taken from older measurement traditions". While we might agree on the usefulness of identifying multiple influences on the way impact measurement is thought about, the article sets out to identify "key measurement issues" that need to be addressed if we are to achieve an "effective way of measuring non-financial benefits".[38] A commitment to bringing about "more robust quantifications" is present in a second paper of theirs on the topic, which develops a framework for analysing the grounds for disagreements over what measurement should look like.[39] Theorisation of reality is offered as a solution to a perceived problem, in a manner I am seeking to avoid.

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[33] Graham Burchell, Colin Gordon and Peter Miller, *The Foucault Effect: Studies in Governmentality* (1991). p84
[34] Alessandro Rizzello et al., 'Social Impact Investing: A Model and Research Agenda', *Working Paper* (2015). p1
[35] Höchstädter and Scheck (2014).
[36] Jay Wiggan, 'Policy Boostering the Social Impact Investment Market in the UK', *Journal of Social Policy* (2018). p1
[37] Ibid. p2
[38] Neil Reeder and Andrea Colantonio, 'Measuring Impact and Non-Financial Returns in Impact Investing : A Critical Overview of Concepts and Practice', *Working Paper* (2013). p2
[39] Neil Reeder et al., 'Measuring Impact in Impact Investing: An Analysis of the Predominant Strength That Is Also Its Greatest Weakness', *Journal of Sustainable Finance & Investment* (2015). p2

There is also a growing literature we might call 'Social Impact Bond studies'. Edmiston and Nicholls recently published an article examining four SIBs in detail (a "heterogenous purposive sample"[40]), cautiously suggesting that SIBs present "a new set of risks and opportunities in the field of public service reform."[41] Earlier works, published before there was much information available on SIBs beyond descriptions of the idea, offered 'critique' that would be better termed a 'criticism' – they set out the various reasons why we should be concerned about SIBs, building the argument by linking SIBs to other trends such as privatisation and marketisation of welfare, which are implied to be undesirable. Joy and Shields[42] and McHugh et al[43] join this category, as does Emma Dowling.[44] These latter critiques provide descriptive detail about what SIBs are, but introduce whole rafts of unexamined assumptions about how the socio-political system should work. Dowling, for example, frames SIBs as an aspect of "the financialisation of the British welfare state", which she describes as "a vehicle for the transfer of wealth from the public to private investors, while subjecting the domain of social policy to the vicissitudes of global financial markets."[45] There may be a good case for viewing SIBs in this way, but Dowling does not back up her assertions, or consider alternative perspectives.

Nicholls and Edmiston are more contained and measured in their assessment, instead engaging in an approach that uses (static) categories to 'test' the reality of SIBs against what was promised. As I explain on page X, I have chosen not to include SIBs in my analysis. Their study deserves similar caution to social investment, in the sense that the idea of a SIB is very unstable. Attempts to either analyse SIBs using static categories, or to critique them by presenting them as an example of marketisation or financialisation, therefore run a high risk of failing to gain traction at the most meaningful level of analysis available: the way SIBs are thought about by those involved in making them happen.

The final area for discussion is 'evaluation studies'. Evaluation is a professional field, and evaluators seek to generate knowledge about programmes of intervention. The field of practice is accompanied by a neighbouring field of scholarly research. Evaluation as a field (of practice and study) has been grappling for decades with the issues facing social impact measurement, such as the suitability of randomised control trials for organisations working in the field, and how the need for rigour should be understood in settings where resources are stretched and skills are focused on delivery rather than evaluation good practice. SIM guidance has largely developed without reference to this literature, but in 2018 two evaluation journals published special issues on the topic: The American Journal of Evaluation published a set of five articles examining the connections between evaluation and impact measurement,[46] while the African Evaluation Journal, supported by the Rockefeller Foundation,

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[40] Daniel Edmiston and Alex Nicholls, 'Social Impact Bonds: The Role of Private Capital in Outcome-Based Commissioning', *Journal of Social Policy*, 47/1 (2018). p62

[41] Ibid. p73

[42] Meghan Joy and John Shields, 'Social Impact Bonds: The Next Phase of Third Sector Marketization?', *Canadian Journal of Nonprofit & Social Economy Research*, 4/2 (2013).

[43] Neil Mchugh et al., 'Social Impact Bonds: A Wolf in Sheep's Clothing?', *Journal of Poverty and Social Justice*, 21/3 (2013).

[44] Emma Dowling, 'In the Wake of Austerity: Social Impact Bonds and the Financialisation of the Welfare State in Britain', *New Political Economy*, 22/3 (2017a).

[45] Ibid. p294

[46] Karim Harji and Edward T Jackson, 'Facing Challenges, Building the Field', *American Journal of Evaluation*, 39/3 (2018); Lisa Hehenberger and Anna-Marie Harling, 'Moving Toward "Impact- Adjusted" Financial Returns: Closing Remarks', *American Journal of Evaluation*, 39/3 (2018); Jane Reisman, Veronica M Olazabal and Shawna A Hoffman, 'Putting the "Impact" in Impact Investing: The Rising Demand for Data and Evidence

looked at social impact investing more broadly.[47] These two sets of articles are very much at the border between academic and non-academic research. Some of them are not peer reviewed, and are written by practitioners. They do not look to bodies of academic theory to situate their approach. Of this group or articles, one example from Kate Ruff and Sara Olsen stand out as making an argument that gains sufficient distance from the day-to-day 'doing' of evaluation and impact measurement. They argue the quest for standard measurement is "misguided", and suggest a way forward in which evaluators are drawn on as the "skilled analysts" needed to navigate the complexities of bringing data to bear on causal claims.[48] This argument intersects well with my own observations regarding the incompatibility of different functions assigned to SIM within the context of SI.

ECONOMIC SOCIOLOGY

The more than 700-page Handbook of Economic Sociology describes the field as a broad discipline looking to "apply" the "sociological perspective" to "economic phenomena"[49]. As a starting point, there are several examples of scholars situating work on social investment or closely related topics within the discipline.

Alex Nicholls at Oxford University was one of the first academic authors to publish on social investment. In a 2010 article he aims to build a "theoretical model" of social investment, drawing on institutional theory. He identifies a "typology of investor rationalities" which is applied to an "empirical survey of the social investment landscape."[50] Nicholls accounts for issues of definition and boundaries – "the potentially unstable diversity of institutional elements currently in play across the field" – by identifying "nine distinct models of investment, each with its own institutional norms and logics".[51] He therefore builds on the assumptions of an academic discipline, institutional theory, to suggest a framework into which empirical reality can be organised. A more recent work is a volume edited by Nicholls and others called *Social Finance*.[52] Many of the chapters set out conceptual frameworks for understanding aspects of the 'social finance' market, but I would suggest that the overall aim is to suggest clarifications that will aid the development of this area of practice, *overcoming* the chaos and confusion of an 'undertheorised' space. Similarly, Glänzel and Scheuerle use institutional theory (a "lens of conflicting institutional logics") to analyse "social impact investing" in

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of Social Outcomes', *American Journal of Evaluation*, 39/3 (2018); Kate Ruff and Sara Olsen, 'The Need for Analysts in Social Impact Measurement: How Evaluators Can Help', *American Journal of Evaluation*, 39/3 (2018); Anne T. Vo and Christina A. Christie, 'Where Impact Measurement Meets Evaluation: Tensions, Challenges, and Opportunities', *American Journal of Evaluation*, 39/3 (2018).

[47] Mark Abrahams and Sibongile Walaza, 'Editorial: Measuring Social Impact Investment', *African Evaluation Journal*, 6/2 (2018); Edward Jackson et al., 'Understanding and Optimising the Social Impact of Venture Capital : Three Lessons from Ghana', *African Evaluation Journal*, 6/2 (2018); Veronica M Olazabal and Shawna A Hoffman, 'The next Frontier for Measurement and Evaluation: Social Impact Measurement for Impact Investing and Market Solutions', *African Evaluation Journal*, 6/2 (2018); Noel Verrinder et al., 'Evaluative Tools in Impact Investing : Three Case Studies on the Use of Theories of Change', *African Evaluation Journal*, 6/2 (2018); Susan de Witt, 'Measuring Our Investment in the Future', *African Evaluation Journal*, 6/2 (2018).

[48] Ruff and Olsen (2018).

[49] Neil J. Smelser and Richard Swedberg, *The Handbook of Economic Sociology* (2005). p3

[50] Alex Nicholls, 'The Institutionalization of Social Investment: The Interplay of Investment Logics and Investor Rationalities', *Journal of Social Entrepreneurship*, 1/1 (2010b).

[51] Ibid. p87

[52] Alex Nicholls, Jed Emerson and Rob Paton, *Social Finance* (2015).

Germany,[53] and Julia Morley analyses the spread of impact measurement in terms of the spread of norms, based on institutionalist theory.[54] This corner of economic sociology, as it is formulated by these authors, certainly subscribes to the 'theory' vs 'reality' dichotomy that I have sought to distance myself from.

Institutionalist theory provides one set of ideas; so too does the sociology of markets, a subdiscipline of economic sociology. Here we find long-running conversations about the role of markets in society. Much of this literature reacts to the 'pure' market model advanced by economic theory, and seeks to address the shortcomings of economics by viewing markets as sociological objects. Zelizer[55] and Fligstein and Dauter[56] both review this literature. There are identifiable schools of thought within the subdiscipline, some of them suggesting the market be properly viewed as subordinate to ongoing historical and cultural constraints, others seeing it as an ever-expanding sphere that threatens other spheres of life.[57]

In comparison to the approach I have taken, the sociology of markets literature pursues a different set of questions, and offer analysis at a different level. These authors are looking to address the shortcomings of economic theory by investigating the complex reality of the market. In the case of social investment, however, it is precisely the pure market model that provides structure and support to this field of action. As we will see, it plays an absolutely central role in the reasoning about social investment. As I have explained above, I am advancing a critique that takes this reasoning as the source of insight into SI as a programme of government. Though there is undoubtedly a need for a fuller understanding of how this model 'actually' works or is experienced in reality, in the case of social investment, for the sake of analysis, we need to keep this model intact.

Economic sociology also incorporates the sociology of accounting and measurement. Once more, the focus is on exploring these features of economic activity as sociological phenomena, rather than as neutral or technical means for achieving other goals. The notion that social impact can be measured and reported on is central to social investment, and is thus amenable to analysis from the perspective of the sociology of accounting literature. Scholars have made this connection. Nicholls has published several pieces on impact measurement. The chapter he co-authored on measurement in his edited volume *Social Finance* is the only one to discuss measurement specifically in the context of finance and investment.[58] Another discusses social impact accounting more generally,[59] with others focusing on accounting within social enterprise.[60] These works share a proclivity for defining theoretical

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[53] Gunnar Glänzel and Thomas Scheuerle, 'Social Impact Investing in Germany: Current Impediments from Investors' and Social Entrepreneurs' Perspectives', *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations* (2015).
[54] Julia Morley, 'Elite Networks and the Rise of Social Impact Reporting in the UK Social Sector', *SSRN* (2016a); Julia Morley, 'Social Impact Reporting as Reputation Management: Effective Practice, Symbolic Adoption or Business-Washing?', *SSRN* (2016b).
[55] Viviana A Zelizer, 'Beyond the Polemics on the Market : Establishing a Theoretical and Empirical Agenda', *Sociological Forum*, 3/4 (1988).
[56] Neil Fligstein and Luke Dauter, 'The Sociology of Markets', *Annual Review of Sociology*, 33/2007 (2007).
[57] Zelizer (1988). P618
[58] Alex Nicholls, Jeremy Nicholls and Jed Emerson, 'Measuring Social Impact', in *Social Finance* (2015).
[59] Alex Nicholls, 'A General Theory of Social Impact Accounting: Materiality, Uncertainty and Empowerment', *Journal of Social Entrepreneurship*, 9/2 (2018). p133
[60] Alex Nicholls, '"We Do Good Things, Don"t We?': "Blended Value Accounting" in Social Entrepreneurship', *Accounting, Organizations and Society*, 34/6–7 (2009); Alex Nicholls, 'The Functions of Performance

frameworks used to categorise the phenomenon at hand, whether it is "a theoretical model of three categories of metrics that can be applied to practice in social entrepreneurship",[61] "a contingency model to suggest the sorts of contexts in which social impact measurement (in its various forms) will and will not be appropriate",[62] "the development of a new theoretical construct – 'Blended Value Accounting' – that is used to illustrate how social entrepreneurs use reporting practices creatively as strategic tools to access resources and realize organizational mission objectives",[63] or "a conceptual model of social impact accounting based upon its particular materiality practices".[64] The focus here is on theory creation, aimed at providing theoretical infrastructure useful for other scholars in studying this phenomenon. This contrasts with my approach, which seeks to understand how social investment and social impact measurement are reasoned about by actors in the field.

Looking beyond the social investment / social enterprise literature, there are many varied settings in which measurement and accounting take place, and the study of these practices must be assumed to be correspondingly broad. Several texts are used in the body of the thesis, such as Theodore Porter's *Trust in Numbers*,[65] and the discussion on Governmentality includes work by accounting scholars Peter Miller and Michael Power. The wider writings by these two latter authors, on areas far beyond social investment, are instructive in terms of the approach they take. Miller, for example, provides a robust defence of a previous article of his that had received criticism on methodological grounds. He defends an approach that is similar to what I am hoping to achieve, in which he and his co-author sought to explain the intricacies of a particular site (a factory in the US), to connect it with broader ways of thinking about labour and manufacture, and to avoid "metatheorising".[66] Meanwhile Power's 2007 book on 'risk management' puts forward an account of the concept of risk that is instructive for me in thinking about 'impact'.[67]

Power and Miller are central to the 'critical accounting' field. They, and other authors like Nikolas Rose, are heavily influenced by Foucault, and several of their texts are used in the thesis. There is also a broader critical accounting literature. Some of it overlaps with Science and Technology Studies, which is discussed below. Another subsector use Habermas' theories to unpack issues in accounting research.[68] Considering the wide gulf between Foucault and Habermas' ways of construing reality,[69] this Habermasian critical accounting project pursues quite separate lines of enquiry. In particular,

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Measurement in Social Entrepreneurship: Control, Planning and Accountability', in *Values and Opportunities in Social Entrepreneurship* (2010a).

[61] Nicholls (2010a). p243

[62] Nicholls, Nicholls, et al. (2015). p253

[63] Nicholls (2009). p757

[64] Nicholls (2018). p133

[65] Theodore Porter, *Trust in Numbers: The Pursuit of Objectivity in Public Life* (1995).

[66] Peter Miller and Ted O'Leary, 'Finding Things Out', *Accounting, Organizations and Society*, 23/7 (1998).

[67] He writes, for example, that "risk and its management has become a lens through which a certain kind of rational organizational design can be envisioned." Michael Power, *Organized Uncertainty: Designing a World of Risk Management* (2007). pvii

[68] Jane Broadbent, 'Critical Accounting Research: A View from England', *Critical Perspectives on Accounting*, 13/October 2001 (2002); Judy Brown and Jesse Dillard, 'Critical Accounting and Communicative Action: On the Limits of Consensual Deliberation', *Critical Perspectives on Accounting*, 24/3 (2013); S.C. Lodh and M.J.R. Gaffikin, 'Critical Studies in Accounting Research, Rationality and Habermas: A Methodological Reflection', *Critical Perspectives on Accounting*, 8 (1997); Helen Oakes and Anthony Berry, 'Accounting Colonization: Three Case Studies in Further Education', *Critical Perspectives on Accounting*, 20 (2009); Michael Power, 'Theory and Theorization: A Comment on Laughlin and Habermas', *Critical Perspectives on Accounting*, 24/3 (2013).

[69] Set out in Sam Ashenden and David Owen, *Foucault Contra Habermas: Recasting the Dialogue Between Genealogy and Critical Theory* (1999).

there is an illuminating discussion reporting back on the difficulties encountered when 'applying' Habermas' theory to 'reality', which brings to the surface the differences in the way these authors formulate the relationship between theory and reality.[70]

Many studies of accounting and measurement gather data about particular situations in which measurement is taking place, or a particular tool is being used. In this thesis, just as we do not look to the 'reality' of the market, we do not look to the 'reality' of social impact measurement. Our focus remains on the way the *need for* SIM practices is conceived of within social investment as a programme of government.

SCIENCE AND TECHNOLOGY STUDIES (STS)

I am not offering strict disciplinary boundaries with these headings, and some aspects of STS might sit within economic sociology. It is however worth addressing this set of literature under a different heading, in recognition of a more-or-less separate set of theoretical influences.

STS self-identifies as interdisciplinary, a field that, according to the most recent Handbook, "investigates the institutions, practices, meanings, and outcomes of science and technology".[71] Originally developed in relation to the ('natural') sciences, the conceptual toolkit of STS has been brought into several areas of enquiry that are closer to our area of focus: economics and processes of economisation; markets and processes of marketisation; and value and processes of valuation. In 2009/10 Çalişkan and Callon published a pair of articles on "economization", the second of which suggests a "research programme for the study of markets".[72] After a detailed reading of these densely theoretical texts, I concluded that they were operating at a different level of analysis, seeking to move forward the academic community's thinking about the presence of markets in contemporary life, in contrast to my own attempt to understand how the basic structure of the market is informing the reasoning of practitioners in the specific domain of social investment.

Callon has published with Fabien Muniesa and Yuval Millo on the so-called "pragmatic turn" in the study of markets and economics, introducing the notion of "market devices": "a simple way of referring to the material and discursive assemblages that intervene in the construction of markets". They characterise this pragmatic turn in terms of an avoidance of "ex-ante explicative principles", and as particularly well suited to "the study of situations of uncertainty."[73] This suggests greater consonance between this work and my own than I have found in economic sociology.[74] However, these pragmatic studies adopt a different level of analysis. At least in the volume being introduced by Callon et al, studies look at particular market devices, whether it is "the analyst's report", "the

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[70] Jane Broadbent and Richard Laughlin, 'Developing Empirical Research: An Example Informed by a Habermasian Approach', *Accounting, Auditing & Accountability Journal*, 10 (1997).
[71] Ulrike Felt et al., *The Handbook of Science and Technology Studies*, Fourth (2017). p1
[72] Koray Çalişkan and Michel Callon, 'Economization, Part 1: Shifting Attention from the Economy towards Processes of Economization', *Economy and Society*, 38/3 (2009); Koray Çalişkan and Michel Callon, 'Economization, Part 2: A Research Programme for the Study of Markets', *Economy and Society*, 39/1 (2010).
[73] Fabian Muniesa, Yuval Millo and Michel Callon, *An Introduction to Market Devices* (2007). p1-2
[74] This field is rooted in the work of a number of French philosophers such as Deleuze, Guattari and Bourdieu. They were colleagues of Foucault's and part of the same intellectual community. It is not clear to me without further detailed study precisely where the points of difference are between Foucault and these other French philosophers, though there is sufficient difference to support relatively distinct lines of enquiry. A search for 'Foucault' in the STS-inspired Valuation Studies yields zero results, for example.

financial chart", or the "purchasing centre".[75] In this sense they extend to a greater level of granularity than I have reached in studying social investment. I do not consider this a weakness of either approach – they ask different questions, and yield different results.

Donald MacKenzie's work sits in close proximity. His book on financial markets is used in the course of the thesis. He has also written on the creation of carbon markets, where he examines efforts to find measures of carbon that make its trade possible, approaching it as an epistemological problem in a manner similar to the treatment of 'impact' in this thesis.[76] His study with Yuval Millo on the "usefulness of inaccurate models" in financial markets also touches closely on my interest in the different knowledge orientations pursued within the context of social impact measurement.[77]

EMILY BARMAN ON 'CARING CAPITALISM'

To conclude this discussion of how the thesis is situated among the work of other scholars, we will take a more detailed look at the work of sociologist Emily Barman, who picks up the ideas around processes of valuation. Her work warrants more detailed examination because it is perhaps the only example of an extended attempt to explain impact investing using the same kind of scholarly works as I have used. Her text provides an opportunity to explore another's attempt to tackle similar issues with similar resources, and to draw out the similarities and differences between our work. Though we share considerable common ground, there remain numerous points of differentiation between our approaches. Most obviously, where I have focused in depth on one area of practice, Barman looks to impact investing as one of a number of case studies. She builds a broader argument around developments in measurement of social value in the context of 'caring capitalism'. A variety of comparisons can therefore fruitfully be made that help to elucidate where different approaches are suited to different forms of enquiry. Unfortunately, these comparisons are hindered by a degree of ambiguity and conceptual fuzziness in Barman's work, so in the course of this discussion I will highlight these problematic aspects.

Barman's book examines what she calls 'caring capitalism'. She draws attention to a number of areas of practice – nonprofit organisations, social enterprises, socially responsible investing, corporate social responsibility, responsible investment, inclusive business and impact investing – that seek to adjust business practices towards some notion of social value. "The idea seems simple enough: companies can pursue social impact and they can make profit in so doing."[78] Caring capitalism represents both exciting possibility and cause for concern. She sets up a contrast between how things used to be done – businesses stayed out of the social domain, leaving it to NGOs – and how things work under this new regime:

> What is the consequence when social goods are no longer donated by NGOs to the disadvantaged, both here in the United States and in the global South, but now are sold by firms on the market to paying customers? And what happens to our understanding of social

[75] Muniesa et al. (2007). p5-6
[76] Donald MacKenzie, 'Making Things the Same: Gases, Emission Rights and the Politics of Carbon Markets', *Accounting, Organizations and Society*, 34/3–4 (2009).
[77] Yuval Millo and Donald MacKenzie, 'The Usefulness of Inaccurate Models: Towards an Understanding of the Emergence of Financial Risk Management', *Accounting, Organizations and Society*, 34/5 (2009).
[78] Emily Barman, *Caring Capitalism: The Meaning and Measure of Social Value* (2016). p1

> good when it is subject to companies' quest for economic profit and investors' desire for shareholder return?[79]

She then sets out to explore "the effect of the rise of caring capitalism for the meaning and measure of social value."[80] She describes the argument as proceeding in three stages. First she attempts "to identify the types of measuring devices present for social purpose organizations as a lens to understand the question of social value." She then "seeks to determine how the rise of caring capitalism has affected the valuation of social good," before, lastly, asking "when and why different measuring devices … come to prevail across this assortment of social purpose organizations." She builds her analysis on a distinction between social value and economic value, where the latter is manifest in the use of "market indicators such as money and shareholder return".[81]

Barman therefore takes a different starting point in approaching a similar topic. The ideas she relies on most heavily are those of the pragmatic turn in sociology described just above. However, where I have taken great pains to explain which works I am using to lay the foundations for analysis and why, Barman does not provide such clear explanation. As a result, there is considerable ambiguity surrounding the way Barman formulates the relationship between her own argument, the arguments of other scholars, and the nature of the topic of her work. In other words, her epistemological assumptions are unclear.

This lack of clarity is apparent in the way Barman handles the literature. The book contains references to a very wide range of texts. She brings in the work of others where there is a point of connection with her current area of discussion, without any deeper consideration of the compatibility of underlying orientation. This passage, for example, is followed by a reference to Foucault:

> Actors with the goal of altering others' behavior, secondly, can commission a measuring device. A measuring device can be critical to a larger project of 'governing by numbers' by gathering knowledge about others in order to influence their activities.[82]

In this way she suggests that her point is supported by Foucault's analysis. However, this is a misleading representation of Foucault's writings on the relationship between knowledge and power. Foucault, as I understand him, was not interested in how one person got somebody else to do their bidding, but in how the relationship between knowledge and power can be studied to reveal the ways in which individuals come to govern their own behaviour. My argument here is not that Barman is wrong about Foucault but that she simply does not engage with the text she is appealing to, which begs the question: why include it at all? What does it add to her analysis?

This light-touch referencing makes sense if we assume a basic compatibility between the work of disparate authors working on similar topics, in which case these references act as signposting to where more detail on a topic might be found. But I do not think there are any grounds for this assumption of basic compatibility, and Barman certainly does not tackle this issue explicitly. The approach I have taken in developing my theoretical position, as I have outlined above, was to be extremely careful about relying on the work of other theorists, because doing so risks importing unwanted assumptions

[79] Ibid. p2
[80] Ibid. p2
[81] Ibid. p6
[82] Ibid. p23

into my own analysis. My focus was on setting out as clear an argument as possible, which means being clear in my own mind, as well as in what I write, about what claims I am making and on what grounds I make them.

This is not just a complaint about referencing etiquette. The lack of clarity I am pointing to extends into Barman's more detailed discussion of existing literature. The assumption of basic compatibility across disparate literatures is present in her discussion of the literature on markets and morals, for example.[83] She characterises a number of different arguments theorists have made regarding the role of markets in society, then suggests what this would mean for her argument about caring capitalism. "One long-standing strand of scholarship emphasizes the distinct and colonizing nature of the contemporary economy for social action", she remarks, citing Margaret Radin and Michael Sandel, before moving in the same paragraph to the work of social enterprise scholars Battilana and Dorado, who characterise the different logics of the nonprofit and market spheres. What does this mean for her argument?

> The expectation here would be that the measure of social value would be contingent on sectoral location. For nonprofits, the tools used to gauge organizations' social value would reflect actors' values-based beliefs about how best to achieve social good. For compassionate companies, in contrast, money should be the proposed metric of social value.[84]

Because her engagement with the texts is superficial, so is the connection she makes through to her thesis on caring capitalism. Barman makes no attempt to understand or account for the considerable differences in orientation between Radin, Sunder and Battilana and Dorado, or consider how this disparity affects the claims she is making.

This brings us onto the content of Barman's argument. The significance of her findings rely on the difference between what we would *expect* of 'caring capitalism', and what her study reveals to be the case. What is her starting point for setting out what these expectations might be?

> Common sense, as well as one strand of academic theory, would make dire predictions [about the effect of caring capitalism for the meaning and measure of social value]. It would lead us to expect that caring capitalism does little else than marketize social value. Money and its pursuit take over, subsuming the very definition of social good to its unwieldy power. But as we will see, what I find is not as simple nor as calamitous in its effects. This book shows that caring capitalism has not resulted in the wholesale marketization of social value.[85]

Undoubtedly, *some* readers' common sense will point them in the direction she suggests, but it is quite a leap to suggest that we can all accept this as a commonsensical starting premise. We are left with this "strand of academic theory" to give us grounds for these expectations. But she does not offer us a critical appraisal of this strand of theory – in fact, she does not even tell us explicitly which theorists she is referring to. I am left with the distinct impression she herself approached her topic matter with this theory in mind, and was not able to entirely let go of this presupposition in developing her argument. Whether or not this is the case, this impression is created because Barman is not explicit enough about what her position is, and how it relates to the position of other authors writing on

[83] Ibid. p14-7
[84] Ibid. p14-5
[85] Ibid. p6

similar topics. Indeed, this passage in the introduction to the book helps draw attention to the lack of clarity:

> As we will see, caring capitalism has meant the diffusion of social value into the private sector and, correspondingly, the marketization of the project of social value. Caring capitalism has entailed the proliferation of new meanings of social value, with each field characterized by proponents' construction of a moral market in which economic exchange can be legitimately employed in a particular way to pursue social and financial ends. Yet, at the same time, caring capitalism has not resulted in the wholesale employment of market indicators to measure firms' social value. … How can we account for this discrepancy between the meaning and measure of social value in an era of caring capitalism? Making sense of this puzzle constitutes the empirical task of this book. [86]

In this passage she mixes together ideas from across the literature on markets and morals, without specifying what she accepts and what she rejects. She borrows the idea of 'constructing moral markets', while structuring the passage around the opposition between the market as a colonising force (which would lead us to expect the "wholesale employment of market indicarors to measure firms' social value") and what her research has revealed – that this is not the case. But if these are moral markets, then should we not also reflect on what this term 'marketisation' means if we are suggesting that markets can actually be a domain for moral action? Even her formulation of the problem guiding the book's enquiry is ambiguous – does she mean the discrepancy between the meaning of social value and the measure of social value (an opposition that is itself unclear, and is not presaged in the preceding text), or between these two elements and something else? To top it off, she introduces the notion of an "empirical puzzle", as if she has set out a hypothesis that can be tested by appealing to the facts.

The issues created by this lack of clarity are apparent in the section on impact investing. She sets out to explain why it is that impact investing has not chosen measurement devices that rely on market indicators. The main reason, she asserts, is that a contingent of investors in this field were morally opposed to market indicators:

> According to participants in the field, the lack of monetization of an investment's social value was due to the expectations of one core group of resource providers. Compared to other participants, impact first investors wanted a"clear separation between financial returns and impact"(Rockefeller Philanthropy Advisors 2010:12). Money, in other words, was viewed by these investors as an indicator of economic return and so was not considered a legitimate measure of social impact for that type of investor.[87]

To reach this conclusion, she has to put some boundaries on what impact investing *is*. It is true that the US-based conversation around impact investing contained fewer cross-currents than the UK-focused equivalent that I examine, as there was no equivalent focus on capitalising the domestic social sector. But she does draw attention to the huge variation across investor types and expectations. Her way of dealing with this is to suggest some kind of consensus was reached, which is reflected in the choice of measurement device. She describes a conference she attended in which an individual tried to make the argument that "all of his firm's investments in emerging markets should qualify as 'impact investments' given that they served to grow the economy of developing nations, with corollary societal benefits." This person was mistaken, Barman implies: "The other panel members and the audience

[86] Ibid. p17
[87] Ibid. p204

were quick to reject his claim, with many loudly noting that the specific purpose of Impact Investing is to place investment and loans with locally owned firms whose business models constitute a solution to a social problem."[88]

Her conclusion about impact investing, then, is that this argument prevails and is reflected in the fact that impact investing does not use market indicators of social value. I consider this a gross simplification, if not misrepresentation, of the dynamics internal to impact investing. It is misleading to suggest such a unified image of impact investing. It is misleading to suggest the question of financial proxies is not of any concern in impact investing, when it continues to be referred to as a future goal by some parties. It is also misleading to suggest that this individual simply got it wrong. I have heard the same point made at conferences myself, not because the person in question had misunderstood what impact investing is, but because they were drawing attention to the flimsiness of the distinction between impact investing and mainstream investing. Even if the attendees at the conference Barman attended agreed impact investing had to go to "locally owned firms whose business models constitute a solution to a social problem", this is by no means a standard definition. As this thesis explores at length, the meaning of impact investing is contested and unstable; Barman seeks to stabilise it for the sake of the role she wants it to play in her own argument.

By committing to exploring the dichotomy between market and non-market indicators, Barman also rules out the possibility of asking a whole range of questions about the nature of measurement in the context of impact investing. That is, she gains no insight into the debate over proving vs improving impact that I explore in chapter 6. Moreover, by starting with the question of measurement devices, she is unable to see how the need for measurement is connected with other imperatives, such as the need for accountability. She has created a narrative around impact investing that fits the argument of her book, without providing insight into the practice of impact investing itself.

I have suggested a number of points of weakness in Barman's argument, but I should reiterate the point that we are engaged in quite different projects, and so her book should not be judged on precisely the same grounds. The issue of clarity of argument does, of course, apply whatever the form of enquiry. But it is perhaps inevitable that in offering a relatively brief analysis of so many areas of practice, Barman opens herself up to criticism for the accuracy of her work from people who have spent much longer in one of those areas. While she does not offer deep insight in impact investing, Barman does enable comparison across multiple different areas of practice. This form of comparison helps to put impact investing in a broader context, and to gain some sense of different communities of actors working on similar projects. This draws attention to the downside of a very in-depth study of one area of practice. While I think this focus was warranted in the case of this thesis, it suggests possibilities for future research that opens up comparisons with related areas of practice.

SUMMARY COMMENTS

The topics and fields discussed above are some of the closest neighbours to this thesis, because they explore the roles of markets and measurement as sociological and political objects. But there remains plenty of territory we have not covered. The historical epistemological aspects of this analysis could lead us into the philosophy of science, or intellectual history and discussions of modernity. Straying in another direction, there may be research into social investment firmly planted in management studies,

[88] Ibid. p197

finance, economics and law, but the orientation of these disciplines, and the conventions they impose, are so significantly different from those draw on in this project that I have not sought them out.

Another broad set of material is opened up by looking to closely related areas of practice in social finance more broadly, such as microfinance, socially responsible investment (SRI), corporate social responsbility (CSR), community finance, crowdfunding, environmental, social and governance (ESG) investing, ethical banking, green investment, social enterprise and social innovation, venture philanthropy and philanthrocapitalism. All of these areas of practice are attended by varying amounts of scholarly attention, which shares an interest in the attempt to take financial principles and practices beyond the 'pure profit making' of the mainstream. All of these practices are approachable from multiple different disciplinary homes, as they are interesting to the economist as much as they are to the institutional theorist or student of public policy. Opening up all of these fields would be a lengthy process requiring pages of space better devoted to exploring social investment.

THESIS OVERVIEW

The first two chapters of the thesis provide detailed grounding for the approach taken, based on extensive discussion of the work of Foucault and Poovey. Chapter 1 starts with a description of the problematisation forming the foundation of social investment as a programme of activity – that is, it is a response to the problem of the undercapitalisation of the social sector, and the shortcomings of a financial mechanism that forces investors to choose between doing good and doing well. The solution to both of these problems is to build a market for social investment capital. The chapter also provides a brief description of some of the key institutions and individuals active in the development of social investment, to help orientate the reader. It then gives a detailed explanation of what it means to frame social investment as a programme of government, and introduces the idea of the production of knowledge. Chapter 2 looks to the broader context from which social investment has emerged, by exploring the liberal rationality of government. Following Foucault, liberalism is explained in terms of interests, and the importance of governing with respect to interests. The discussion then turns to the production of knowledge, and more specifically the production of disinterested knowledge – otherwise known as objective facts. This discussion helps us to appreciate the importance of the *purpose* for which knowledge is being produced for our ability to denaturalise the assumptions about what counts as useful or valid knowledge. These two chapters set us up to tackle the material on social investment.

Next, chapters 3 to 6 contain a detailed exploration of the logic internal to social investment as a programme of government, drawing attention to the way in which knowledge about social investment has been produced, and to the tensions running through this reasoning. Chapter 3 looks to the way the notion of the market lends structure and direction to this programme of government. It treats the market for SI as an epistemological object, bringing to the surface the assumptions that are introduced by viewing matters in terms of a market, and drawing attention to a kind of duality in facts about the market that allow it to appear as a neutral mechanism, an innocuous matter of fact. This helps to ensure that as our argument develops, we avoid unwittingly carrying forward assumptions about the market that should be part of our analysis. Chapters 4 and 5 then spend time unpicking two quite distinct modes of reasoning about social investment that tend to be insufficiently distinguished within the debate. For the sake of argument, I label these the 'innovative' and the 'principled' modes of reasoning. Chapter 4 demonstrates that the differences between these modes of reasoning help to identify the root of the disagreement in the so-called 'tradeoff debate' – the question of whether

investors should expect the pursuit of social return to result in lower financial returns. Similarly, chapter 5 explores the debate over what qualifies an organisation to be the recipient of social investment. In both of these cases, the innovative mode of reasoning is keen to set out an understanding of social purpose that is entirely separated from the question of profit or returns. The principled mode of reasoning, in contrast, views social purpose not as incompatible with the creation of profits, but as *related*, so that social purpose should mean the *prioritisation* of mission over profit. It is argued that the innovative mode of reasoning supports a vision of social investment that takes a radical step away from how social problems have been constituted to date, both in terms of the role of profitmaking in addressing them, and the fact-based approach to understanding them. This analysis builds the argument that social investment carves out a technical domain, based on the basic assumption that interests can be aligned.

Chapter 6 turns to the last area of social investment under investigation: social impact measurement. It focuses not on the measurement practices themselves, but on how the need for measurement is formulated within the vision for social investment. The discussion of different orientations to the production of knowledge from chapter 2 is drawn on to highlight the multiple orientations present within thinking about SIM. While some of these contrasting orientations are recognised within the debate, I suggest that reasoning about the need for measurement is also influenced, in underspecified ways, by the perceived importance of accountability. I argue that one way of making sense of the connection between measurement, accountability and the desire to protect the integrity of the field is to be alert to the needs of the market, which privileges some mechanisms (measurement, data flows) over others (oversight and regulation). This way of surfacing the often unspoken assumptions around the need for measurement is supported by an analysis of the nature of the facts supposedly generated by SIM, which make thinkable a neutral, fact-based version of social change. This analysis further strengthens the argument that the logic of social investment marks out neutral grounds for action.

Finally, chapter 7 steps outside of the logic of the programme of government, and draws attention to the politics of social investment. That is, social investment is political both because of what it is trying to do – solve social problems – and because this neutrality is *created*, by all the techniques described throughout the rest of the thesis. The market comes to be seen as a neutral way of framing possibilities for action, for example, but in fact this framing of reality brings about a series of effects. It opens up new possibilities for action, while making other options seem impossible, unworkable or simply not up for discussion. Chapter 7 explores a number of examples that help to open up the matter of the politics of social investment. To end the thesis, the Conclusion chapter makes some final observations about how the insight into social investment connects back up with Foucault's account of liberalism. It then highlights some of the main contributions made by the thesis, and concludes with a brief look at more recent developments in the field.

CHAPTER 1: SOCIAL INVESTMENT AS A PROGRAMME OF GOVERNMENT

> We've got a great idea here that can transform our societies, by using the power of finance to tackle the most difficult social problems. Problems that have frustrated Government after Government, country after country, generation after generation. Issues like drug abuse, youth unemployment, homelessness and even global poverty. The potential for social investment is that big. So I want to make it a success in Britain and I want to sell it all over the world.
>
> So how does it work? Businesses need finance to grow and make profit. Governments need finance to fund big infrastructure projects. That's why we have banks, bonds, investment markets and all the rest. The idea here is just as simple and just as powerful. Social enterprises, charities and voluntary bodies have the knowledge, human touch and personal commitment to succeed where Governments often fail. But they need finance too. They can get it from socially minded investors. So we need social investment markets, social investment bonds and social investment banks. And here Government needs to help. Government needs to be more creative and innovative – saying to social entrepreneurs: "if you can solve the problem we'll give you money." As soon as Government says that, social entrepreneurs can go out and raise capital.
>
> Speech by Prime Minister David Cameron at the Social Impact Investment Forum, 6th June 2013[89]

Social problems are a concern for any politician. As this excerpt demonstrates, the interest in social investment as a solution to these problems went all the way up to the top of the UK Government, attracting the attention of the Prime Minister. There is a kind of commonsense appeal to the idea. As he states, the idea of social investment is "just as simple and just as powerful" as conventional financial mechanisms. The social sector offers solutions to social problems "where Governments often fail", so all that is needed is the mechanisms to connect them up with "socially minded investors".

Cameron's words are useful in illustrating a central theme of this thesis: social investment offers a way of solving social problems that is commonsense, neutral, and technical. It does not prescribe any particular solutions. It does not favour one section of the population over another. It proposes merely to build the infrastructure needed for a diverse array of innovative social entrepreneurs and social investors to come together and create new responses to entrenched problems, to succeed where Government has failed. This chapter gives an idea of the extent of the popularity of this vision, giving an overview of the range of projects and intiatives that took place under the banner of social investment. It also begins to set out the conceptual tools we will need in building the argument that social investment is more than just a mechanism to connect the social sector with new forms of finance. The second half of the chapter begins to elaborate what is meant by calling social investment a 'programme of government'. First, we turn to a detailed account of the problems that social investment is set up to solve.

[89] Text available: https://www.gov.uk/government/speeches/prime-ministers-speech-at-the-social-impact-investment-conference Accessed 13th April 2018.

We will start with a summary of the problem detailed in the documents setting out the vision for social investment. We are informed that the way the social sector has been financed to date is unsuitable for the challenges that the social sector needs to meet. Social problems are pressing, and national Governments have proven themselves to be ineffective. Innovation and entrepreneurialism is needed, and innovation and entrepreneurialism can only be effective if there is sufficient access to the right kinds of financial capital. Unlike the private sector, where mainstream capital markets are accessible to companies who want to embark on a high-risk venture, the social sector has traditionally been funded using grants and donations. This dependency on grant funding inhibits the potential of the sector. It fosters a short-term, 'hand-to-mouth' existence which is not conducive to the innovation and entrepreneurialism that is needed to find solutions to social problems. In particular, to date there have been only a small number of SSOs that have managed to 'scale up'. The majority of the sector operates at a very local level. If SSOs had access to a range of types of capital, suitable for different stages of development and different fields of operation, then the sector could achieve its potential. SSOs would be able to take on contracts with Government, and the solutions they find would be expanded to positively impact on the lives of more and more people.

This is the view found across a collection of documents published by Government and by a collection of institutions and initiatives set up with a view to popularising the idea of social investment. Several of the people speaking in the BSC interviews were involved in these initiatives. Collectively they transmit a clear message.

The first publication of this view of the world is the 2006 consultation paper by the Commission on Unclaimed Assets, which set out the case for a 'social investment bank' (the institution that came to be called Big Society Capital). The paper opens by pointing to problems of inequality, poverty and deprivation. The social sector, it notes, "is well-placed to meet this challenge." But "funding for the third sector is often restrictive and inflexible, stifling creativity and growth. A more sophisticated funding system is needed for the third sector to thrive."[90] Comments from the interviews help to elaborate the work that went into producing this document:

> If you read the report on the Commission of Unclaimed Assets, you'll see, we were becoming more and more exercised and more and more knowledgeable about the state of the undercapitalisation in the voluntary sector. The data […] was strong enough to show fairly clearly that you were looking at a sector which was never going to have, on the present scheme of things, were never going to have enough capital money to pay for scaling up or professional development or investment in growth. [Interviewee]

A similar message is found in the strategy paper published by the Government in 2011:

> Britain is blessed with inspiring social entrepreneurs driven by a desire to improve the lives of their fellow citizens. They lead organisations bent on finding sustainable solutions for entrenched social problems. These organisations are social ventures – and it's time to get behind them. We need their innovative approaches if we are to build a bigger, stronger society. We need their involvement to open up and decentralise our public services. But to do more, social ventures need easier access to capital. They need capital just as businesses do – to finance their expansion and build their resilience. …So our vision is to create nothing less than a long- term 'third pillar' of finance for our crucial social ventures, alongside traditional

[90] The Commission on Unclaimed Assets, *A Social Investment Bank: Consultation Paper* (2006). p1

> giving and funds from the state. This pillar of finance is social investment, money that blends financial return with social return.[91]

The first annual report of BSC also tells a similar story:

> Social sector organisations play a critical role in our communities and in our society. … Yet, despite their critical role, they are chronically underfunded, often lack scale and struggle to access funding from mainstream capital markets. Big Society Capital's mission is to change this by transforming the supply of capital to social organisations in the UK.[92]

While Government might be a source of money for the social sector, it is not able to provide *enough*. The necessity of imposing an austerity agenda (a key plank of the newly elected Coalition Government's agenda) placed additional emphasis on Government's inability to pay. But more than the availability of resources, there are features inherent to Government's attempts to help that make it unsuitable and ineffective. A general picture of Governmental ineffectiveness is appealed to:

> it's not that Government hasn't tried over 70 years since the Beveridge report in '42. Over 70 years, the British Government has tried to pool more resources, human, financial, and all the rest of it. It just isn't the most effective model for dealing with social issues. [Interviewee]

A more specific kind of ineffectiveness is found in the model of grant funding. The same interviewee paints a picture of this situation:

> In the mid 1930s, Government began to realise that philanthropy couldn't do it all and Government began to get involved. And Government, for 60 to 70 years, the welfare state and so on and so forth, tried to lead in this. And what had happened to the social sector during this period was that it had been constrained by the philanthropic model from allowing organisations to scale up. Nobody had any money. Virtually nobody could look forward more than three months. Everybody was living hand to mouth. [Interviewee]

The "philanthropic model", then, is "constraining". In contrast, the social investment model promotes long-term financing that allows organisations to build their capacity and ensure their own sustainability. The 2011 Government strategy paper suggests social investment can be seen by SSOs as "a potentially useful tool to help them increase the scope, reach and longer-term sustainability of their activities."[93] What is more, repayable investment means that capital is *recycled*. As the same paper states, investment "can help many social ventures, because repaid money can be used again and again."[94] One of the interviewees explains this logic:

> Social investment should be about recycling the money. So another way of thinking about it – if [BSC] got the money we've got and it was a grant pool, it would be gone by now. Every penny would be gone. Nothing would be coming back. So what good would have been achieved with that 250m over the past 3 years? I think that's the – what difference would 250m of extra money in the NHS have made over the last 4 years? Not much. [Interviewee]

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[91] HM Government, *Growing the Social Investment Market: A Vision and Strategy* (2011). p7
[92] Big Society Capital, *Big Society Capital Annual Report* (2012b). p7
[93] HM Government (2011). p18
[94] Ibid. p14

Social investment, then, is a set of practices that sit in contrast to the restrictive and ineffective arrangements that have so far been place for funding the social sector. What is more, the social sector is best placed to find solutions to social problems – Government has shown itself to be ineffective – and the worsening state of social problems lends some urgency to the task.

This vision relies on these new types of finance being provided through a market. The market allows a diversity of needs and interests to be satisfied in a healthy, self-sustaining ecosystem. As the consultation paper on the social investment bank put it, "we want to create a marketplace that develops its own dynamic momentum."[95] The importance of the market to the way social investment practice is structured is discussed at length in chapter 3. The social investment market, we will see now, is also a solution to a second problem.

A SECOND PROBLEM

The assumption is made in mainstream investment models that only *financial* return is relevant in deciding how to invest. Even if an investor wanted to invest their capital in way that created some kind of social good, they are largely unable to do so. They would have to give their money away as a charitable donation. This is an enormous lost opportunity.

The idea that investment can be reoriented to the creation of both financial and social return appears to have originated in the US. An article by Jed Emerson published in the *California Management Review* in 2003 is an early working through of the argument that investment could be practiced on the basis of a broader notion of value. To date, he argues, we have operated a system in which social value is pursued by organisations funded by grants, while financial value is pursued using mainstream financial instruments:

> This arrangement has served us well, creating both a thriving nonprofit sector and economically efficient for-profit economy. Our understanding of both investment and return is founded upon a traditional separation in the creation of social versus economic value. It is logical. It is the common understanding of the world. It is also inherently wrong.[96]

"What is required", Emerson argues:

> is a unifying framework that expands the definition of investment and return beyond the historic one of finance and toward a new definition capable of holding a broader understanding of value than that most frequently reflected in traditionally endorsed financial operating ratios.[97]

By 2007 the term 'impact investing' had been coined at a now-famous meeting of global leaders in finance at the Rockefeller's Bellagio Centre, including Nick O'Donohoe of J.P Morgan, a large investment bank. (O'Donohoe went on to help create, and become the first CEO of, BSC). J.P. Morgan went on to publish a series of reports about impact investing. The first, in 2010, opened with an argument very similar to the one made by Emerson:

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[95] The Commission on Unclaimed Assets (2006). p1
[96] Jed Emerson, 'The Blended Value Proposition: Integrating Social and Financial Returns', *California Management Review* (2003). p36
[97] Ibid. p38

> With increasing numbers of investors rejecting the notion that they face a binary choice between investing for maximum risk-adjusted returns or donating for social purpose, the impact investment market is now at a significant turning point as it enters the mainstream.[98]

Impact investing provides a way for investors to *both* seek financial returns on their investments *and* pursue a social purpose. It is important to understand that it is not the behaviour of investors that is being treated as problematic, but the framework in which they have been forced to operate. The framework was built on the assumption that these two things were incompatible; what is needed is a new framework that enables investments that do both things at once. Investors who are so inclined can then choose to allocate their capital to social good.

This is the line taken by the Social Impact Investing Taskforce (SIIT) – an initiative in which Ronald Cohen and several familiar faces from social investment and the creation of BSC were closely involved. In the main report from the SIIT *Impact Investment: The Invisible Heart of Markets*, the focus is not on capitalising the social sector but on diverting the huge resources present in mainstream investment markets into impact investing:

> Given that $45 trillion are in mainstream investment funds that have publicly committed to incorporate environmental, social and governance factors into their investment decisions, it would only need a small fraction of this money to start moving into impact investment for it to expand rapidly along the growth path to the mainstream previously taken by venture capital and private equity.[99]

The authors suggest that impact investing represents a "new paradigm", arguing that:

> This requires a paradigm shift in capital market thinking, from two-dimensions to three. By bringing a third dimension, impact, to the 20th century capital market dimensions of risk and return, impact investing has the potential to transform our ability to build a better society for all.[100]

It is thus possible to distinguish two different problems: the undercapitalisation of the social sector, and a mainstream market that allocates capital on the basis of financial return alone. Both of these problems are concerned with the 'solution of social problems', but the former is focused on moving the social sector away from grant funding and towards a model of repayable finance, while the former is focused on persuading investors to reallocate their capital towards 'impact'. It would be helpful if we could refer to the first problem-solution in terms of 'social investment' and the second problem-solution in terms of 'impact investing'. But these are muddy waters. Though this way of dividing things up is often found in the literature, there remains plenty of variation in the way actors use these terms. The hybrid term 'social impact investing' brings these two problems closer together. As stated in the introduction chapter, we will use the term 'social investment' throughout to refer to the programme of government built on this (double) problematisation.

My intention in describing this problematisation is not to make any comment on its veracity or accuracy, but to draw attention to the grounds set out in justifying social investment as a desirable course of action.

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[98] J.P. Morgan, *Impact Investments: An Emerging Asset Class* (2010).
[99] Social Impact Investment Taskforce (2014). p1
[100] Ibid. p1

KEY INSTITUTIONS, INITIATIVES AND INDIVIDUALS IN SOCIAL INVESTMENT

It will be helpful to give the reader an introduction to the landscape of SII, to enable orientation among the key institutions and individuals who will appear over the course of the analysis. The following passages are simply for background information – I do not intend this summary to have any analytical weight, nor am I am making any claims as to what caused SI to come about.

We might go back decades or even centuries, but we will start with brief consideration of the policies of the Blair Government, elected in 1997. Blair was keen to encourage the 'third sector' as a space outside of Government that could negotiate with Government. The first stage of this, in 1998, was the launching of a 'Compact' with the third sector that included commitments from the Government to recognise the sector's independence, to consult the sector, and to use funding to assist the sector's stability. One scholar described the Compact as "completely without precedent, representing an unparalleled step in the positioning of the third sector in public policy."[101] There followed extended critique and discussion of what kinds of organisations made up the third sector, how big the sector was, what might be done to improve its capacity, what its relationship with Government should be, and so on.[102]

Part of the development of the third sector was the encouragement of 'social enterprise' – the idea that businesses can be run in a way that benefits society and the environment, or (to choose a different emphasis) that charities can be run in a more businesslike manner.[103] An organisation called UnLtd was set up in 2000 with a £100m endowment with the aim of supporting social entrepreneurship, while The Social Enterprise Unit was created within the Department of Trade and Industry in 2001, intended to provide support and direction for social enterprises as a way of achieving social change. A new company legal form was created in 2004, the Community Interest Company (CIC), to make it easier for organisations to both generate profit and pursue a social purpose. Almost 11,000 CICs had been registered as of June 2015.[104] A sign of the consolidation of the third sector came in the creation of the Office of the Third Sector in 2006, which brought all ministerial responsibilities for the sector together in one place.[105]

There were also initiatives aimed at developing the third sector's ability to take on forms of finance other than grant funding. The 2002 Phoenix Fund, for example, was used to provide investment

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[101] Jeremy Kendall, *The Mainstreaming of the Third Sector into Public Policy in England in the Late 1990s: Whys and Wherefores* (2000). p2

[102] A prominent example of this is the Third Sector Research Centre (TSRC), set up with funding from the Economic and Social Research Council in 2008. It "aims to enhance our knowledge of the sector through independent and critical research, giving us a better understanding of the value of the sector and how this can be maximised." From https://www.birmingham.ac.uk/generic/tsrc/about/index.aspx Accessed 6th November 2017.

[103] Social enterprise is a relatively well developed field of research that includes extensive discussion of definitions. These discussions will not be entered into here. Teasdale et al provide a helpful critique of the numbers used to represent the growth of social enterprise in the UK, suggesting the apparently impressive increases are attributable mainly to the expansion of what counts as a social enterprise. S. Teasdale, F. Lyon and R. Baldock, 'Playing with Numbers: A Methodological Critique of the Social Enterprise Growth Myth', *Journal of Social Entrepreneurship*, 4/2 (2013).

[104] http://www.thirdsector.co.uk/analysis-rise-rise-community-interest-companies/governance/article/1348096 Accessed 22nd September 2016.

[105] Pete Alcock, 'Devolution or Divergence? Third Sector Policy across the UK since 2000', *Working Paperc* (2009). p4

specifically for small companies in deprived areas, as well as capitalising Community Development Finance Institutions, providing the capital for them to lend onto individuals and communities. Futurebuilders, in 2005, used repayable finance to build the capacity of TSOs to take on Government contracts. Similar other funds were also released.[106] This collection of policy initiatives lent weight to the idea, once the idea of the social investment market emerged, that there was a demand side to the market – a network of socially oriented actors and organisations who are interested in taking on repayable finance.

Meanwhile, the term 'social investment' had been created to refer to provision of repayable finance to the third sector, or to disadvantaged individuals underserved by mainstream banking. The term was put to use by the Social Investment Task Force (SITF), which ran from 2000 to 2010 (and should not be confused with the later Social Impact Investing Taskforce (SIIT)). At its inception and for most of its existence SITF was focused on *disadvantaged communities* gaining access to investment capital and business support.[107] The SITF was not a Government initiative, made up instead of a group of private individuals keen to explore the possibilities inherent in mainstream financial practices. Ronald Cohen led this group, and went on to play a very influential role in the growth of SI. The minds of SITF were focused by the prospect of new legislation being passed enabling access to so-called 'unclaimed assets' for an as-yet-undetermined social purpose. It had come to the attention of members of the SITF that, as things stood, any money deposited by individuals in bank accounts and subsequently forgotten about was simply held by the banks. The volume of capital involved was unknown, as the banks refused to make this information public, but was estimated to be at least in the hundreds of millions of pounds, if not in the billions. Ireland had already passed legislation creating the mechanism for this money to be transferred into public hands and used for social purpose. The SITF therefore set itself the task of lobbying for equivalent legislation in the UK, and making the argument that it should be dedicated to social investment.[108]

The members of the SITF were successful: The Dormant Accounts Act was passed in 2008, specifying that one of the uses to which this money might be put was social investment. It was not until the General Election of 2010, and the arrival of the Coalition Government, that the idea of social investment began to gain real traction. From 2010 onwards Government ministers showed keen interest. They worked closely with the network of individuals centred on Ronald Cohen and the members of the SITF. The Cabinet Office published a social investment strategy paper in 2011 and another in 2016, plus update papers in 2012, 2013 and 2014.[109] Material in the interviews suggests that some SITF members were involved in drafting at least some of the papers published by the Government.

With the new source of capital available, directed by the Dormant Accounts Act, the new focus was to establish what was initially called the 'Big Society Bank'; a financial institution acting as a wholesaler, providing capital to intermediary financial institutions who would go on to make investments in

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[106] Alex Nicholls and Cathy Pharoah, *The Landscape of Social Investment: A Holistic Topology of Opportunities and Challenges* (2008).

[107] Social Investment Task Force, *Enterprising Communities: Wealth beyond Welfare*, 2000. p7

[108] This series of events is detailed in a case study of Big Society Capital that I coauthored. Daggers and Nicholls (2016a).

[109] HM Government published strategy papers in 2011 and 2016 , and 'progress updates' in 2012, 2013, and 2014 (HM Government (2011); HM Government, *Growing the Social Investment Market: Progress Update* (2012); HM Government, *Growing the Social Investment Market: 2013 Progress Update* (2013); HM Government, *Growing the Social Investment Market: 2014 Progress Update* (2014); HM Government (2016).

frontline SSOs. In the end this new financial institution was called Big Society Capital. With access to more capital than any other institution in the space, it became the focus of third sector financing. The core logic of BSC's operation was centred on building the market for social investment, and it was able to devote considerable capacity to pushing for a whole new ecosystem of activity on these ideas. Ronald Cohen became the chair of BSC, and brought on board Nick O'Donohoe, formerly of American investment bank J.P. Morgan, as CEO.[110]

Alongside BSC, which stands apart in its status as wholesaler of social investment finance, there are various organisations that invest directly into SSOs, many of whom have received finance from BSC, and many of whom contributed to the debates discussed in this thesis. Bridges Ventures was set up in 2002 (initially named Bridges Community Ventures) by Ronald Cohen, and was one of the more established institutions operating in the social investment market by 2010. ClearlySo, Social Finance, The Social Investment Business, Investing for Good, CAF Venturesome, Nesta, the Esmée Fairbairn Foundation (destination for Caroline Mason once she left her position on the team that founded BSC) and the City of London Corporation all played a role in distributing capital under the social investment label, among numerous others. Many of these organisations also commissioned and/or published reports discussing the development of the market. Other institutions were not involved in directing capital flows, but took part as advisors or providers of services to the industry. Consultancy New Philanthropy Capital (NPC) is prominent among these, as is the law firm Bates, Wells and Braithwaite (BWB). Social Value UK, membership organisation and advocates of the 'social return on investment' (SROI) approach to accounting for social value, were also active in putting across their position.

While there was a particular concentration of energy in the UK, related activities were gathering pace abroad. Coined in 2007, the term 'impact investing' was gaining traction among communities of investors and philanthropic foundations, particularly in the US.[111] J.P. Morgan, through the initiative of Nick O'Donohoe before he left to become CEO of BSC, had become an early participant in the impact investing conversation, putting funds towards some of the first publications on the topic. The Global Impact Investing Network (GIIN) was founded in 2009 and has produced numerous publications. Social impact investing attracted the attention of the Organisation for Economic Cooperation and Development (OECD), which published a substantial report on the topic in 2015, as well as the European Venture Philanthropy Association (EVPA). Several US Foundations made a point of broadcasting their involvement in impact investing, particularly the Rockefeller Foundation, K L Felicitas Foundation, the Omidyar Network and Acumen Fund. The Stanford Social Innovation Review (SSIR), an online magazine, has been an important site for the exchange of ideas, as has (to a lesser extent) Pioneers Post in the UK. The debate around social investment in the UK therefore intersected with a debate around a very similar configuration of issues at an international level.

An international focal point was created in 2014 when the UK devoted its presidency of the G8 to 'social impact investing', creating the opportunity to run the Social Impact Investing Taskforce. The

[110] BSC faced considerable criticism for failing to listen to and understand the needs of the social sector. Proper consideration of whether they have succeeded or failed needs more space than is available here; BSC's management was accountable to multiple different groups, with very different priorities, and so there are multiple sets of criteria that might be used to judge their progress.

[111] The connection between the terms social investment, impact investing and social impact investing is discussed above on page 12.

SIIT brought together representatives from each of the G8 countries[112] and set up a number of working groups tasked with exploring particular issues. Several of their reports are used in the course of this thesis, and the main SIIT report is a key document that we return to at several points. The SIIT was timebound, but a successor organisation was set up: the Global Social Impact Investment Steering Group (known as the GSG), which is a meeting point for the numerous National Advisory Boards (NABs).[113] An Independent Advisory Group was set up in the UK to advise on how social investment might be made more accessible to retail investors (individuals with closer to average amounts of money available to invest, rather than wealthy investors), which reported in 2017. This report was followed up by the Prime Minister in 2018 commissioning a new 'industry taskforce' to implement the recommendations of the advisory group.[114]

Over this period since 2010, various institutions and individuals in the UK stepped forward to interrogate the notion of SI from the perspective of 'traditional' SSOs. The Institute for Voluntary Action Research (IVAR) and CAF Venturesome both published pieces, as did Robbie Davison and Helen Heap, both of whom run small SSOs. In 2014 and 2015 a group of individuals including Dan Gregory, ex-civil servant and David Floyd, social entrepreneur, blogger and commentator, set up the Alternative Commission on Social Investment, which convened actors to reflect on the progress made in building the SII market, questioning the premises on which the whole endeavour had been built.

SOCIAL IMPACT MEASUREMENT

The development of social impact measurement (SIM) deserves its own introduction. As we will see, SIM plays a pivotal role in the vision for social investment, but it is an area of practice that extends beyond the boundaries of social investment.

The push for social sector organisations to improve the information they collect about their activities has its own history. It is beyond our scope to tell this story, but a few key ideas, institutions and initiatives can be highlighted to help orientate the reader. The basic content of SIM has stabilised around a few key ideas: the importance of specifying a measurement framework, collecting data about the social change being created, then analysing this data and using it to for a variety of purposes including accountability to various parties and improving decision making. This set of practices is drawn from a mixture of sources. It is influenced by project management practices in mainstream business, by social science research techniques and evaluation practice, and by financial accounting and related 'social accounting' methods.

Several institutions and organisations have played a prominent role in developing the conceptual groundwork around what SIM should look like. One of the first onto the scene was the *Inspiring Impact* programme, a collaborative effort across UK SSOs attempting to improve impact practice, which published one of the first guides to what counts as good impact practice.[115] The SROI network

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[112] UK, France, Italy, Japan, USA, Germany, Canada, and Russia. Russia was expelled from the G8 during this period and it was renamed as the G7. Australia also took part so there were 8 country participants overall.

[113] At the time of writing the following countries have National Advisory Boards: Australia, Brazil, Canada, France, Germany, India, Israel, Italy, Japan, Mexico, Portugal, UK, USA . The EU also has representation at the GSG. From www.socialimpactinvestment.org Accessed 23rd April 2018.

[114] https://www.gov.uk/government/news/pm-commissions-industry-taskforce-on-social-impact-investment accessed 27th January 2018

[115] Tris Lumley, Benedict Rickey and Matthew Pike, *Inspiring Impact: Working Together for a Bigger Impact in the UK Social Sector* (2011).

(now renamed and reorganised as the international membership body Social Value International, with national chapters including Social Value UK) has been promoting its own variety of SIM from early on in the debate, grounded in the Social Return on Investment methodology. A detailed working-through of the idea of social value was commissioned by Big Society Capital and written by Adrian Hornsby at Investing for Good as *The Good Analyst*, followed up the following year by *The Good Investor*, which homed in on the challenge of measuring social value from the investor perspective.[116] Within this period from 2013-4 lengthy documents were published by the European Venture Philanthropy Association (EVPA)[117], the GECES[118] sub-group on impact measurement (a body within the European Commission)[119], and the Working Group on Impact Measurement (WGIM), part of the Social Impact Investing Taskforce.[120]

The advice in these documents is usually agnostic towards who precisely is doing the measurement; it can be picked up by SSOs, or their investors or donors, or by the SIFIs that direct funds. It is relevant to any organisation that is intentionally trying to generate social impact, and it describes what has come to be known as 'good impact practice'. These organisations have set out overarching frameworks; there are then multiple and varied examples of published advice on smaller components of this cycle. This is an area where businesses develop proprietary tools, which they sell as 'solutions' for the need to do SIM. It is also a thriving consultancy field, providing advice for organisations struggling to navigate the complexities of measurement.

An early attempt to make SIM easier was the creation of the IRIS catalogue, a freely available database of metrics offered to investors.[121] BSC, in a simlar vein, developed an 'outcomes matrix' that helped to categorise different areas of social impact according to type of need, type of beneficiary, and so on.[122] New Philanthropy Capital (NPC) is one of the most prominent consultancies in the space, and has published multiple guidance documents on the tools they use to aid measurement, such as the 'theory of change'.[123] The sheer volume of tools available to help with SIM is often remarked upon, usually with an acknowledgment of the continued failure to consolidate or standardise what counts as good practice. The lack of specificity over what counts as good or bad measurement practice is a source of frustration for some organisations, who have published their own version of measurement in an attempt to move the debate on. Acumen Fund is a prominent example of this, with its 'Lean Data' methodology.[124] Impetus PEF in the UK similarly published its approach to impact measurement as a response to ongoing confusion.[125]

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[116] Adrian Hornsby, *The Good Analyst* (2012); Adrian Hornsby and Gabi Blumberg, *The Good Investor: A Book of Best Impact Practice* (2013).
[117] European Venture Philanthropy Association, *A Practical Guide to Measuring and Managing Impact* (2013).
[118] Groupe d'Experts de la Commission sur l'Entrepreneuriat Social.
[119] GECES Sub-group on Impact Measurement, *Proposed Approaches to Social Impact Measurement in European Commission Legislation and in Practice Relating to: EuSEFs and the EaSI* (2014).
[120] Working Group on Impact Measurement, *Measuring Impact* (2014).
[121] IRIS, *Getting Started with IRIS: How to Select IRIS Metrics for Social and Environmental Performance Measurement* (2014).
[122] Big Society Capital, *Outcomes Matrix Full Guidance* (2015b).
[123] Ellen Harries, Lindsay Hodgson and James Noble, *Creating Your Theory of Change: NPC's Practical Guide* (2014); Angela Kail and Tris Lumley, *Theory of Change: The Beginning of Making a Difference* (2012).
[124] Acumen Fund, *Innovations in Impact Measurement* (2015).
[125] Impetus PEF, *Driving Impact* (2016).

SOCIAL IMPACT BONDS

We must also mention 'social impact bonds' (SIBs). They have to be mentioned because they are often included under the umbrella of social investment, but they are not given much space or attention in this thesis because they are oriented to a different problem-solution. The basic concept behind social impact bonds is described in a paper published by Social Finance in 2010:

> Social Impact Bonds raise funds from non-government investors to pay for the provision of services. If the services make a difference and social outcomes improve, investors receive success payments from the public purse. The size of these payments depends on how successful the services are.[126]

SIBs are therefore a new mechanism for Government to commission services from external providers. Investors put their capital upfront to pay for the delivery of a service by an SSO. If the service is successful in achieving its outcomes, the investors are paid a return in proportion to the level of outcomes that are achieved. The more successful the service, the more they get paid. If the outcomes are not achieved, the investors lose their money. Payments from the public purse to private investors are justified by the savings that are achieved by the difference the service makes. If an intervention successfully reduces reoffending among a target population, for example, then the prison service makes savings, and the funds that they otherwise would have spent on keeping a larger number of people in prison are diverted to the investors.

This mechanism is framed in terms of a transfer of risk of an intervention not working from Government to the investor:

> Historically, the public sector has struggled to fund preventative services as they require it to take a risk – it could end up funding not only the costs of preventative services, but also the costs of further services to deal with social problems if the preventative services fail. As Social Impact Bonds transfer the risk that interventions fail to investors, they should make it easier to address social problems earlier, generating benefits for both public sector budgets and wider society.[127]

While there is enthusiasm in the discourse around SIBs for increasing the flow of contracts to SSOs, the development of SIBs is not *oriented* to addressing the undercapitalisation of the social sector. Its focus is modifying commissioning mechanisms. Apart from anything else, SIBs have become notorious for the complexity they introduce, and they vary enormously from one example to the next. Generating any insight would therefore need detailed engagement with what is a relatively distinct literature that pursues a different set of questions to those that interest us.

This concludes our brief tour of some of the institutions, initiatives and individuals who will feature in the course of the thesis. This is by no means a comprehensive list, but it should prove helpful for the reader as they encounter these actors in the course of the discussion.

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[126] Social Finance, *Towards a New Social Economy: Blended Value Creation through Social Impact Bonds* (2010).
[127] Ibid. p5

SOCIAL INVESTMENT AS A PROGRAMME OF GOVERNMENT

We have now reached a point where we need to more firmly anchor the idea that social investment is a programme of government. The first half of the chapter drew out the double problematisation on which SI rests, but the notion of problematisation gains analytical weight from its association with this other conceptual tool.

It is important to be very clear about the sense in which the term 'government' is used. Foucault described it as follows:

> This word must be allowed the very broad meaning which it had in the sixteenth century. "Government" did not refer only to political structures or the management of states; rather it designated the way in which the conduct of individuals or of groups might be directed: the government of children, of souls, of communities, of families, of the sick. It did not only cover the legitimately constituted forms of political or economic subjection, but also modes of action, more or less considered and calculated, which were destined to act upon the possibilities of action of other people. To govern, in this sense, is to structure the possible field of action of others.[128]

Rather than focusing on the activities of the state, we are using 'government' to refer to something much broader. We are talking about systematic attempts, by various types of bodies and institutions, to identify certain forms of behaviour as problematic, and to identify programmes of action to change those forms of behaviour. There is no necessary connection between studies of government in this broad sense and the activities of the Government. Many studies in the governmentality literature do not engage with the activities of the Government at all.[129] But in the case of social investment it so happens that institutions that we would think of as part of 'the Government', represented by Government ministers, are directly involved. This means that our discussion of the literature will inevitably have to switch back and forth between the narrow and broad sense of the term, because it is the former sense that is generally being employed when 'the role of Government' (for example) is being discussed. I will attempt to maintain clarity by capitalising the narrow sense of the term – talk of 'the Government' – and keeping the broader notion of government in lower case.

'Governmentality' refers to a particular *form* of governmental power that emerged, Foucault argues, in the sixteenth and seventeenth centuries.[130] The term 'power', like the term 'government', can easily import various unhelpful connotations and assumptions. This passage from Foucault helps to moderate:

> Even the term power does nothing other than designate a domain of relations which are entirely analysable, and what I have proposed to call governmentality, which is to say the way

[128] Herbert L Dreyfus and Paul Rabinow, *Michel Foucault: Beyond Structuralism and Hermeneutics* (1982). p22
[129] Against the grain of much of the theorising of his contemporaries, Foucault refused to give a central role to the State. "After all," he lectured, "maybe the state is only a composite reality and a mythicized abstraction whose importance is much less than we think. Maybe. What is important for our modernity, that is to say, for our present, is not then the state's takeover (étatisation) of society, so much as what I would call the "governmentalization" of the state." Michel Foucault, *Security, Territory, Population* (1977). p109
[130] Ibid.

> in which one conducts men, it is nothing other than a proposition of a grid of analysis for relations of power.[131]

Power is not wielded by the strong over the weak, but exists in a network of social relations. As Graham Burchell puts it:

> When we are governed, when our behaviour is managed, directed or conducted by others, we do not become the passive objects of a physical determination. To govern individuals is to get them to act and align their particular wills with ends imposed on them through constraining and facilitating models of possible actions.[132]

In this sense, power is present in the act of governing, but it is a feature of the relation between the governor and the governed.

The fact that we so strongly associate the activity of governing with the state is a sign of the extent to which these diverse practices have slowly become pulled into the state's orbit. Foucault has a name for this process – the 'governmentalisation of the state', described by Rose et al:

> at a certain historical moment, … the formal apparatus of the state [came] to embroil itself with the business of knowing and administering the lives and activities of the persons and things across a territory[133]

The state has "managed to connect itself" to "a diversity of forces and groups that in different ways had long tried to shape and administer the lives of individuals in pursuit of various goals."[134] But there is nothing inherent to the state that makes it deserving of special treatment when it comes to understanding the power dynamics at play.

Instead of seeing matters in terms of the formal boundaries and rules of institutions, then, Foucault's approach encourages us to organise our analysis in terms of programmes of government. These programmes are dispersed collections of practices that act on the behaviour of individual subjects, united by a common *problematisation*. It is important to clarify that there is no assumption that a programme of government is conceived in the abstract world of thought and then operationalised in reality. This point is made by Foucault as he reflects on his method of analysing programmes of government:

> These programmes don't take effect in these institutions in an integral manner; they are simplified, or some are chosen and not others; and things never work out as planned. But what I wanted to show is that this difference is not one between the purity of the ideal and the disorderly impurity of the real, but that in fact there are different strategies which are mutually opposed, composed and superposed so as to produce permanent and solid effects which can perfectly well be understood in terms of their rationality, even though they don't conform to the initial programming.[135]

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[131] Michel Foucault, *The Birth Of Biopolitics* (2008). p191-2
[132] Burchell et al. (1991). p119
[133] Nikolas Rose, Pat O'Malley and Mariana Valverde, 'Governmentality', *Annual Review of Law and Social Science*, 2 (2006). p87
[134] Ibid.
[135] Foucault in Burchell et al. (1991). p80

The concept of a programme of government does not, therefore, support a research project in which we take the ideal state of affairs as it exists in the imagination of protagonists and see how it translates into the real. Rather, it brings into focus the way the interplay between (to borrow a phrase from Colin Gordon) the "functioning totalities" we use to define strategies and the "target area[s] for intervention". Gordon's formulation is helpful:

> The existence of these discourses, whose object-domains are defined simultaneously as a target area for intervention and a functioning totality to be brought into existence, has a significance for historical analysis which prior to Foucault seems never to have been fully exploited. Our world does not follow a programme, but we live in a world of programmes, that is to say in a world traversed by the effects of discourses whose object (in both senses of the word) is the rendering rationalisable, transparent and programmable of the real.[136]

On this view, social investment is just one of countless overlapping programmes of government with which we interact on a daily basis. Furthermore, a programme of government is an ongoing project, a set of strategies and activities pursued in practice, which can be understood "in terms of their rationality". Here we have the link to power as operating through reasoning subjects. Governmentality studies resolutely avoids the structure-agency dichotomy by conceiving of subjects as governing their own behaviour in relation to the choices they perceive to be available to them. The programmatic element allows analysis of the systematic organisation of these choices.

It is straightforward to fit social investment with these descriptions. It is made up of "different strategies which are mutually opposed, composed and superposed", seen in the numerous different versions of social investment. There are also "permanent and solid effects", seen in the changes enacted under the banner of SI. The argument of this thesis is built on an understanding of these changes "in terms of their rationality", enquiring at length into the *reasoning* employed in making sense of the problem to be addressed and the strategies for addressing it. As we explained in the introduction, this understanding of reality is compatible with treating the social investment literature as windows onto the reasoning employed by subjects.

Miller and Rose offer a schematisation of Foucault's thought that is helpful in seeing how the notion of programmes of government fits with other aspects of his thought.[137] They offer a helpful distinction between programmes and rationalities of government. The distinction appears in Foucault's comments when he says "of course, this programming depends on forms of rationality much more general than those which they directly implement."[138] Miller and Rose elaborate, describing political rationalities as:

> the changing discursive fields within which the exercise of power is conceptualized, [and] the moral justifications for particular ways of exercising power by diverse authorities, notions of the appropriate forms, objects and limits of politics, and conceptions of the proper distribution of such tasks among secular, spiritual, military and familial sectors [are elaborated].[139]

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[136] From Gordon's afterword in Foucault (1980). p245
[137] Peter Miller and Nikolas Rose, *Governing the Present: Administering Economic, Social and Personal Life* (2008).
[138] Foucault in Burchell et al. (1991). p80
[139] Miller and Rose (2008). p55

Welfarism, for example, was a political rationality that provided a wider 'discursive field' within which various programmes of government, such as a national health service, could be worked out. It is a useful concept for us in demonstrating that programmes of government are not discrete, or pursued in isolation from each other. Chapter 2 provides a detailed account of the liberal rationality of government, helping us to locate broader historical trends in the way social investment produces certain forms of subjectivity.

KNOWLEDGE PRODUCTION

So far we have skirted around the importance of knowledge to the operation of power and the elaboration of programmes of government. Knowledge is certainly relevant with the emphasis on the reasoning of subjects. Gordon, in his afterword to a collected volume of Foucault's writings on interviews on power/knowledge, speaks to this point:

> Every programme also either articulates or presupposes a *knowledge* of the field of reality upon which it is to intervene and/or which it is calculated to bring into being. The common axiom of programmes is that an effective power is and must be a power which *knows* the objects upon which it is exercised. Further, the condition that programmatic knowledge must satisfy is that it renders reality in the form of an object which is *programmable*.[140]

The role of knowledge in governing is at the heart of the governmentality studies. By chapter 7 we will be in a position to see that social investment both requires and fosters quite specific forms of knowledge. This programmatic knowledge, we will see, introduces a series of assumptions about the area of intervention – the assumption that actors on the demand side of the market should strive to meet certain standards of 'investment readiness', for example, or that social change can be understood in terms of measurable, manageable 'impact'. This is how I understand the notion of knowledge "rendering reality" in one way or another – by introducing assumptions that are not directly recognised as such, and which shape the way things are done.

Turning knowledge itself into a subject of analysis is not easy. It is unwieldy, because we are trying to create new knowledge – new insight – while bringing attention to the mechanisms by which this is made possible. We risk chasing our own tail. Foucault is insightful on this topic, but it is Poovey who demonstrates an approach that can be transplanted across to our area of focus. In this section we will provide an account of the basic components of Poovey's approach, setting us up for analysing forms of knowledge in several subsequent chapters of the thesis.

The first step is to narrow down what we mean by 'knowledge'. Inherent in knowledge of the social world is the imperative to make explicit connections to reality. That is, unlike deductive knowledge that gains its validity purely from the realm of thought and logic – Cartesian geometry is the archetypical example – the kind of knowledge we are interested in has to grapple with the issue of the *evidence* that exists to back up one or another statement about the matter at hand. Knowledge from direct observation also does not concern us. There is an entire branch of philosophy devoted to exploring what it means to consider it a true statement that "trees have leaves" or "there are three people in the room", but it is not of interest to us. We are interested in attempts to generate *systematic* knowledge about the social world. As Poovey has shown us, a fascinating history surrounds the attempt to move from our own, individual experience of the world to being able to talk meaningfully

[140] Colin Gordon in Foucault (1980). p248

about the social world more generally. Of course, this history is bound up in the history of the natural sciences, where the same challenges were (and still are) faced concerning how observations from experiments can inform general laws of nature. The techniques that have been developed to cope with this problem – the 'problem of induction' – shape the way we understand society, economics, politics and matters of human interaction. They are therefore heavily implicated in the way we understand the market for social investment.

We are dealing with expansive topics, so I would like to illustrate the basic components I would like to pick out with a simple example. Consider a piece of research that aims to establish various characteristics of a population, such as the prevalence of different eye colours among the population of France. Five thousand people are surveyed; each of them submits their eye colour. They are a sample of a wider population, and each person provides a piece of raw data (an 'observed particular'). These particulars can be aggregated, generating in the first instance the knowledge that, for example, one thousand, or twenty percent of people in the sample have blue eyes. The results of this survey can also be used to generate knowledge about the proportion of the population of France with blue eyes. Various techniques will have been used when choosing who is included in the sample, and what biases or issues might be contained in the data, but it will be possible to establish with a reasonable degree of certainty that twenty percent of the population of France have blue eyes. The process of moving from observed particulars to a general statement is an example of an inductive process. 'Induction' has multiple dictionary definitions; the one that interests us is "a bringing forward of separate facts or instances, esp. so as to prove a general statement."[141]

It has become customary for us to accept statements such as "twenty percent of the population of France have blue eyes" as true. If we are operating in a more academic or technical setting, we might qualify the statement to acknowledge there is a degree of uncertainty about whether it is *exactly* twenty percent, but this does not undermine the core observation. The problem of induction in this case – how do we travel from information provided by a sample of people to knowledge about a whole population – is circumvented by statistical techniques. I use the word 'circumvented' because the problem of induction, in its formation as a philosophical problem, is not one that can be *solved* as such. In one sense, historical epistemology as a scholarly pursuit is concerned with exploring how different thinkers at different times have coped with this problem. I have provided a statistical example, but the problem of induction is faced by any attempt to generate systematic knowledge from observed particulars, and the problem is by no means always a numerical one. The problem of induction, as we will see shortly, also provokes the creation of abstract objects. It acts as a conceptual touchstone as we wade into the social investment literature, as it is surprisingly revealing of the assumptions at play in building up a body of knowledge. This very simple eye colour example helps to illustrate that sentences like "twenty-five percent of the population of France have blue eyes" are the result of a process of reasoning, and are not just a reflection of 'objective' facts existing 'out there' in the world, independent of human observation.

The potency of this approach is demonstrated in Poovey's text. The vehicle she creates for her argument is 'the modern fact'. She notes her own dissatisfaction with this term:

[141] www.collinsdictionary.com/us/dictionary/english/induction Accessed 26th April 2017.

> 'the' is no doubt too definite for a concept this capacious; 'modern' obviously raises too many assumptions about periodisation; and 'fact' is both too commonplace and too labile to have much meaning for most readers.[142]

Nevertheless 'the modern fact' is the placeholder she chooses for this 'epistemological unit'. Giving it a name is critical in communicating "how deeply embedded it has been in the ways that Westerners have come to know the world."[143] And what is this epistemological unit? Well, it is the 'fact', a piece of information detached from theory; it is 'pretheoretical'. But it is simultaneously pre-theoretical *and* a unit of systematic knowledge. Francis Bacon, seventeenth century philosopher, regularly crops up in her analysis, because it was he who insisted that universals did not "coalesce spontaneously out of the common experience of particulars", as ancient philosophers had had it, but had to be constructed from the "philosopher's patient observation of natural phenomena".[144] Poovey's project is to make explicit the epistemological claims inherent in this philosophical innovation. The separation out of description and interpretation, which was to become a foundational, invisible assumption that Poovey traces through the centuries, carries with it an inherent peculiarity:

> On the one hand, facts seem (and can be interpreted as being) simply the kind of deracinated particulars that Bacon claimed to value; on the other hand, facts seem (and can be said) to exist as identifiable units only when they constitute evidence for some theory – only, that is, when a theoretical reason to notice these particulars and name them as facts.[145]

The modern fact is a particular kind of epistemological unit that is *both* an observed particular *and* evidence of some theory.[146] By pulling to the surface the dual nature of the modern fact, Poovey equips herself to examine a broad literature and to successfully dig into how 'facts' have been used to support different kinds of argument. Abstractions play an important role in her analysis. 'Society' is an abstraction, as is 'the market', or 'human nature'. Poovey's work expands our perspective on how such abstractions have arrived at the centre of certain ways of knowing. "Abstraction has always played a critical role in the systematic knowledge concepts that depend on the modern fact", she writes. "The history of abstraction", moreover, "is inseparable from that philosophical dilemma we call the problem of induction."[147] In terms of our approach, this alerts us to the possible role of abstractions in reasoning about social investment. But there are certain abstractions that have played an active role in structuring disciplinary knowledge. Taking a group of "related philosophical enterprises", all descended from natural philosophy, which include political economy and statistics, she observes that:

> One effect of efforts to generate systematic knowledge was the production of a set of abstractions, which rapidly became the objects of these sciences. These abstractions, which include 'society', 'the market system', (then, 'the economy') and 'poverty', now constitute the characteristic objects of the modern social sciences, including the sciences of wealth and society.[148]

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[142] Mary Poovey, *A History of the Modern Fact: Problems of Knowledge in the Sciences of Wealth and Society* (1998). pxii
[143] Ibid. pxiii
[144] Ibid. p8
[145] Ibid. p9
[146] Ibid. p9
[147] Ibid. p28
[148] Ibid. p15

The kinds of knowledge built with the modern fact tend to create abstractions which then play an active role as a vehicle for the advancement of various kinds of knowledge. These knowledges have become part of the canon from which social investment derives meaning.

The final point is one of the most important. The problem of induction helps us to discern both that the difference between fact and value is a basic component of how we know anything about the world, and that this difference is not something natural or objective, but something *produced* by the forms of reasoning we adopt. Poovey writes:

> That so many of us still imagine observation can be separated from systematic accounts of the world speaks to the success of the long campaign to sever the connection between description and interpretation; that numbers seem to guarantee value-free description speaks to the triumph of some of the accounts of numerical representation I chronicle here.[149]

Poovey's work thus equips us with a way of discerning how 'facts' come to be regarded as 'facts', which makes it easier to see what role these 'facts' are being made to play in any given example of the production of knowledge. To be clear, this is not a process of undermining 'facts' and showing them to be fake. They are still facts, even when we describe the process by which their status as such is created. The point is to draw attention to how facts, once they achieve their status, go unquestioned, which curtails our ability to critically appraise what is possible or not possible.

In this way we return to the relation between knowledge and power. Poovey takes us into the mechanics of how knowledge produced, which helps us to explain how power operates through a programme of government.

CONCLUSION

This chapter has put the first building blocks in place. The description of the two problems and shared solution of social investment provides anchorage for the upcoming exploration of how the logic of social investment plays out. In a space plagued by terminological difficulties and fuzzy boundaries, they provide a clear way of delineating the topic of interest. The description of a problem-solution only gains analytical weight when it is attached to the idea of a programme of government. This entails viewing SI as a loosely coordinated set of practices. These practices are programmatic in nature – they involve gathering information about the status quo, defining strategies, setting targets for action, etc. But this does not imply they work out exactly as planned, or that they need to work out exactly as planned for this mode of analysis to have traction. It is inherent to a programme of government that the actors involved are reasoning through the possibilities open to them, consolidating (their understanding of) the vision with (their understanding of) reality. The point is not how well the programme is realised in practice, or making comparisons between theory and practice, but rather seeing what effects are created by a programme of government working through the reasoning capacities of subjects. It also does not mean that everybody involved in the programme of government thinks about it in the same way. Indeed, actors in the social investment market are by no means in agreement over what the market should look like or how it should work. In due course we will elaborate two contrasting versions found within the programme of government.

[149] Ibid. pxxv

This chapter also explored the connection between programmes of government and the production of knowledge. Poovey's writings on the 'modern fact' intersect well with Foucault's writings on governmentality, and provides us with the analytical tools needed to dig into the forms of knowledge production present in social investment. As we will see, building the market for SI requires producing knowledge about the current state of the market, and its future potential; and it requires knowledge about impact, generated through measurement systems. These forms of knowledge production, and others, are opened up by approaching them with the problem of induction in mind, which allows us to dissect the reasoning being put to work.

Two of the main components of our approach – the concepts of 'programme of government' and 'production of knowledge' – have now been put in place. The next chapter is devoted to exploring the third component, the concept of 'rationality of government' as the broader context in which this programme of government is operating.

CHAPTER 2: INTERESTS AND LIBERAL GOVERNMENTALITY

> Professional investors increasingly want to both "do good" and "do well" with a part of their portfolio.

From the UK Cabinet Office's briefing report
Status of the Social Impact Investing Market: A Primer (2013) p9

> Impact investment … harnesses the forces of entrepreneurship, innovation and capital and the power of markets to do good. One might with justification say that it brings the invisible heart of markets to guide their invisible hand.

Ronald Cohen's foreword to the main report of the Social Impact Investment Taskforce *Impact Investment: The Invisible Heart of Markets* (2014)

Social investment offers a compelling proposition: one can 'do good' – create positive social impact – while 'doing well' – making financial return for one's own private benefit. We have established that this vision of change is made possible through a joint problematisation. The undercapitalisation of the social sector means that SSOs, if they can be given the support they need to meet the demands of investment, could be in a position to both generate solutions to social problems and generate financial return for investors. Simultaneously, innovations in finance mean that the old dichotomy between investment and philanthropy can be transcended, opening up new possibilities and new directions for the market.

This programme of government operates within a broader rationality of government - liberalism. I think there are compelling reasons to view social investment as thoroughly liberal in nature. Interests are the point of connection. By pointing to Smith's invisible hand Cohen draws attention to the role of interests in bringing about the solutions promised by social investment. The invisible hand, after all, is a metaphor for the unintrusive coordination of interests by the market, in contrast to the heavy-handed and clumsy intervention by the state. Interests can easily be seen in the workings of the vision for social investment. The idea of 'doing good and doing well' suggests self-interested profitmaking can be combined with socially positive activity. The idea of the invisible heart as "guide" to the invisible hand suggests that social investment enables a similarly light touch approach that nevertheless achieves results unreachable by the state.

Smith's invisible hand also features in Foucault's analysis of liberal governmentality. In fact, liberalism for Foucault is fundamentally about governing with respect to interests. This chapter is devoted to an account of Foucault's writing on governmentality, dovetailing his analysis with aspects of Poovey's writing on how certain forms of knowledge production produce disinterested knowledge.

Interest has meant different things at different points in history. Hirschman warns that the term has been stretched and adapted to such an extent that "'pursuing one's interests' can cover – to the point of tautology – all of human action".[150] Interests featured on the terrain of government long before Adam Smith, acting as a conceptual touchstone in theorising about human nature, and the best way to ensure an ordered society. The idea that "interest-motivated social behaviour was the best guarantee of a stable and harmonious social order"[151] enjoys a long pedigree.

Foucault associates the emergence of liberalism with the emergence of a kind of subject who is defined in terms of his interests. He searches for the beginnings of the concept of *homo oeconomicus*, economic man, who he calls the 'subject of interest':

> What English empiricism introduces … doubtless for the first time in Western philosophy, is a subject who is not so much defined by his freedom, or by the opposition of soul and body, … but who appears in the form of a subject of individual choices[152]

Why is this moment in eighteenth century philosophy so important? Because it changes the terrain of government. Everything changes if the mass of people to be governed cease to be understood in religious or moral terms, and start to be understood as a collection of individuals, each pursuing their own interests, and each *defined* in terms of this aspect of their behaviour. I do not mean to suggest a story of sudden change, of two distinct epochs, one ending and the next beginning in neat succession. My point, summarising Foucault, is that the emergence of the subject of interest – by which I mean the spread of the view that individuals' behaviour can be understood in terms of the pursuit of their own, peculiar interests – has long-reaching implications for the question of government, of how to govern, because it engendered the liberal rationality of government. This claim needs some unpacking.

Rose, Barry and Osborne introduce Foucault's version of liberalism as follows:

> It is clear that Foucault means something rather different by liberalism than do political philosophers. He does not speak of a liberal 'period', nor is he concerned principally with writing the history of the philosophical ideas of liberty or of rights. From Foucault's perspective, liberalism is more like an *ethos* of government. Liberalism is understood not so much as a substantive doctrine or practice of government in itself, but as a restless and dissatisfied ethos of recurrent critique of State reason and politics.[153]

This passage is helpful in introducing the distinctiveness of Foucault's take on liberalism. The other fundamental point about liberal governmentality is that it "is a reason that functions in terms of interest".[154] Interest forms an anchor point for this "recurrent critique of state reason and politics". Where interest was once attached to the state, and political thought was oriented to maximising the interest of the state and therefore the people it governed, the liberal form of governmental reason is attuned to the multiple, diverse interests of the individuals that make up the population to be governed. If effective government is to be attuned to the interests of individuals, then it may be the

[150] Albert O. Hirschman, *The Essential Hirschman* (2013). p196
[151] Ibid. p208
[152] Foucault (2008). p271
[153] Andrew Barry, Nikolas Rose and Thomas Osborne, *Foucault and Political Reason: Liberalism, Neo-Liberalism, and Rationalities of Government* (1996). p8
[154] Foucault (2008). p44

case that the best option is to limit government, to allow individuals space to pursue their own interests. In this sense, liberalism starts with the assumption that government is not always necessary, and questions the need for government at every opportunity. The need for government is tested in relation to the interests of those governed. To the extent that liberalism is tethered to and defined by its recognition of the subject of interest, liberalism is a *constant and ongoing critique of the need for government*.

The critique of the need for government recognises that the political sovereign cannot possibly claim sufficiently detailed knowledge of the interests of individuals. Foucault states, paraphrasing Smith:

> since the economic mechanism involves each pursuing his own interest, then each must be left alone to do so. Political power is not to interfere with this dynamic naturally inscribed in the heart of man. The government is thus prohibited from obstructing individual interests.[155]

Foucault places the subject of interest in contrast to another type of subject, the 'subject of right', or the political subject. We can use this device to highlight the significance of the emergence of the subject of interest. Foucault argues that these two figures represent two incommensurable forms of subjectivity. They behave differently, they reason and are motivated differently, and they are governed differently. This is not to imply that the population can be divided into two groups, where some people are subjects of interest and others are subjects of right. The division is in the forms of governmental practice and the model these practices use of the subjects at whom they are directed.

This difference manifests itself in the subject's relation to political authority. The subject of right is the bearer of rights in virtue of her humanity. She then agrees to cede some of these rights in the form of some kind of social contract. The subject of interest, in contrast is "never called upon to relinquish his interest."[156] The system of the market relies on each individual pursuing his own interest. In this sense:

> with the subject of interest, as the economists make him function, there is a mechanism which is completely different from the dialectic of the subject of right, since it is an egoistic mechanism … in which the will of each harmonizes spontaneously and as it were involuntarily with the will and interest of others. … The market and the contract function in exactly opposite ways and we have in fact two heterogeneous structures.[157]

The implication, in marking out this basic division, is that two forms of power are needed to govern these two kinds of subject: "the economic subject and the subject of right have an essentially different relationship with political power."[158]

The purpose of making this comparison is to illustrate the different models of government that are at play within liberalism. Ashenden's article on this section of *The Birth of Biopolitics* alerts us to the fact that Foucault, in posing these two forms of subjectivity as antonyms, potentially obscures further forms of subjectivity present in eighteenth century debate, namely a "subject of civic virtue."[159] For our purposes, this analysis warns against treating this duality as a comprehensive account of available forms of subjectivity. But it is still a useful device for bringing to the surface the peculiarities of the forms of

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[155] Ibid. p280
[156] Ibid. p275
[157] Ibid. p275-6
[158] Ibid. p276
[159] Samantha Ashenden, 'Foucault, Ferguson, and Civil Society', *Foucault Studies*, 20/December (2015). p37-8

governmental power suitable for governing *homo oeconomicus*. It also speaks to the distinctiveness of liberalism. In Foucault's opinion:

> Liberalism acquired its modern shape precisely with the formulation of this essential incompatibility between the non-totalizable multiplicity of economic subjects of interest and the totalizing unity of the juridical sovereign.[160]

In other words, liberalism is characterised by the attempt to develop and bring together the forms of power needed to govern man as political subject *and* as economic subject. 'Totalisability' is a matter of *knowledge*, of what it is possible to know. We have already pointed out the impossibility of the sovereign's knowledge of individual interests. This impossibility also applies at the collective level. Economic processes are the result of the interaction of individual interests. "It is impossible," Foucault says, "for the sovereign to have a point of view on the economic mechanism which totalizes every element and enables them to be combined artificially or voluntarily."[161] Why is this? Because the sovereign *cannot* have sufficient knowledge of the intricate complexities at play. Eighteenth century political economy rejects the idea that the political sovereign could ever have sufficiently detailed knowledge of economic matters to be able to effectively encourage them in one direction or another. This claim is in fact contained in the notion of the invisible hand. "What is usually stressed", Foucault says, "in Smith's famous theory of the invisible hand is, if you like, the 'hand,' that is to say, the existence of something like providence which would tie together all the dispersed threads. But I think the other element, invisibility, is at least as important."[162] Invisibility inheres in the unknowability of individuals' interests, and the unknowability of the economic process of which they are the component parts.

Liberalism, then, is a governmental rationality that respects this invisibility. But liberalism and economics are not interchangeable, and nor are they oriented to the same ends. The 'problematic of economic interest', as Foucault calls it, is not one oriented to the government of population. "Economic science never claimed that it had to be the line of conduct, the complete programming of what could be called governmental rationality."[163] Rather, if we return to our point of departure, it is a *challenge* to the need for governmental power. It is a presence that must be acknowledged, and it is a principle for the *limitation* of government. The market, as an essential component of economic thought, is a mechanism that produces results that can be used as a point of comparison with the results achieved by governmental activity. In Foucault's words, "the market's role in the liberal critique has been that of a 'test', of a privileged site of experiment in which one can pinpoint the effects of excessive governmentality and take their measure."[164] The market informs this dynamic of self-limitation.

SOCIETY AND SOCIAL ORDER

In completing this brief account of liberalism, we must acknowledge one more edifice on the political terrain: *society*, and what we might call 'the social'. This same period, that saw the establishment of political economy and liberal political thought, saw the emergence of the notion of 'society'. At this

[160] Foucault (2008). p282
[161] Ibid. p280
[162] Ibid. p279
[163] Ibid. p286
[164] Ibid. p320

stage it seems almost counterintuitive to suggest that 'society' is a *concept*. It has an innocuous, self-evident character. One of the most effective ways to denaturalise a concept like this is to identify its emergence in history. Poovey aids us; she writes about a transition that occurred during the 18th and 19th centuries by which "'society' came to be understood not from a particular participant's point of view, but as an objective order with its own regulated dynamics."[165] Without downplaying the enormous complexity of the broader trajectory of 'society' and 'the social', this is an element that we can isolate, because it chimes in with Foucault's analysis. That is, Poovey recognises a shift whereby society comes to be recognised as an abstraction in its own right, a domain of interaction among individuals, with its own dynamics and characteristics. To the mind of today's politician or social scientist, this is an epistemological leap that raises no eyebrows. But in fact the notion of society carries with it all kinds of assumptions. It plays a function, or even multiple functions, and does so without the need to make them explicit. We will come onto this, but first we will draw the connection between Poovey and Foucault. I would suggest that the kind of 'society' that Poovey points out is the kind of society Foucault is talking about when he says:

> Liberal thought does not start from the existence of the state, finding in government the means for achieving that end that the state would be for itself; it starts instead from society, which exists in a complex relation of exteriority and interiority vis-à-vis the state. It is society—as both condition and final end—that makes it possible to no longer ask: How can one govern as much as possible at the least possible cost? Instead, the question becomes: Why must one govern? That is to say: What makes government necessary, and what ends must it pursue with regard to society in order to justify its own existence?[166]

Once more we encounter the principle of self-limitation. Liberalism limits itself not (just) in relation to a mass of self-interested individuals, but to individuals *in society*. Society, in this new manifestation, becomes (and remains) a domain worthy of detailed and prolonged examination and investigation.

With the emergence of 'society' as an abstract noun attributable its own "regulated dynamics", as Poovey puts it, there also emerges what we might call 'the social'. Put somewhat simplistically, 'the social' is simply a label that scholars use to refer to matters associated with the emergence of society in its new generalised form. In fact, I think that it is misleading to talk about 'the social' as if it is a concept with its own life and meaning. 'The social' does not come down to ground; it is a label that makes life easier for scholars attempting to make into an object of study what is characteristically imbued with unspoken assumptions. 'The social' is used as a noun in its own right *only* by those who are trying to say something meaningful about 'society' *qua* abstract noun with its own regulated dynamics, or about noun compounds that include 'social'.

That said, I include myself among those scholars who are engaged in such pursuits, and so I will conform to the literature on 'the social' by continuing to use the term, since there is no obvious alternative. Poovey informs us that it was in the 1840s that 'social' began to appear as the first part of noun compounds such as 'social reform', and 'social economy'.[167] She perceives a series of basic assumptions embedded in the use of 'social':

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[165] Mary Poovey, 'The Liberal Civil Subject and the Social in Eighteenth-Century British Moral Philosophy', *Public Culture*, 14/1 (2002). p129
[166] Foucault (2008). p319
[167] Poovey (2002). p128

> When modern theorists use *social* as a noun, they draw upon … theoretical assumptions [including]: (1) that a relatively autonomous and objectified society exists; (2) that the dynamics of this objectified set of practices or structures are lawful and, when manifested in institutions and practices, amenable to systematic analysis; (3) that this domain of sociality both informs the institutions that its dynamics help explain and, in turn, refers to some invisible but law-abiding system; and (4) that aggregates, which are also abstractions (the public, labor), constitute the agents of more foundational abstractions like the social. [168]

Immediately striking about this passage is the *breadth* of the claims Poovey makes on behalf of the social. It is also striking that although she is referring to modern thinkers in the late 19th and 20th centuries, these assumptions resonate with the attitudes and positions found in the social investment literature. Social investment certainly assumes an autonomous domain known as 'society'; it assumes lawfulness (as how else would it be possible to justify programmatic responses to social problems, responses that are in theory replicable?); and it certainly encourages the creation and use of aggregates (viz: outcomes) that bear an assumed relationship to a broader pursuit of the social. This is a somewhat superficial analysis, intended only to lay the groundwork for more detailed discussion over the next few chapters, but it suggests that there are fruitful parallels to be drawn.

It is worth spending a bit more time with Poovey's analysis, and the matter of providentialism. The period we have been referring to repeatedly is one in which philosophers of government, economy and society gradually removed the hand of God from their reasoning. Modernity rejects the mystery and unknowability of God's work, and seeks secular, scientific explanations for that which is observed. The social is intimately bound up in this process. "The concept of the social" she writes, "… ultimately functions to legitimate social arrangements that are no longer seen as resting on providential ground."[169] It is here that we arrive at the notion of *order* – social order – and rejoin our earlier discussion of the doctrine of self interest. Poovey elaborates:

> (Western) modernity is characterized by an "ideal of order as mutual benefit." As part of this ideal of order as mutual benefit, second-order analytic categories like the social have been generated to explain how the more foundational abstractions—such as order and human nature—"naturally" produce the precise relationship (of mutual benefit, ideally) that characterizes society. In so doing, the social plays the role for the modern theorist that Providence did for philosophers of an earlier age: it explains why this relationship is necessary or natural, not arbitrary or simply a projection of wishful thinking.[170]

These observations pull to the surface some of our most unarticulated and invisible assumptions that have to be in place for us to be able to explore the social world, confident in our rejection of anything as 'unscientific' as God's will. Instead we have a kind of faith in society, that some kind of social order is in place. This is not a claim that refers to precisely what this order looks like or entails – "The idea that the orderly dynamics of philosophical abstractions refer to existing principles of order has proved more resilient than any particular account of that order."[171] But the presence of order is essential to the scientific approach to explaining social affairs:

> If we did not collectively assume that such order exists—no matter what we call it—no systematic organization of knowledge (i.e., no science) would be credible, no observations

[168] Ibid. p129
[169] Ibid. p135
[170] Ibid. p134
[171] Ibid. p141

> about the past could purport to predict the future, and our ability to create and differentiate abstractions would have no explanatory power.[172]

Here Poovey takes us beyond the borders of liberalism to a more general observation about Western attempts to generate systematic knowledge. It is helpful to have such a depth of analysis because it allows us to find the common thread to what is otherwise a disparate set of comments and analyses that talk in terms of the social. But we will keep our focus more narrowly on liberalism, and on elaborating the claim that liberalism is a governmental rationality that is developed *in relation to* society.

ITERATIONS OF THE SOCIAL

We have offered a general account of the social by connecting it up with Poovey's observations about social order. We will now turn to a number of examples of how the social has been configured in response to historically specific problems of government.

We start with (Foucault's analysis of) the 'ordoliberalism' of mid-twentieth century Germany. The ordoliberals turned to competition as the principle of organisation for society. They were not the first thinkers to argue that competition was critical to economic freedom, but they were unusual among their contemporaries for arguing against laissez-faire, asserting that such models fall foul of a kind of "naïve naturalism" that assumes competition is a given of nature. "The beneficial effects of competition are not due to a pre-existing nature, to a natural given that it brings with it. They are due to a formal privilege."[173] The effects of competition can only be brought about through careful construction of the appropriate conditions. The ordoliberals therefore advocated a social policy that acted on society, in order to reduce the chances that social factors would inhibit competition. Foucault calls this an 'inversion' of the relationship between the social and the economic. In what sense is it an inversion? Contrast this social policy with the rationale underpinning a welfare economy. Welfare states seek to counteract the negative effects of the free operation of markets. They seek to reduce inequality, and to socialise elements of consumption (for example through collective provision of healthcare). So while welfare policy seeks to counteract the negative effects of the market on the social body, the neoliberal social policy seeks to reduce the negative effects of society on the proper functioning of the market:

> The *Gesellschaftspolitik [social policy]* must not nullify the anti-social effects of competition; it must nullify the possible anti-competitive mechanisms of society, or at any rate anti-competitive mechanisms that could arise within society.[174]

This is the first example of an interation of the social, the ordoliberals' vision of a society built on competition, an economic model for society, that sits in contrast to a welfarist model that softens the effects of economic logic on the social body.

The second context in which we find a configuration of the social on the terrain of government is Chicago School neoliberalism, again studied by Foucault. He finds in the American neoliberals an attempt to use the "economic grid" to analyse all areas of life:

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[172] Ibid. p141
[173] Foucault (2008). p120
[174] Ibid. p160

> American neo-liberalism … involves generalising it [the economic form of the market] throughout the social body and including the whole of the social system not usually conducted through or sanctioned by monetary exchanges.[175]

What does the "generalisation of the economic form of the market" look like? Foucault is referring to a series of studies by Chicago school economists using an economic frame to understand 'social' matters. These economists published work examining the mother-child relationship, criminality, and marriage, examining these non-economic relations and behaviours in economic terms. Marriage, for example, is treated by one neoliberal theorist as essentially a contract between two people that is justified economically because it "enables them to avoid constantly renegotiating at every moment the innumerable contracts which would have to be made in order for domestic life to function" – the transaction costs of which would be otherwise prohibitive.[176] Another prime example, not picked up by Foucault, is Landes and Posner's article 'The Economics of the Baby Shortage'.[177] The authors open the study by observing "With the rapid development of the economic analysis of nonmarket behavior, the conceptual tools necessary for the economic study of social (as distinct from narrowly economic) regulation are now at hand." They go on to develop a model for the supply and demand of babies, which demonstrates that regulation has created a 'baby shortage' that could be avoided through the operation of a free market.[178] The American neoliberals thus formulate a version of the social that is amenable to analysis in economic terms. In both of these examples it can be seen that the social element is understood as a domain outside of and in opposition to the economic domain, a boundary that is then transgressed within neoliberal thought – a transgression identified in the term 'inversion'.

We also find an analysis of the social in relation to the neoliberalism of Margaret Thatcher and Ronald Reagan, in the work of Foucaultian scholars Nikolas Rose, Peter Miller and Mitchell Dean. Dean perceives neoliberalism as a rationality of government that "bypasses society". He considers Thatcher's infamous comment "there is no such thing as society" to illuminate a conception of the social body in which the state no longer takes the responsibility it assumed in welfarism. There are just individuals, responsible for themselves. This means that the liberal problematic is reformulated such that 'society' as a principle and outside of government is displaced by "the self-determining or free subject."[179] Miller and Rose, similarly, argue that neoliberalism recodes the place of the state, meaning that "the analytical language structured by the philosophical opposition of state and civil society is unable to comprehend contemporary transformations in modes of exercise of political power."[180] In this reordering, the role of the state is to provide a legal framework for social and economic life. Within this framework, political subjects are autonomous agents who exercise their freedom within this space, rather than members of a collective. There is a shift from solidarity to security, and the suggestion that individuals insure themselves against risk rather than relying on the state to do so.

The work of Miller and Rose helps to flesh out what they call 'social government', that is, welfarist modes of government. The introduction to their book, which collects together their work on the topic from the previous two decades, states:

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[175] Ibid. p243
[176] Ibid. p245
[177] Elisabeth M Landes and Richard A Posner, 'The Economics of the Baby Shortage', *The Journal of Legal Studies*, 7/2 (1978).
[178] Ibid. p324
[179] Mitchell Dean, *Governmentality: Power and Rule in Modern Society* (2010). p192
[180] Miller and Rose (2008). p22

> Governing 'from the social point of view', as we termed it, was grounded in the argument that began to take shape at the turn of the nineteenth and twentieth centuries that 'government would have to be social or it would cease to exist', that a kind of social government was necessary if one was to be able to combat the twin threats of unbridled market individualism and communist revolution.[181]

Welfarism embodies "a particular conception of the relation between the citizen and public powers," a relation mediated through techniques of insurance, which they argue "fundamentally transforms the mechanisms that bind the citizen into the social order." The distinctiveness of welfarist approaches was to use insurance to generate a sense of *collective* responsibility.[182] For Rose, the emergence of questions of government framed in terms of a national economy "was a key condition for the delineation of a social territory," as he locates the importance of 'society' in its connection with national identity. Governmental practice was concerned with the social coherence of a national population.[183] Dean suggests a slightly different account of the social, less closely associated with welfarism: "the social is not first or necessarily tied to a centralized bureaucratic apparatus such as that embodied in the ideal of a 'welfare state'"[184]. In the period of social government he sees the formation of a common vocabulary that sought a "general codification" of social problems "as issues entailing the whole of society."[185]

Miller, Rose and Dean all agree that we have seen the end of the 'era of social government', and a transition into what they call 'advanced liberalism', a shift that is broader than, and contains, the development of neoliberal politics. There is some disagreement over how to characterise this shift. Rose argues for 'The Death of the Social', located in a variety of shifts that displace this notion of a national society in the political imaginary. Rose explains these changes in terms of a new emphasis on sub-national features of civic and economic life, arguing that "government of the social in the name of the national economy" transitions into government of "zones", such as "regions, sectors or communities".[186] In the context of our discussion of the social, it is important to note that Rose is not arguing for the death of 'the social' as such, but for the death of the version of the social that he has specified in his account of social government.

Dean disagrees with Rose's assessment – "we should remain circumspect about posing the question of the 'death of the social' to transformations in contemporary government"[187] – because he supports a broader notion of the social. He argues that 'the social' should be discussed not in terms of its death but its "metamorphoses". Welfarism may be over, but the social:

> will be reconfigured as a set of constructed markets in service provision and expertise, made operable through heterogeneous technologies of agency, and rendered calculable by technologies of performance that will govern at a distance.[188]

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[181] Ibid. p17
[182] Ibid. p77
[183] Ibid. p87
[184] Dean (2010). p151
[185] Ibid. p153
[186] Miller and Rose (2008). p96
[187] Dean (2010). p222
[188] Ibid. p222

This is what Dean calls the 'post-welfarist regime of the social', in which the "older divisions" between state and society or public sector and private sector are bridged, "so that the structures and values of the market are folded back onto what were formerly areas of public provision", and the latter reconfigured "as a series of quasi-markets in services and expertise".[189]

I make reference to these analyses because they are some of the most prominent and substantial works on governmentality besides Foucault's own. But I think these texts are methodologically problematic. My concern is that these authors stray some distance from what I consider to be central features of Foucault's method. Foucault's approach is to use source material that is grappling with some kind of problem of government. He investigates how people – like the Chicago school economists, or Adam Smith, or staff at the American Enterprise Institute – employ reasoning that formulates a problem of government, and a solution, in a particular way. The intention is always to remain grounded in practices and to see what they reveal about governmental rationality. The opposite of this would be to start with abstractions and to see what history tells us about their development. Foucault states at the start of *The Birth of Biopolitics*:

> instead of deducing concrete phenomena from universals, or instead of starting with universals as an obligatory grid of intelligibility for certain concrete practices, I would like to start with these concrete practices and, as it were, pass these universals through the grid of these practices.[190]

The broader interest of these quite specific studies lies in the connections that can be drawn between the way problems of government were thought *then* and the way they are thought *now.* But it is not a valid or helpful approach to make these connections and from them deduce some kind of arc, narrative or progression through history.

There are certain elements of Dean and Miller and Rose's theorising where the anchorage in historically situated problematisations is obscured, if it is in fact present. We might compare Miller and Rose's discussion of neoliberalism with Foucault's. Focuault's comments are grounded in detailed exposition of specific texts, by neoliberal thinkers. He is certainly open to accusations of getting the details wrong, of extrapolating too far or being imprecise in his summaries, but his claims are about what these thinkers are saying. He effectively discusses several different neoliberalisms, connecting them with real world institutions that operate on the logic he identifies, but without ever extending his claim to politics in general. Miller and Rose, in contrast, appear to *start* with the phenomenon of neoliberalism and ask whether a rationality of government can be found therein:

> It would be misleading to suggest that the neo-conservative political regimes that were elected in Britain and the United States from the late 1970s through the 1980s were underpinned by a coherent and elaborated political rationality that they then sought to implement, still less one that identified bureaucratic and professional power as a key problem. Initially, no doubt, these regimes merely sought to engage with a multitude of different problems… But gradually, these diverse skirmishes were rationalized within a relatively coherent mentality of government that came to be termed neo-liberalism.[191]

[189] Ibid. p200
[190] Foucault (2008). p3
[191] Miller and Rose (2008). p211

The problem is not that this is an unconvincing account of reality, or that it is entirely inaccurate, but that it appears to take a Foucaultian approach while also transgressing one of Foucault's basic epistemological guidelines. Who did the rationalising that Miller and Rose identify here? Are they suggesting the existence of a unified concept of neoliberalism? The same issues occur with Miller and Rose's account of what they call 'advanced liberalism'. The following passage helps to illustrate this point further. In advanced liberalism:

> One finds the emergence of a new way of conceptualising and acting upon the relations between the government of economic life and the self-government of the individual …the economy is no longer to be governed in the name of the social, nor is the economy to be the justification for the government of a whole range of other sectors in a social form. The social and the economic are now seen as antagonistic.[192]

These statements lack any anchorage in practice. This general statement from Miller and Rose locates antagonism between the social and the economic without saying who perceives this antagonism and in response to what. They do of course provide examples of what they mean by stating that "the social and the economic are now seen as antagonistic", but these are examples that *illustrate* their point, which is general in nature. Advanced liberalism, we are told, can be seen across three characteristic shifts: "a new relation between expertise and politics", "a new pluralisation of 'social' technologies", and "a new specification of the subject of government".[193] These observations are undoubtedly insightful. But on what grounds do Miller and Rose collect them together and give them a label? My point is not that Miller and Rose are wrong in identifying a shift – I am not in a position to judge whether such a shift has taken place or not. My point is that they make their argument in a manner that is too detached from specific, local problematisations – too detached from *practice* – and as a result risk a kind of self-referential theorising whose results are already contained in the way the study is set up. This is a very present risk when concepts as malleable as 'the social' are given an active role. In short, if Miller and Rose are committed to the 'end' of 'social government', and if 'social government' characterised an epoch of rule, then they are bound in advance to identify a new epoch of government and for it to be characterised by all that logically follows from the end of the social.

Dean is vulnerable to a similar line of criticism. Pages 188-191 of *Governmentality* contain a discussion of neoconservatism and neoliberalism in which the generalisations about these two forms of political rationality take precedence over the concrete realities they are supposed to explain. Dean's motivation appears to be to provide an explanation of how the nature of governmental practice has changed, rather than understanding the intricacies of specific articulations of problems and solutions to government. It is possible that this sense of abstraction results from the attempt to assimilate multiple governmentality studies, rather than using these studies to inform a close consideration of the rationalisation of particular practices of government. But Dean's text lacks the sense, so present in *The Birth of Biopolitics*, that the author has set out to explore what current governmental practice is taking place and how we might understand it. Instead, we are given the impression that Dean is constructing a narrative, identifying a series of stages of history that serve to elucidate the current epoch of advanced liberalism and the post-welfarist regime of the social.[194]

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[192] Ibid. p97

[193] Ibid. p213

[194] I have singled out Miller, Rose and Dean, but they are by no means the only scholars to interpret Foucault as describing successive forms of liberalism. Miller's article with Mennicken talks in general terms of "neoliberal

Despite these objections, these texts are helpful. Dean in particular observes aspects of contemporary governance that gesture towards social investment. We can begin to see that social investment, in partnership with the social enterprise movement, is perhaps a fresh iteration of the social. These movements help to reinforce Dean's objection to the 'death of the social'. Miller and Rose diminish the power of their insight by tying their version of the social so closely to welfarism and solidarity politics. Iterations of the social continue to be an aspect of liberal rationalities of government.

RETURNING TO THE SUBJECT

I would like to bring this discussion to its central and most important point. We started with the subject of interest and her emergence onto the political landscape. We have seen that liberalism accommodates the subject of interest, at the individual and collective level, and within society. But we so far have only a very superficial account of what this subject looks like and how she behaves. Successive iterations of liberalism each have their own version of the subject, their own model of human behaviour on which they base their assumptions and predictions. Self-interest may be a feature common to these accounts, but precisely what that looks like can be taken in multiple directions.

There is interplay between the version of the individual being put into play and the version of society being envisaged. While classical liberalism emphasises exchange as the fundamental economic mechanism, neoliberalism distinguishes itself by shifting focus to competition. "The society regulated by reference to the market that the neo-liberals are thinking about", Foucault observes, "is a society in which the regulatory principle should not be so much the exchange of commodities as the mechanisms of competition."[195] As we have already established, within ordoliberalism a social policy was propounded that would seek to ensure society was arranged in such a way that it would encourage competition to work as effectively as possible. The counterpart to the central role assigned to competition is the *enterprise*.

Foucault perceives strong links between German ordoliberalism and American neoliberalism, allowing himself to shuttle backwards and forwards between them, so we will do the same. It is within ordoliberal elaboration of *Vitalpolitik* (policy of life) and *Gesellschaftpolitik* (policy of society) that Foucault finds great importance placed on the enterprise form. These writers have in mind the construction of a "social fabric" in which the starting point is not individuals in nature but "basic units" in "the form of the enterprise."[196] We must interpret Foucault's use of the term 'enterprise' sufficiently broadly – he means not just a small business venture but also the various other endeavours that individuals take on, such as owning private property, or running a household. On this view, the intention is "the generalization of forms of 'enterprise' by diffusing and multiplying them as much as possible".[197] Though it is not made explicit in Foucault's discussion, it seems logical to assume that the centrality of the enterprise form would entail a figure of economic man who is correspondingly entrepreneurial in character.

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subjectivities" or "modalities of governing" (Andrea Mennicken and Peter Miller, 'Accounting , Territorialization and Power', *Foucault Studies*, 13 (2012). p7). Vogelmann, in turn, offers a "diagnosis of the present, which reveals that today's dominant governmentality is no longer neo-liberalism but a new liberal rationality: neosocial market economy." Frieder Vogelmann, 'Neosocial Market Economy', *Foucault Studies*, 14 (2012). p115

[195] Foucault (2008). p147

[196] Ibid. p148

[197] Ibid. p148

Where the Ordoliberals concern themselves with social policy, the American neoliberals develop a theory of 'human capital'. With this research agenda the science of economics embarks in a new direction. "For the first time", Foucault points out, "…the worker is not present in the economic analysis as an object—the object of supply and demand in the form of labor power—but as an active economic subject."[198] The model of the enterprise is picked up and extended; the individual, or at least the worker, is a kind of "enterprise for himself."[199] Like with the ordoliberals, the basic units making up society are *enterprise-units*. Here we encounter a more explicit exploration of the subject: the individual is a kind of enterprise, "being for himself his own capital, being for himself his own producer, being for himself the source of [his] earnings."[200] The shift from a (classical liberal) governmental rationality oriented to economic exchange to a social policy grounded on competition is therefore reflected in a shift in the nature of economic man:

> The characteristic feature of the classical conception of homo œconomicus is the partner of exchange and the theory of utility based on a problematic of needs. In neo-liberalism—and it does not hide this; it proclaims it—there is also a theory of homo œconomicus, but he is not at all a partner of exchange. Homo œconomicus is an entrepreneur, an entrepreneur of himself.[201]

Homo oeconomicus still pursues his own interests, but he has been embellished with entrepreneurial features. Through American neoliberal thought we are presented with a figure who competes with his fellow entrepreneurs-for-themselves, doing what he can to develop his own 'human capital'. And because almost all areas of human life can be construed as relevant to the development of one's own human capital, so almost all areas of human life become subject to economic analysis. This is one of the mechanisms by which economic thought has come to apply itself to so many areas of life.

In a brief aside we could ask: what happens to the market in this shift from exchange to competition? The manner in which Foucault uses the terms 'economic' and 'market' suggests a certain level of interchangeability. In one passage, for example, he argues that a further aspect of neoliberal thought is what he calls a "market criticism opposed to the action of public authorities", something he elaborates by claiming that the "economic grid" is used in "anchoring and justifying a permanent political criticism of political and governmental action", and that "every action of the public authorities" is scrutinised "in terms of the game of supply and demand."[202] The "economic grid", the "market criticism" and "the game of supply and demand" all seem to play a similar, if not interchangeable, role within his analysis. It seems that in suggesting the shift from exchange to competition in liberal thought, Foucault is not suggesting any change in the role of the market, because the market continues to be a privileged site within economic thought.

In discussing this shift from classical liberalism to neoliberalism, I do not want to diagnose the political climate of the present, but rather to point to aspects of liberalism that will help us to understand social investment. I included this element of Foucault's analysis because it fleshes out the issue of the subject as she is conceived within liberal thought, and the different versions that might be at play. More specifically, I want to return to a matter that was set out above: the incommensurability

[198] Ibid. p223
[199] Ibid. p225
[200] Ibid. p226
[201] Ibid. p225
[202] Ibid. p246

of the subject of interest and the subject of right. We introduced the subject of right to emphasise the novelty of the subject of interest: she provides the grounds on which to *question* the need for government, on the basis of the unknowability of her interests – and of the economic processes that represent the complex interaction of multiple interests – from the perspective of the political sovereign.

The incommensurability that Foucault identifies does not rest on the governability of the subject of right versus the ungovernability of the subject of interest. On the contrary, the shift of *homo oeconomicus* from man of exchange to man of competition has served to demonstrate that the subject of interest is perfectly susceptible to the application of governmental power. In fact, he is "eminently governable". How is this so? Because the neoliberal line of reasoning figures economic man as somebody who acts *rationally*. In the most radical forms of this reasoning – Foucault uses the work of Becker to illustrate his point – the forms of behaviour considered amenable to economic analysis extend beyond rational conduct to any conduct that "reacts to reality in a non-random way."[203] Even if this is further than most economists would go, it is this kind of reasoning that supports the development of "behavioural techniques" by which "a given play of stimuli [are seen to] entail responses whose systematic nature can be observed."[204] Almost forty years later, we observe that the field of behavioural economics is alive and well, not least in the form of the 'Nudge Unit', also known as the UK's Behavioural Insights Team. Though *homo oeconomicus* emerged in the eighteenth century as what Foucault calls an "intangible element with regard to the exercise of power", in fact this figure turns out to be "a certain type of subject who precisely enabled an art of government to be determined according to the principle of economy."[205] It is easy to find other examples of the attempt to govern populations by treating them as economic actors. *Creating Citizen Consumers*, for example, is a book that examines a cornerstone of Third Way policy: the "strange figure" of the "demanding and sceptical citizen-consumer".[206] Citizens, accessing logics and behaviours associated with consumer (that is, economic) behaviour, would drive the quality of public services by exercising their right to choose. Third Way politics relies on the governed to behave as *rational* economic actors, who gather relevant information in order to make the choice that best furthers their own interests.

The problem, then, is not that economic man is not governable. The problem lies in the incompatibility of the *forms of power* needed to govern economic man in comparison to the forms of power needed to govern other (political) forms of subjectivity. We can identify two aspects to this problem. The first aspect is the *insufficiency* of economics as a governmental rationality. Foucault states with confidence:

> Economics is a science lateral to the art of governing. One must govern with economics, one must govern alongside economists, one must govern by listening to the economists, but economics must not be and there is no question that it can be the governmental rationality itself.[207]

I understand these comments in terms of the straight jacket economics operates within regarding the world view it makes possible. It is grounded in basic assumptions about human nature that have

[203] Ibid. p269
[204] Ibid. p270
[205] Ibid. p271
[206] John Clarke et al., *Creating Citizen Consumers: Changing Publics and Changing Public Services* (2007).
[207] Foucault (2008). p286

enabled extraordinary progress, but nevertheless are blind to behaviours not easily represented within its peculiar brand of systematisation. This insufficiency is acknowledged by economists. The ordoliberals hoped that the generalisation of the enterprise form might compensate for, in Foucault's words, "what is cold, impassive, calculating, rational and mechanical in the strictly economic game of competition." But they acknowledged:

> Competition is a principle of order in the domain of the market economy, but it is not a principle on which it would be possible to erect the whole of society. Morally and sociologically, competition is a principle that dissolves more than it unifies. [208]

Dean reminds us that this is an enduring problem of sociology. Putting it in Durkheimian terms, "the problem of organic solidarity" (that is, the "existence of inequality and poverty in a society of equals"), "cannot be simply wished away by those who would retract the welfare state, individualize responsibility for the ills of the social system, and disperse risks onto the multiple communities and bodies which are to be made to bear them."[209]

I think that the book *Why Nudge? The Politics of Libertarian Paternalism*[210] can be seen as another acknowledgement of the limits of economic as a rationality of government. Libertarianism is a test ground for the idea that society can function with barely any space for government at all. Written by an American legal scholar who played a central role in the development of 'nudge theory', it argues that "in certain contexts, people are prone to error, and paternalistic interventions would make their lives go better." Sunstein's point is not just that people are not always the best judge of their own interests, but that people's decisions are *unavoidably* influenced by the choice architecture they encounter from day to day, and so whoever designs that architecture – the way items are laid out in a cafeteria, for example – is unavoidably implicated in influencing the choices being made. Sunstein's argument is one articulation of the shortcomings of a politics that tries to make economics into a rationality of government in its own right.

So one aspect of the problem at hand is the insufficiency of economics as a governmental rationality. The other aspect is the problem of accommodating both kinds of subject within a single rationality of government. Foucault describes it as "the problem of the specificity of *homo oeconomicus* and his irreducibility to the sphere of right".[211] He elaborates:

> the art of government must be exercised in a space of sovereignty—and it is the law of the state which says this—but the trouble, misfortune, or problem is that this space turns out to be inhabited by economic subjects.[212]

For the sake of brevity I have not gone into the "space of sovereignty" or Foucault's discussions of the change in the juridical structures that have accompanied the development of the liberal rationality of government. For our purposes, this aspect of the problem can be somewhat superficially represented in terms of interest. That is, this problem of incommensurability manifests itself in the conundrum: how is it possible to govern subjects whose are *both* expected to pursue their interests unhindered *and* expected to sacrifice their interests in the name of the public good? We know that economics cannot

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[208] Ibid. p242
[209] Dean (2010).
[210] Cass R Sunstein, *Why Nudge? The Politics of Libertarian Paternalism* (2014).
[211] Foucault (2008). p294
[212] Ibid. p294

act as a rationality of government in its own right, but how can a rationality of government that at least partially relies on the exertion of political sovereignty operate when the subjects it governs refuse (see no reason) to cede their interests?

I am arguing that it is helpful to see this tension as an enduring and central feature of liberal governmentality. At this juncture, Foucault suggests that civil society is the "new plane of reference" that emerged in the eighteenth century in response to this problem, a "new ensemble that is characteristic of the liberal art of governing" and that will "envelop" actors as "both subjects of right and economic actors".[213] I have chosen not to recount the detail of this analysis because I think it mostly tells us about the specifics of eighteenth century conceptions of civil society. Where it has broader relevance, I think Foucault's writings on civil society overlap with the earlier discussion of the social. That is, civil society is an iteration of 'the social'. We can now add the observation, tying a number of threads together, that it is the social that is instrumental in bringing these two incommensurable subjects together in a (constantly changing) "ensemble" that will "envelop" them both.

What bearing does this discussion have on the analysis in the rest of the thesis? We can now see that the social is so very deeply embedded in the way we understand our world and the possibilities for action that it is barely possible to properly uproot it. It plays a background organising function that (as Poovey states) is akin to the role God once played in organising our understanding of reality. This is why we cannot easily bring it into focus. As we will see in chapters 4 and 5 in particular, the 'social' element of 'social investment' is the batteground of competing versions. Our approach will be not to ask directly what actors mean when they use the term 'social', but to see how the distinctiveness of this field of activity – the thing that makes it 'social' where 'mainstream investment' is not – is built on a series of assumptions around the role of profit, the need for regulation and the role of measurement. The comments around the nature of the subject are picked up again in the Conclusion chapter, where the we consider what kind of subject is figured by the reasoning internal to social investment.

KNOWLEDGE AND INTERESTS

So far we have established that interests are critical to governing, and that governing takes place in part via the production of knowledge. It is therefore necessary to examine the relation between knowledge and interests. In this section I want to focus in on the role that (apparently) disinterested facts play in the ways of knowing that characterise social investment. I insert the word 'apparently' not to indicate that facts appear to be disinterested (objective) when really they are interested (self-serving), but rather to indicate that the appearance of disinterestedness is something we can denaturalise and investigate. With help from Poovey, we can identify the mechanisms by which facts come to appear as disinterested.

Before we turn to Poovey's text I will suggest a way of conceptualising the presence of disinterested facts on the liberal terrain of government. It strikes me that disinterested facts serve to efface the extent to which we are governed according to our interests. Facts offer a way of being and acting that is not about one's values, but rather a rational response to an external set of circumstances. As we mentioned towards the end of the preceding section, Foucault identified a limit to the ability of economics to function as a rationality of government. Self-interest cannot be the model for all human behaviour.

[213] Ibid. p295

But the disinterestedness of facts actually extends the reach of a model of human behaviour that encourages the pursuit of one's own interests as rational. It expands the domain in which one can act as an economically rational individual, without resorting to values-based reasoning. Before, charity donation was about matters 'close to the heart'; now, social investment is about maximising impact.

The vision for social investment is a case in point. It makes a series of starting assumptions that appear simply to state the facts: Governments have been shown to be inadequate, social problems are getting worse, and the social sector is undercapitalised. Social investment is presented as, and operates as, a commonsense response to this state of affairs. On the perspective offered in this thesis, social investment provides a fact-based way to tackle social problems that continues to operate through the interests of individuals. We will return to this argument in the conclusion to the thesis.

For now, our focus is on elaborating the notion that the disinterested nature of facts is brought about by mechanisms that we can identify and analyse. When trying to denaturalise aspects of the present that are taken for granted, a helpful starting place is the point in history when the current way of thinking emerged. To be clear, by using the following examples, I am not trying to introduce a historical element into my analysis. That is, I am not lending weight to these examples in virtue of the time at which they took place, and then suggesting that there is some kind of historical connection between what happened then and what is happening now, in the context of social investment. I use these examples because they illustrate something about the present we are looking at, and they happen to be situated in the past. I consider this to be part of the transactional relationship I have set out with Foucault, Poovey and (in this section) Porter and Hacking. They have studied these phenomena and offer an analysis that is useful for our purposes, so I present a summary of their insight as part of my argument, without engaging with any significance they might attach to the time at which these changes took place.

Poovey, then, takes us back to the point at which the idea of interested / disinterested knowledge emerged, around the turn of the eighteenth century:

> interest was gradually being removed from its older, juridical context and recast as a political *and* economic term. Gradually, and in the context of subsequent developments in the domain of politics and religion, two new terms were introduced that carried the evaluative connotations familiar to modern readers: 'disinterested' (in the sense of being unbiased by personal interest), which came into use about 1659, and 'interested' (in the narrower sense of self-serving), which was in use by 1705.[214]

Poovey marks out a shift that is consonant with Foucault's take on the emergence of the subject of interest onto the terrain of government. She goes on:

> The appearance of these new terms suggests that within the domain of political theory and in the course of the seventeenth century, it gradually became possible to think that the producers of knowledge had – or were superior to – a personal, self-serving investment in the knowledge they generated, instead of simply seeking knowledge (or 'truth') for its own sake.[215]

In the complex web of concepts and techniques making up the epistemological paradigm of the past few centuries, this passage points us to the emergence of one important component. Poovey associates

[214] Poovey (1998). p70
[215] Ibid. p70

this change with a reconceptualisation of 'experience'. Developments in the seventeenth century displaced the Aristotelian meaning of experience, as "how things happen in nature", towards experience as "how something had happened on a particular occasion." Emphasis began to shift away from "commonplaces and communities" towards "specific observations of particular events and specific – and eventually expert – observers".[216] This has implications for the status of knowledge as interested or disinterested:

> This realignment created the idea that abstract knowledge (theory) could be value-free *because* it was based on specific experience and because it different from another kind of knowledge, which was 'biased' because 'self-interested', usually (though not always) in an economic sense.[217]

Poovey is incisive in pulling out the most deeply buried assumptions supporting the way we have come to understand the world. Her text describes an "epistemological revolution"[218] that brought about many of the features of knowing that are now comfortably familiar to twenty-first century attempts to understand social life, and that are at play in the way social investment is known and reasoned about. More specifically, our understanding of how facts come to be thought of as disinterested is founded on her account of the modern fact. She provides us with the means to understand how disinterestedness is bound to standards of objectivity and validity that are achieved through different responses to the problem of induction.

We are therefore adopting a mode of enquiry that regularly touches back on the question of how standards of objectivity, validity or truth are produced within an instance of knowledge production.

From here we begin to gain more sense of how knowledge production intersects with governing according to interests. Looking ahead to forthcoming chapters, we will see that the duality Poovey identified in the modern fact is present in various aspects of social investment. It means the social investment market is seen as simply *there*, a matter of fact, not something to be questioned. It also means that 'impact' is (treated as) a kind of objective reality, a realm of (largely numerical) facts that can be used to inform decision making. For now, the rest of this chapter is devoted to a detailed recounting of certain aspects of Poovey's text, drawing on Hacking and Porter where it is helpful to do so. We will start with four general points about her overall argument, then turn to three historical examples that have direct connections to the argument later in the thesis.

First, Poovey demonstrates that the disciplinary boundaries by which we divide up knowledge are not a reflection of anything other than a series of conventions of knowledge production that are so familiar they now seem permanent and immovable. Economics, engineering, physics, political economy, mathematics and sociology and the social sciences all share common roots. This is a fascinating history in itself, but we bring attention to it only to make the point that our understanding of how we have arrived at the forms of knowledge employed in social investment is enhanced by taking a broad and open view of the knowledge production of the past. Bacon's contribution to (what we now call) the natural sciences is just as relevant as works of sociology or politics.

Second, Poovey's method includes consideration of the context in which different thinkers produced their work. She considers the epistemological effects of prevailing forces, asking how the institutions

[216] Ibid. p71
[217] Ibid. p71
[218] Ibid. p91

and other sources of authority with which thinkers interacted had an influence on what counted as valid or true. It is easy to look at Bacon's method, for example, without realising that he "formulated [knowledge] in such a way as to serve the state… which … meant supporting the monarch's ability to adjudicate and use what counted as truth."[219] Understanding these factors helps us to understand what Bacon was trying to achieve. In parallel, we must ask: to what end is any given instance of knowledge production oriented? What is it being used for? What problem does it respond to? That is, Poovey's study brings our attention to a range of questions that we can ask of the forms of knowledge production native to social investment.

Third, the role of numbers and numerical facts deserves special attention. The modern fact is not necessarily numerical in form, but it often is. "Numbers came to epitomise the peculiarity written into the modern fact." Poovey elaborates:

> On the one hand, as signs of (what looks like or passes as) counting, numbers seem to be simple descriptors of phenomenal particulars, and because the mathematical manipulation of numbers is governed by a set of invariable rules, numbers seem to resist the biases that many people associate with conjecture or theory. On the other hand, however, because numbers also constitute the units of a system of knowledge production that is biased towards deduction – that is, mathematics – numbers inevitably carry with them the traces of a certain kind of systematic knowledge: to assign numbers to observed particulars is to make them amenable to the kind of knowledge system that privileges quantity over quality and equivalence over difference.[220]

Numbers efface this duality because they fulfil both functions seamlessly. They behave as simple descriptors – a four here is the same as a four over there – but also lend themselves to numerical manipulation. They ease the transition from local, particular knowledge to general, systematic knowledge. Poovey historicises the role played by numbers, remarking that:

> the ensemble of knowledge practices that dominated the ancient world was reordered in such a way as to separate numerical representation from figurative language and, gradually, to elevate practices associated with numbers over those associated with metaphorical language. … the emergence of the modern fact coincided with this reordering – indeed, was instrumental to it – [and] effacing this epistemological unit's characteristic peculiarity was central to creating, then sustaining, the illusion that numbers are somehow *epistemologically* different from figurative language, that the former are somehow value-free whereas the excess of the latter disqualify it from all but the most recreational or idealistic knowledge-producing projects[221]

Numbers have come to be endowed with a different epistemological character to other forms of knowledge, but this character is contingent rather than inherent.

This takes us to our fourth point, that we must be alert to the *multivalent* nature of various concepts used to structure the production of knowledge. That is, the concepts in question produce statements which are simultaneously statements of fact and of value. This notion enjoys a close relationship with the modern fact, because it is the modern fact's duality that plays a crucial role in endowing some facts

[219] Ibid. p99
[220] Ibid. p4
[221] Ibid. p6

with their objective, disinterested status. While multivalence is a feature of Poovey's analysis, it is brought out most clearly by Hacking.

In *The Taming of Chance*, Hacking draws our attention to the way in which the distinction between 'is' and 'ought' – between statements of fact and statements of value – is a familiar, usually unquestioned feature of our ways of understanding the world. But the term 'normal' exhibits a kind of multivalence that allows a switching back and forth between the two senses of the word:

> One can, then, use the word 'normal' to say how things are, but also to say how they ought to be. The magic of the word is that we can use it to do both things at once. The norm may be what is usual or typical, yet our most powerful ethical constraints are also called norms … Nothing is more commonplace than the distinction between fact and value. From the beginning of our language the word 'normal' has been dancing and prancing all over it.[222]

Normality, Hacking demonstrates, plays an important function in ways of thinking about humans in society. The concept of the normal, as it took on many of its modern day meanings in the 19th century, "created a way to be 'objective' about human beings."[223]

Once we are alerted to the possibility of multivalence, we find examples scattered across our field of interest. Poovey at several points remarks on the way concepts such as the 'market' introduce a way to simultaneously talk about what is and what ought to be. In the context of social investment 'accountability' is a particularly striking example – it can refer both to accounting or enumerating, and to being held responsible – that is given extended treatment in chapter 6.

The following three examples demonstrate how the features described above play out in the analysis of a variety of texts.

ADAM SMITH AND ABSTRACT OBJECTS

The first example is Adam Smith's *Wealth of Nations.* Smith's philosophy, Poovey argues, introduced epistemological innovations. He reasoned through new ways of connecting up facts and data about the world with systematised knowledge around what he called the 'market system'. This example will help demonstrate the way abstract objects like 'the market' became a regular feature of ways of understanding matters of political economy.

Bringing the question of induction to bear on Smith's reasoning around the abstractions he used to structure his argument proves an illuminating strategy. Smith faced a number of epistemological problems in putting forward an argument for the existence of the 'market system' – a system that, if allowed to operate undisturbed, would coordinate interests to the benefit of all. Smith did not want to make a purely deductive argument, facing a tension common to political economic approaches:

> On the one hand, … [Smith] recognised that it was essential to invoke systematic assumptions about human nature (*homo oeconomicus*) … On the other hand, like a good Baconian, he wanted to use the available firsthand evidence, especially when this existed in the form of numbers.[224]

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[222] Ian Hacking, *The Taming of Chance* (1990). p163
[223] Ibid. p160
[224] Poovey (1998). p240

But the data he had available was insufficient in a number of ways. There was not much of it – "he lacked experiential data sufficient to ground his claims about the market"[225] – and what there was reflected a system which "had yet to be freed from interfering legislation."[226] That is, current reality was prevented from operating according to the economic laws that he wanted to argue existed.

Smith therefore took a somewhat pragmatic approach to using the numbers available to him. He "wanted to create a way to *interpret* the data that did exist".[227] The result? In "Smith's treatment of numbers in *Wealth of Nations*, numerical records are summoned, then dismissed"; they are used to support "the assumptions with which he initiated the analysis", rather than the numbers themselves revealing anything new.[228] The credibility of his argument, according to Poovey, "came from its internal coherence as much as its truth to nature." He elevated *precision* over *accuracy*, and he made this precision, i.e. systematic coherence, the bridge that "linked observed particulars to the still unrealised potential that only the philosopher could see."[229]

This mode of argument must be understood in relation to the endeavour to create systemic abstractions like 'the market system'. This involved putting forward a way of thinking that was unlike what had gone before, because it relied on an abstract object. "Smith believed", Poovey informs us, "that creating abstractions was essential to the production of general knowledge … because what one needed to analyse was nowhere visible as such."[230] This provides another view on the "role for numerical representation" in Smith's work:

> In Smith's account, abstractions like the market system created a new role for numerical representation, for as descriptors of the products (actually or theoretically) created by the institutions associated with the (idea of a) market system, numbers seemed to refer to entities that had been (or could be) counted. At the same time … Smith's numbers also embodied his a priori assumptions about what the market system *should be*.[231]

This passage draws our attention to both the duality and the multivalence present in the way Smith conceptualises the market system. Duality is identifiable in the way that the market system provides a theoretical reason for counting various entities, numbers which then act as descriptors. Multivalence is present in the way that assertions about the market system act simultaneously as statements about what *is* and what *should be*.

Poovey writes that Smith's epistemological approach in some ways typifies political economy more broadly:

> The numbers for which Smith created an epistemological place in *Wealth of Nations* – numbers that could seem simultaneously transparent to phenomenal entities and evidence for what (the philosopher believed) the market system would be if it were free – typify the variant of the modern fact produced by political economy.[232]

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[225] Ibid. p240
[226] Ibid. p216
[227] Ibid. p240, emphasis in original.
[228] Ibid. p242
[229] Ibid. p216
[230] Ibid. p239
[231] Ibid. p216
[232] Ibid. p248

This feature of political economy should be understood primarily in terms not of numerical representation, but of "the peculiar combination of claims about descriptive accuracy and dependence on a priori belief."[233] That is, the political economist believes that facts about experience *would* reflect the system she argues exists if that system were allowed to properly function. Thus, we talk about matters in terms of a market, even though we are constantly having to explain why reality diverges from what the market model predicts. This variant of the modern fact will be useful in exploring the emergence of the social investment market.

SYSTEMATISING UNCERTAINTY

We move our focus now to the late 19th and early 20th centuries, and to a field which, unlike political economy, is concerned primarily with numerical accuracy and the certainty of results: statistics. Hacking's work on the development of statistics[234] is useful in supplementing Poovey's text on this front. The 19th century had witnessed what Hacking calls an "avalanche of numbers".[235] The enthusiasm for collecting numbers provoked debate and reflection over the proper way to handle them. Hacking ably summarises the main trajectories of these debates, but we are just going to pull out a single example. Of all the questions provoked by the abundance of numerical data, our focus is more specifically on thinkers preoccupied with the question of *causation*. How is it possible to know with certainty that observed effects are attributable to one or the other cause, rather than a further cause that is unseen and unaccounted for? Even more specifically, our focus is on (Hacking's account of) the work of Peirce, who developed statistical methods which acknowledge and then quantify the degree of uncertainty present in the results of a calculation. The 'systematisation of uncertainty' opened up expansive new terrain in producing systematic knowledge about the social world.

The significance of Peirce's work is brought into relief by placing it alongside that of Herschel, a philosopher examined by Poovey. Herschel discussed the limits of scientific method in a treatise published in 1830. He was concerned that induction alone was insufficient for dealing properly with the complexity found in the natural world. He advocated a process of iteration between inductive and deductive methods. "Verification by repetition was critical to the method Herschel described", Poovey writes, "because repetition enabled the scientist to check his emerging theories against new data."[236] Peirce, in contrast, writing in the 1890s, put forward a notion of induction where, in contrast to *demonstrative* (deductive) arguments, in which the conclusion is true whenever the premises are true, the conclusions of *probable* (inductive) arguments (given true premises) are *usually* true. What was remarkable about Peirce's position was his assertion that "in either case, a valid argument has the truth-producing virtue."[237] This is so remarkable because Peirce is suggesting a version of scientific truth that includes a degree of uncertainty. "When the premises are quantitative," furthermore, Peirce argues "we may be able to replace the 'usually' by a numerical probability."[238]

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[233] Ibid. p248
[234] Hacking (1990); Ian Hacking, 'How Shall We Do the History of Statistics?', in *The Foucault Effect* (1991); Ian Hacking, 'Statistical Language, Statistical Truth and Statistical Reason: The Self-Authentication of a Style of Reasoning', in *Social Dimensions of Science* (1992).
[235] Hacking (1991) p186
[236] Poovey (1998). p318
[237] Hacking (1990). p209
[238] Ibid. p209

What, exactly, is the point of contrast between Peirce and Herschel? Herschel's method, like Peirce's, "involved factoring the limits of epistemological certainty into the method of science itself."[239] But Poovey furnishes us with an important distinction: Herschel's was not a "philosophical solution", but rather a "professional solution". 'Professional' seems to mean something like 'pragmatic':

> By agreeing among themselves to use empirical laws and by ensuring their public that they were honest about the limitations of the knowledge such laws generated, scientists could hope to earn the authority necessary to make their picture of nature seem more plausible than what ordinary observation revealed. [240]

Where Herschel accepts the limits of inductive reasoning but carries on anyway, Peirce finds a way to systematically include a measure of these limits in a manner that allowed a version of 'philosophical truth'. Peirce had a philosophical response to the matter of error and uncertainty that Herschel lacked.

Hacking identifies in Peirce's work the opening up of considerable new intellectual terrain. The flowering of mathematical statistics engendered an array of techniques that have transformed knowledge production in the 20th and 21st centuries. Here we skirt another substantial history, making just a couple of quite general points. The systematisation of uncertainty made possible new kinds of disinterested facts. It has enabled scientific enquiry to enter the terrain of messy social reality, because the formidable complexity of social life can be broken down and investigated in ways that can now cope with the uncertainty encountered. Causal links can be scientifically established using experimental methods such as randomised control trials (RCTs). These forms of enquiry change what it is possible to know. The presence of these new statistical facts offer another way of producing disinterested knowledge about matters of social and political significance.

SCRUPULOUSNESS / USEFULNESS

Earlier in this chapter we emphasised the importance of recognising the orientation of any given system of knowledge production. Asking what purpose knowledge is being produced for provides a different kind of insight to simply examining the logic of an argument on its own terms. This is particularly true in the next area of discussion: cost-benefit analysis (CBA), and the production of knowledge oriented specifically to informing decision making. These examples are distinctive not just because they are developed for a practical purpose – this is arguably the case for many forms of knowledge production – but because they explicitly reject overly "scrupulous" responses to the problem of induction in favour of less precise but more pragmatic solutions.

Our starting point in explaining this notion is the growth of CBA as an approach to making decisions of public significance. Here we draw on Theodore Porter's book *Trust in Numbers*, a text that is broadly compatible with Poovey and Hacking's texts.[241] Porter's enquiry into CBA allows us to identify an alternative response to the problem of induction. As background, the 'engineer-economists' of the 19th century French army corps were employed to work on public projects such as the building

[239] Poovey (1998). p320
[240] Ibid. p321
[241] Porter (1995). The subject matter of Porter's book is directly relevant to the broader discussion in this chapter, but I consider his approach to be problematically unclear in a number of ways. Where Poovey and Hacking clearly mark out an overarching argument that is supported by each section of the book, Porter often neglects to explain how large passages of text connect with a broader argument. This makes it very difficult to pin down precisely what he means.

of bridges and railways. They used a mixture of engineering and economic reasoning to aid decisions about the location and design of this infrastructure. In defining the best route for a railway or canal, for example, they would make commensurable a range of parameters such as mechanical efficiency, cost of construction and maintenance, and then seek to minimise the mean cost of transporting a ton of merchandise one kilometre.[242] In some cases the ideas generated by these thinkers contributed to the body of abstract economic theory – marginal utility theory, for example, originated in this group. But in other cases the kind of rigour demanded by this kind of theorising was seen to be at odds with ensuring the reasoning was fit for purpose. An engineer comments on his method:

> If the observer is one of those men committed to exact and absolute ideas, who admits no approximations and rejects everything that lacks rigorous mathematical exactitude, he will have no use for this calculation, and the question will rest eternally at the same point, at least until a less scrupulous spirit takes it up.[243]

He perceives a tradeoff between the scrupulousness of a study, and its usefulness. Here, then, we encounter a process of rationalisation that is not oriented to the 'truth' of the matter so much as the practical imperative of enabling decisions to be made. For Porter, the orientation is to *objectivity* in decision making. At this point our focus in not on the pursuit of objectivity so much as identifying the break that this signifies with scientific good practice at the time. It demonstrates that it is possible for a mode of reasoning to essentially ignore the problem of induction and still produce systematised knowledge that plays a practical function, and gains its validity from this practical use.

This mode of reasoning was subsequently transported across the Atlantic to the USA, where it became an integral feature of public decision making over the course of the twentieth century.[244] The basic idea, in practice since the 1920s and first enshrined in law in 1936, was that the US Army Corps was uniquely equipped in the US political system to assess (and quantify) the expected costs and benefits of a proposed public works project, such as a railway or a dam. The result of their work was a cost-benefit ratio. A ratio of more than one indicated that the benefits exceeded the costs; the ratio also allowed comparison of different options. As a form of knowledge, its success did not depend on it achieving the most accurate possible representation of reality. Throughout its history CBA was criticised by both insiders and outsiders for making assertions that could not be backed up with direct observations. The quantification of intangibles went in and out of favour. Even for more tangible elements of the calculation, there was always room for interpretation on what should be included and on how expectations about the future should be integrated. These factors could make an enormous difference to the final ratio. As CBA practice spread more widely in the US government, different agencies would conduct their own CBAs for the same proposals, and arrive at quite different results.[245]

If CBA had been held up to the highest standards of scrupulousness, it seems unlikely that it would have gained much traction. But in the US context, and possibly further afield, it has become progressively more widely and deeply embedded across almost every area of Government. Its success comes from its suitability for the practical function that it played. A process was needed for making decisions between competing interests that would be accepted by all sides. CBA was perceived as a

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[242] Ibid. p59-61
[243] Ibid. p61
[244] Indeed, Foucault points to the presence of the American Enterprise Institute "whose essential function, now [in 1979], is to measure all public activities in cost-benefit terms." Foucault (2008). p247
[245] Porter (1995). p180

neutral, technical, objective form of knowledge. Similarly, the Corps largely enjoyed a reputation as neutral, objective experts who apply their methods without prejudice. Once established as part of the political process, the numbers produced by CBA went unquestioned in all but the most contentious of cases. The committees in Congress who accepted the figures from the Corps, Porter observes, were "dazzlingly uninquisitive" about how they were calculated.[246] Where problems did arise, and CBA faced opposition, the outcome was not to challenge the appropriateness of CBA (though it may be more accurate to say that challenges to the appropriateness of CBA were not successful), but to try to *standardise* the values attached to the costs and benefits. Standardisation was not an attempt to make the overall analysis more accurate, but to improve CBA's ability to fulfil its practical function of providing neutral, objective grounds for public decisions.

A similar dynamic is visible in the development of accounting. Like CBA, accounting is oriented to a practical problem, and it is public in nature. It also faces a tradeoff between achieving results that are as close to truth (as 'scrupulous') as possible, and results that are standard and consistent across time and place. While CBA's function is to provide grounds for decisions *ex ante*, the numbers generated by accounting practices must tally more closely with ongoing practices. Returning once more to the 19th century, Porter walks us through the dilemma that the accounting profession faced. The profession's credibility depended on being able to achieve consistent results: there was a "political need for accounting uniformity".[247] But consistency was often achieved at the expense of accuracy. Porter gives an illuminating account of the kinds of rationalisations offered by accountants faced with this problem. Many of them decided to equate consistency of results with truth itself.[248] Porter's point is that the public nature of accounting numbers means they are subject to pressure from outsiders, who question how the numbers have been arrived at. As a result, the accounting profession moved from valuing expert judgement to favouring consistency and transparency of results, in order to demonstrate their objectivity. The shift towards numerical standardisation that took place over a number of decades did not signal more *accurate* accounting, but rather more *defensible* accounting in a wider system of competing interests.

CBA and accounting are examples of knowledge production that are deliberately prioritising characteristics other than the most accurate or scrupulous use of numerical facts. The link between economics and engineering reminds us that economic thought extends beyond political economy, with the abstractions created by philosophers like Smith complemented by knowledge production that enables economic decision making – that is, maximising under constraints. Once more, we find ourselves on the border of another large history, this time of the development of economic thought. Satz alerts us to another transition in economic thought, the marginalist revolution beginning in the nineteenth century, that facilitated the mathematisation of economics.[249] This undoubtedly is also worthy of examination, but we are limited by space.

MORE RECENT DEVELOPMENTS

These three examples – Smith and the creation of abstractions, the systematisation of uncertainty, and the tension between scrupulousness and usefulness – help to bring into relief the different purposes to which knowledge production might be oriented. It is worth briefly commenting on the work of

[246] Ibid. p156
[247] Ibid. p95
[248] Ibid. p95
[249] Satz (2010).

Donald MacKenzie, who pursues similar lines of enquiry in exploring a topic fairly close to our area of interest: the development of global financial markets.

In the course of his study, MacKenzie uses essentially the same technique as Poovey in asking how financial economics connected its models with empirical data. Finance theory uses models that are marked simplifications of empirical reality. But "for half a century, economists have had a canonical reply to the contention that their models are based on unrealistic assumptions". This response is based in Milton Friedman's distinction between "'positive' economics (the study of 'what is') from 'normative' economics (the study of 'what ought to be')." Positive economics seeks to make "correct predictions about the consequences of any change in circumstances", and it is to be judged by the "precision, scope and conformity with experience" of these predictions. In short, Friedman wrote, "positive economics is, or can be, an 'objective' science, in precisely the same sense as any of the physical sciences."[250] Similarly to Smith choosing to prioritise internal coherence over truth to nature, Friedman prioritised the precision of predictions over the accuracy of his models' assumptions. MacKenzie identifies the thorough integration of Friedmanite views among the community of finance theorists he interviewed for his study, observing:

> that a model's assumptions were "unrealistic" did not generally count, in the epistemic culture of financial economics, as a valid argument against the model.[251]

Financial economics therefore proves to be another setting in which a form of knowledge production is used to inform decision making rather than striving for an accurate representation of empirical facts. And yet, Friedman claims the grounds of "objective science" for this form a reasoning. We will not engage with the detail of MacKenzie's argument regarding the interplay of finance theory and the operation of financial markets. We can just note his concluding comment that "there is a deep ambivalence in the field's attitude to the extent to which its models can be taken as realistic."[252] The terms 'ambivalence', to me, suggests those scholars and practitioners tasked with developing and using these financial models did not share Friedman's confidence that they could both reject the need for their models to be realistic *and* claim grounds of objective science.

More generally, the point here is to bring to the surface the way in which some forms of knowledge production are not intended to produce the most accurate or certain results, something that has to be recognised in any critical study. These observations are particularly pertinent for the discussion of social impact measurement in chapter 6, which is explicitly influenced by strands of reasoning oriented both to proof (social scientific research) and to decision making.

MOVING ON FROM THE MODERN FACT?

Poovey reflects on the continued prevalence or otherwise of the modern fact in contemporary ways of knowing. Moving into the twentieth century, the frontiers of knowledge start to move past the peculiarities associated with the modern fact. With the transformations in statistics described above, "mathematical modelling began to surpass induction as the method of choice in the social and physical sciences", meaning modern day philosopher-scientists now have modes of reasoning available that ensure they no longer have to respond to the problem of induction. Poovey also talks about

[250] Donald MacKenzie, *An Engine, Not a Camera* (2006). p9
[251] Ibid. p12
[252] Ibid. p249

"postmodern facts". One might "renounce the desire (or need) for systematic knowledge", or one might "abandon not the desire for systematic knowledge but the need to yoke knowledge systems to observed particulars."[253] This latter approach is seen in postmodern theory, where the "conviction that the systems of knowledge humans create constitute the only source of meaning is gradually displacing both the problem of induction and all the variants of the modern fact that I have discussed in this book."[254] Indeed, the fact that Poovey could gain sufficient perspective to write this account of the modern fact indicates it no longer determines the parameters of how we understand the world, as does the fact that I can write a PhD thesis built in part on analysing the role the modern fact is playing in social investment.

It might appear inconsistent or problematic to talk about the end of the modern fact while also promoting its usefulness for studying an aspect of the present, but it is neither of those things. The epistemological paradigm that pushes out the modern fact, Poovey writes, "will take a long time to unfold".[255] There are various fronts on which the kind of knowledge production associated with the modern fact is being challenged, but there are all kinds of scenarios in which it continues to play a role. Social investment is one of those scenarios.

CONCLUSION

We have used the notion of 'rationality of government' as a way of bring the broader context into our analysis. This rationality of government incorporates both the basic ideas of liberalism described in the first half of the chapter and the ways of knowing associated with liberalism. The notion of interests provides the bridge between these areas of discussion; liberalism organises itself around the satisfaction of interests via the market mechanism and the corresponding self-limitation of government. The forms of activity encouraged within this rationality of government rely in part on the creation of *dis*interested facts, which brings us to the discussion of how facts are created and handled within different ways of knowing. All of this prepares us for identifying the influences on the reasoning found within social investment as a programme of government.

This chapter's epigraph underlines the extent to which the vision for social investment relies on commonly accepted features of the liberal rationality of government in which it has taken shape. Certain versions of social investment, we will see, import the assumption that the market mechanism can be used to coordinate interests in a manner superior to what Governments are able to achieve. The newness of social investment, the feature that makes it distinctive, is the way it introduces the explicit orientation to social purpose that is lacking in mainstream investment. There is healthy debate over exactly how this orientation should be formulated and thought about, but a clear frontrunner is the commitment to *measure* social impact. So we see that our focus on the production of knowledge – the production of disinterested facts – is absolutely crucial to our account of the logic of social investment. Just as the doctrine of self-interest is drawn in and put to work, so is the notion that disinterested facts can be produced and used to achieve specified aims. The discussion in this chapter will help us to perceive where actors are introducing assumptions about the viability of generating certain kinds of knowledge, and to be wary of those points where the framework that has already been set out influences the way in which a set of affairs is being reasoned about. This helps us to move beyond

[253] Poovey (1998). p327
[254] Ibid. p327
[255] Ibid. p328

taking the arguments being made at face value to identify the underlying assumptions that are already in place.

The examples in this chapter help us to see that 'facts' are not *just* 'facts'; they are intimately bound up with the purposes for which they are generated, and there are ways of denaturalising and unpicking the assumptions on which they gain their status. We turn now to a detailed examination of the logic internal to social investment as a programme of government. We start, in chapter 3, with an analysis of how the market for social investment was created as a knowledge object that provides structure for the activity of social investment.

CHAPTER 3: CREATING THE MARKET

> This is a very "build-it and they will come" approach to the market. … What it does is it shakes it up and it gets everyone to notice. Whether logically it is the only way to build the market, I think it is probably not the only way and it is also way too early to say whether it is the right way.

Comment from interview with a senior staff member at Big Society Capital (2013)

Based on my own extensive collection of documents, back in the year 2000 the phrase 'the market for social investment' was not used. We can say with some certainty that this market, at that point, did not exist. Some of the activities that are now considered to be part of this market may have existed in the year 2000, but they were not thought of as part of a market for social investment. By 2011, there were all kinds of reasons to think that the market for social investment did exist. Not least, a new financial institution had been set up, BSC, with £600m of capital, with the explicit aim of having "a transformative impact on the social investment market in the UK".[256] The UK Government was in on the act, publishing in 2011 a strategy called *Growing the social investment market: a vision and strategy*.[257] Not only does the market for social investment exist, but the Government wants it to grow.

Of course, it might be possible that in the years between 2000 and 2011, an array of people decided to set up the various different organisations that make up this market. These organisations might even have existed already – for the market for social investment to come into existence, we might think that the need for capital from SSOs began to stimulate the supply of capital from social investors, or perhaps the other way around. We might think that the market came into existence because these different market players realised that there was mutual gain to be had from engaging in market transactions.

I am fairly certain that this is not the way in which the market for SI came into being. I think it makes much more sense to see the market as having been brought into existence fairly suddenly, at a point closer to 2011 than 2000, by a group of actors who made a decision to pursue an agenda that used the framework of the market to convey a set of problems and solutions. The creation of BSC provides a focal point for this change, because its status as a financial 'wholesaler' effectively rebrands various other organisations into different market components.

This is the first stage of our exploration of the logic internal to SI as a programme of government. We are starting here, treating this market as an epistemological object, because doing so allows us to denaturalise the framework being created to lend structure to social investment activity. As a reminder, the approach in this thesis is not to suggest a way of theorising the gap between the pure idea of the market and the messy reality. Instead, we are building an account of how the pure idea of the market – the basic structure of supply, demand and intermediary – was adopted by actors and used to make sense of what they were setting out to do. When we adopt this approach, we can identify the processes by which the market gained form and density from the research and reporting on its current state and future potential.

[256] Big Society Capital, *Big Society Capital: Vision, Mission and Activities* (2012a). p3
[257] HM Government (2011).

We will also see that the idea of the market does more than lend structure. As soon as it appears, it is endowed with the status of a simple matter of fact, a neutral, technical way of viewing matters.

INTRODUCING THE MARKET STRUCTURE

For this discussion to proceed we need to distinguish between the active and passive use of the term 'market'. When it is used in a passive sense, the term 'market' is loosely employed to denote an area of activity. When it is used actively, the term 'market' refers to a structured arena in which different components – supply, demand, intermediaries – interact in a specific manner. The project of market building employs the latter sense. The market is something with boundaries, with its own internal dynamics, whose size and other characteristics can be measured. This distinction can be illustrated by the following comments made by one of the interviewees, in talking about the social investment market. The first usage can be seen in this comment:

> Myself and others were lobbying for a social investment bank for a long time. Because obviously we recognised that for our market, traditional banks didn't understood what we're doing, the usual thing, they hadn't got a clue. [Interviewee]

Contrast this with his comments on the *functioning* of this market:

> Well we needed something to capitalise the social investment market. Um so when my organisation started to look at investment there were very few players in the market. … So it was basically a cartel of lenders. And I think at that time it was a good cartel of lenders, but it was a cartel. What there wasn't was a market. [Interviewee]

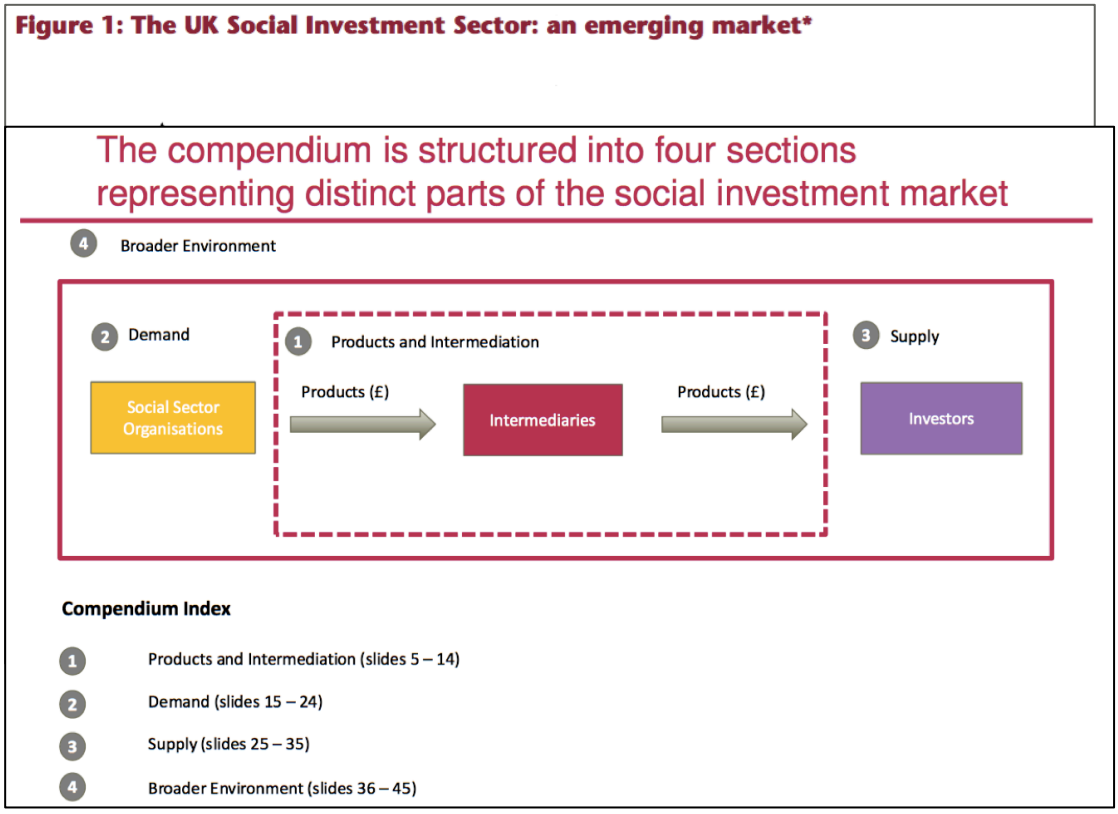
In the first comment this person uses 'market' in quite a casual sense, referring to a collection of organisations bound by some common characteristic – pursuit of social purpose is probably what he had in mind – but with no suggestion of a properly functioning internal market structure. In the second comment, he asserts that there *wasn't* a market, back when his organisation started to look for investment, because a (properly functioning) market (he implies) cannot exist where there is a cartel of lenders (who displace free competition and prevent the market mechanism from working). Indeed, he uses both senses of the word market within this second comment; in the first sentence he uses 'market' in its passive sense, before going on to use it in its active sense. The comment only makes sense if he is using the term in two different senses, as he is otherwise directly contradicting himself.

It is the use of the active version of the term 'market' that I contend only came into circulation around 2010-11. One of the clearest illustrations of this change is contained in the series of reports published by the Social Investment Task Force. The first three reports, published in 2000,[258] 2003[259] and 2005,[260] all make mention of markets (in under-invested communities, or the market-driven system, or different markets for social investment), but it is only in 2010, in the final SITF report, that the 'social investment market' makes an appearance.[261]

[258] Social Investment Task Force (2000).
[259] Social Investment Task Force, *Enterprising Communities: Wealth beyond Welfare* (2003).
[260] Social Investment Task Force, *Enterprising Communities: Wealth beyond Welfare* (2005).
[261] Social Investment Task Force, *Social Investment – Ten Years On* (2010).

From this point on, it is striking that the market structure is picked up by a variety of authors as the backdrop to their research. They simply assume the existence of the social investment market as a starting premise. Here are a few examples. Diagrams representing the market are often employed to help readers visualise the argument being made. This one comes from the final report of the SITF, already mentioned. It makes explicit the notion that this market is transitioning from low to high "market maturity":

From Social Investment Task Force, *Social Investment – Ten Years On* (2010) p8



A compendium of research put together by BSC in 2013 provides us with a clear graphical representation of the components of the market system:

From Big Society Capital, *Social Investment Compendium* (2013) p3[262]

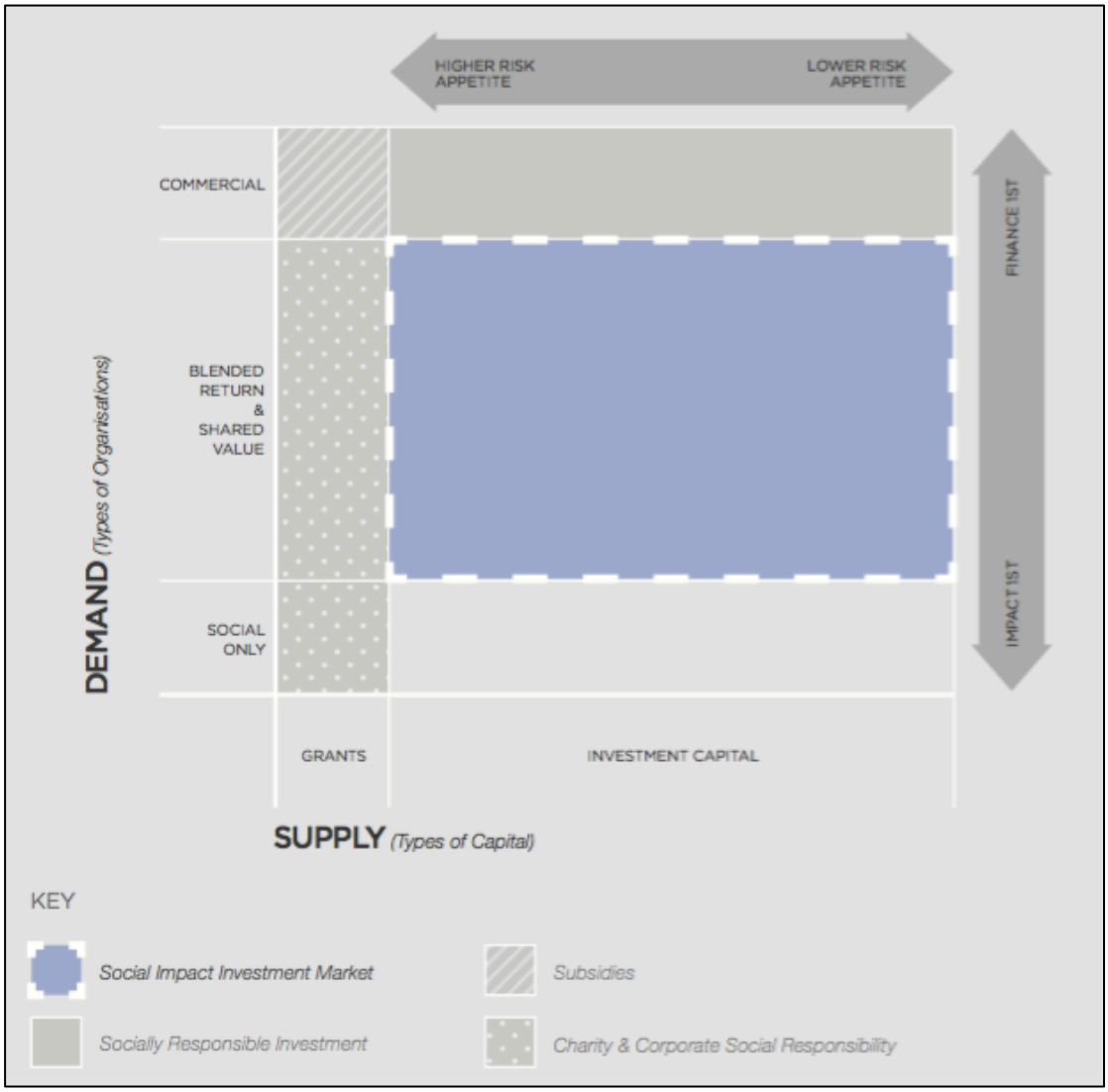
This model of supply and demand interacting with the help of intermediaries, in a favourable, enabling environment, is explicitly or implicitly supportive of much of the discussion around the attempt to build a market for social investment. It comes out in the interviews, where the idea that there should be a variety of organisations on the supply side, providing choice to investees, is part of the justification for BSC's existence:

> when my organisation started to look at investment there were very few players in the market. So we basically had 3 or 4 players who we were able to go to for investment. …. So it was basically a cartel of lenders… What there wasn't was a market. So myself I was quite keen from the start that actually any social investment bank needed to be a wholesaler and not a retailer. Because the – there's a lot of debate around should BSC or whatever you're going to

[262] Big Society Capital, *Social Investment Compendium: Portfolio of Research and Intelligence on the Social Investment Market* (2013).

> call it – should be investing directly in social enterprise rather than through intermediaries. I've always been and we've always been on the other side of that. It should only go to intermediaries. Because what we need is a market and not just one player. [Interviewee]

Another example is the following diagram, which addresses the matter of how the social investment market may be distinguished from other closely related types of activity. This report, *Making Good in Social Impact Investment: Opportunities in an Emerging Asset Class,* does take pains to point out it presents the "bottom-up perspective of social purpose organisations and entrepreneurs"[263] but this "grounding" in no way brings into question the existence of the market for SI. The market is both the *topic* for discussion, and provides a *framework* for the discussion. The diagram therefore communicates a conceptual understanding of this market, abstract and detached, that the authors deemed helpful for



readers.

From Richter and Evenett, *Making Good in Social Impact Investment* (2011) p13

Indeed, it is noticeable that the market is way of describing both the *current* state of affairs – a report will take the (extant) social investment market as its topic of discussion – *and* a way of communicating

[263] Karl H Richter and Rupert Evenett, *Making Good in Social Impact Investment: Opportunities in an Emerging Asset Class* (2011). See foreword

a vision, a potential *future* state that is within reach if we all get behind the cause. The *Making Good* report is a case in point. They suggest SI in its current state should be viewed as an "emerging market", and then make a series of quite detailed assertions about what a future "thriving" market will look like:

> Our vision for a thriving social impact investment market is one in which social purpose organisations at different stages of development and size can access a wide range of financing products of varying types and maturities. A market that provides affordable investment capital to organisations on terms most appropriate to their needs, that rewards success, that backs expansion, supports spin-outs and encourages start-ups. We would like to see a liquid market that provides the radically undercapitalised social sector with the capital it needs, so that social purpose organisations can realise their missions to the maximum extent practicable. A market in which follow-on funding is as important as initial funding, so that successful organisations are supported with second and third-round financings and more, and in which investment capital with a higher risk appetite is used to leverage in new sources of capital with a lower risk appetite.[264]

The market for SI – which is currently an emerging market, remember – presumably does not currently exhibit these features, but at some point in future might provide "a wide range of financing products", might "reward success" and "back expansion", might be "liquid", might provide "follow-on funding" and might use "leveraging" to support different "risk appetites".

This report is particularly interesting because we can see that the market has become an invisible backdrop to the research, a lens through which everything is viewed. The authors state they want to ground their research in reality – "We interviewed social purpose organisations and entrepreneurs to ground our thoughts."[265] – and spend some time conveying the opinions of these people in the report. Overall:

> Feedback from social purpose organisations and the experience of investors confirms that it needs to be an integrated market with a range of different financial products for different stages of an organisation's development [266]

That is, feedback confirms that the market needs to have certain characteristics, and not others. What we cannot now know is whether any of the feedback questioned the market, whether it is an appropriate mechanism for funding SSOs, whether they disagree with the notion of a market. The report is written in such a way that the market is simply the framework for discussion. Given that this market is in place, my suspicion would be that the authors' attempt to ground their thoughts would only have been sensitive to views that made sense within this framework.

As a final example, we use a report from 2010 that discusses the social investment market in relation to the Government's proposed Big Society Bank (which became BSC). It is written by CAF Venturesome (the investment arm of the Charities Aid Foundation), and explicitly takes the perspective of "charities and social enterprises". While the other reports we have used were propounding a vision of the potential of this market, the authors of this report are keen that the Big Society Bank develops a market that is "responsible and intelligent". The "four pillars" that it identifies to achieve this are "confident and informed demand from the civil society sector", "efficient

[264] Ibid. p12
[265] Ibid. p17
[266] Ibid. p17

matching of supply and demand", a "variety of investment mechanisms" and a "resilient supply of finance".[267] They want the civil society sector (the social sector) to have access to finance. What is striking about this report is that the authors fully adopt the framework of the market for social investment to make their point. Already, in 2010, they were willing to take for granted that this market existed and could be steered in different directions, some of which were more desirable than others.

Already we can see that the market has an intriguing epistemological status. It can be talked about in multiple different senses, with the author leaving it to the reader to glean from context which sense is intended. The market is both metaphorical and real – a collective fiction we all share in, but also something that guides action and has real effects. It is a description both of how things are and how things should be. In this sense it facilitates a form of multivalence, a crucial component of political economy's ability to take social and political matters onto factual territory. We arrive straight back at the discussion in chapter 2: the market is an abstraction, and the social investment market displays the same ambivalent relationship with 'reality' as Poovey identified in Smith. The comparison should not be overdrawn. Poovey investigated in some detail the position that Smith took regarding the relation between the abstract objects he elaborated and the reality he could see and touch, and count. Smith used the concepts that eighteenth century philosophers had at their disposal – the coherence of his argument, for example, was judged partially on the *satisfaction* it elicited in the reader's brain[268] – which no longer carry meaning for us. It is also not possible for us to pursue the same question here in equal depth, because the social investment market is not the province of the philosopher, to date at least. Our source material is written for a general audience, without any reference to epistemological matters.

That said, we can certainly probe further on the way the SI market is connected up with reality. It is becoming clear that we cannot think of the SI market as either 'real' or fake'. A comment from Foucault is helpful at this point:

> Politics and the economy are not things that exist, or errors, or illusions, or ideologies. They are things that do not exist and yet which are inscribed in reality [269]

Politics and the economy take on status as abstractions of the kind we are interested in. They "do not exist" in the sense that they have no concrete, real existence, but they should simultaneously be treated *as if* they exist in virtue of the effects they create. We can see how the social investment market is being inscribed in reality through the reports and documents making up our source material – decisions are being made, and resources allocated, in relation to this market. Our next area of focus is the attempts to attach numerical data to the market, and the reasons given for doing so.

GATHERING EVIDENCE / DATA

There is a collection of reports released around 2010-2011 that all share the goal of elaborating the idea of the social investment market. We have referred to several of them already. Reading them with the problem of induction in mind helps us to gain further insight into the epistemological

[267] CAF Venturesome et al., *Financing the Big Society: Why Social Investment Matters* (2010). p9-10
[268] Poovey (1998). p216
[269] Foucault (2008). p20

assumptions being made by the authors. We can start with the 2011 report *Lighting the Touchpaper: Growing the Market for Social Investment in England*, the foreword of which, from the CEO of BSC, states:

> What's been lacking, until now, is a comprehensive survey of the social investment market that goes beyond case study and anecdote to provide real data on the different players, their finances and their business models. That is why I believe this report is so important. For the first time we can put numbers on many of the hunches, observations and beliefs that have been debated in the sector for some time.[270]

"Numbers" are clearly viewed as a superior form of knowledge to "hunches, observations and beliefs". The numbers he refers to are identified and generated through a "bottom-up assessment of the size of the social investment market in England"– "bottom-up" denoting knowledge based not on top-down assertions from experts and politicians, but evidence gathered of *reality*. They aggregated these results and arrived at a number: "Total social investment in 2010/11 was £165m".[271] What does "assessment" mean? It means using the data collected through surveys and interviews to inform the assumptions that go into a model of the market. A model is not intended to be a direct, accurate reflection of reality. It cannot be, because the authors are trying to build a picture of a market that does not yet figure in the understanding of those who are supposed to participate. The authors would have had to come up with a way to decide what counts as a social investment within the bounds of this new market framework. The model is a way of generating facts that are informed by reality, while abstracting away from the complexity and uncertainty over how things should be understood on the ground. Note their presentation of the results: "Total social investment in 2010/11 *was* £165m". This number is presented as fact. My intention here is not to make accusations of inaccuracy or obfuscation, but to enquire into the epistemological footing these authors are giving themselves. They allow the solidity and precision of the number to speak for itself, even though a more accurate way of presenting it would be to emphasise the contingency of this conclusion.

A year later in 2012 came the report *The First Billion: a forecast of social investment demand*. This report finds that "the demand for social investment could rise from £165 million of done deals in 2011 to £286 million in 2012, £750 million in 2015 and to as much as £1 billion by 2016."[272] And where do these numbers come from? They are estimates, of course, as they project into the future, and they are based on interviews with "market players" i.e. the best guess of people involved in the sector. But they are generated through a "logical" process. "For the first time," the foreword points out, "this report provides us with a clear and logical approach to understanding the drivers of social investment demand. It applies this logic to provide a bottom-up forecast of what potential demand might be in the future." The authors once more rely on a model, segmenting the market and triangulating information to arrive at a result that "provides evidence to support the contention that many believed out of faith: social investment is a market ready for growth."[273]

The observations made about the *Touchpaper* report apply equally here. Moreover, these two numbers – £165m and £1bn – appear repeatedly in subsequent pieces of research. Some authors are cautious in

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[270] The Young Foundation and Boston Consulting Group, *Lighting the Touchpaper: Growing the Market for Social Investment in England* (2011). p1
[271] Ibid. p1
[272] Boston Consulting Group and Big Society Capital, *The First Billion: A Forecast of Social Investment Demand* (2012). p1
[273] Ibid. p1

their language, pointing out that there is a degree of uncertainty over the accuracy of these figures. Others extract the number, leaving behind the caveats and explanations of how they are arrived at. *A brief handbook on social investment*, for example, blithely states: "Latest research from Boston Consulting Group predicts that, from a social investment market size of £165m in 2010, the demand for social investment will" – 'will', not 'might', or 'could' – "increase to closer to £0.75bn in the next three years."[274] A paper from the Cabinet Office similarly states that "The social investment market is growing, with demand expected to reach £1bn by 2016."[275] I am not interested in the accuracy or otherwise of these claims. What I find interesting is the effect that these numbers have on the epistemological status of the market for SI. Once the £165m figure has been published, it becomes possible to state that "the size of the market for social investment in 2011 was £165m", and for this sentence to be treated as fact. The market now appears to have a kind of solidity that it did not have before. The attaching of numbers helps to establish that the market exists, independently of the accuracy or precision with which the numbers are generated.

There are other examples of research aiming to attach numbers to – to quantify – aspects of the SI market. *Understanding the Demand For and Supply Of Social Finance: Research to Inform the Big Society Bank* endeavoured to "Quantify the scale of demand". These authors resist any impulse to arrive at a single number, instead suggesting a way to identify several sectors, and estimate demand for each of these individually. They suggest £300 to £400 million in "hard or commercial capital" will be needed over the next three years, while £200 to £300 million of "soft, semi-commercial capital" will be needed over the same time period. Once again the numbers are arrived at by making estimates informed by interviews with intermediaries – "This was the most efficient way of getting a market-level picture of the supply of, and demand for, capital" – as well as published accounts, "to build up a high-level picture of the size of demand for social finance in each market."[276] The authors here are more self-conscious about the limitations of the numbers they are producing. They describe their results as a "high-level picture", a euphemism for results that are not especially true to nature. Nevertheless, they build on the premise that there is indeed a market, aspects of which can be quantified, even if there are limits to the quality of the data that is available.

Another example is *Investing for the Good of Society: Why and How Wealthy Individuals Respond*. This report generates numbers, though in this case they are attached to the motivations of investors rather than the SI market itself. Instead, the quantitative nature of the analysis endows their findings with greater robustness: "This report presents compelling evidence from quantitative research, which when combined with earlier qualitative research, shows that many wealthy individuals (over £100k of investment assets) are motivated to try social investments."[277] How was this evidence generated? A "qualitative research phase" used interviews and focus groups to build an understanding of potential investment products; these prototype products were then the focus of an online survey with a "representative sample of mass affluent investors". The data from this survey was then subject to analysis with "statistical techniques" – "regression analysis" and "cluster analysis". The suggestion is that the use of these statistical techniques makes the findings more reliable than non-quantitative, non-statistical analysis. Once more, the effect is to lend greater objectivity to the notion that the

[274] City of London Corporation, *A Brief Handbook on Social Investment* (2012). p2
[275] Cabinet Office, *Scaling Community Lenders: The Role of Social Investment* (2015). p4
[276] New Philanthropy Capital and Nesta, *Understanding the Demand for and Supply of Social Finance: Research to Inform the Big Society Bank* (2011). p9
[277] The Fairbanking Foundation, *Investing for the Good of Society: Why and How Wealthy Individuals Respond* (2011). p36

market for social investment exists. It should be noted that not all of the evidence of the SI market is numerical. *Twenty Catalytic Investments to Grow the Social Investment Market*, for example, uses case studies. They assert that their "resolutely practical approach shines a light on the actual state of this emerging market."[278]

The preoccupation with generating numerical facts about the market helps me to make one of my central arguments: that the market emerges as a way of understanding things, and then immediately comes to be seen as a *matter of fact*.

DUALITY IN THE MARKET

We can go into more depth about the relation between the social investment market and the modern fact. The *duality* that Poovey identified in the modern fact is present in the SI market. The modern fact is simultaneously pretheoretical *and* exists as a piece of evidence in a wider system of knowledge. As a reminder, here is the passage quoted in the previous chapter:

> On the one hand, facts seem (and can be interpreted as being) simply the kind of deracinated particulars that Bacon claimed to value; on the other hand, facts seem (and can be said) to exist as identifiable units only when they constitute evidence for some theory – only, that is, when a theoretical reason to notice these particulars and name them as facts.[279]

Now, if we remain in abstract terms for a moment, we can see that the market form provides a 'theoretical reason' to notice particulars and name them as facts. Think for example of the housing market in a given geographical area – perhaps a village somewhere in England. We can imagine that there was a time where the issue of where people lived was not talked about in terms of a housing market. All kinds of cultural conditions have to be in place for the matter of where people lived to be organised according to a market for houses. So just in the way that the market for social investment emerged we can imagine that this hypothetical housing market at some point came into existence. The market breaks down into two main components – the supply of houses, and the demand for houses. The houses in that village existed before they were thought of as part of this market. But then once it became useful or obvious to think in terms of the housing market, those houses were counted and the data aggregated to build a picture of the supply of housing. Similarly, the people demanding the housing existed before the situation came to be thought of in terms of a market, but their views and needs were only collected, aggregated and thought of as making up the 'demand' for housing because the market structure made it meaningful to do so. It is also important to note that in this hypothetical market, while both the 'supply' and the 'demand' can be thought of, researched and analysed independently, they ultimately derive their meaning from their *interaction*. It only makes sense to talk about the supply of housing if you are also going to talk about the demand for housing, and vice versa. Both of these designations are meaningful and useful because of their position within a market structure.

It appears to me that the duality Poovey identified in the modern fact is relevant here. Think about the process of collecting the data about the supply of housing in this hypothetical village. The fact that the housing supply in this village is *x* number of houses is a 'deracinated particular', a simple

[278] Nesta, Panahpur and UnLtd, *Twenty Catalytic Investments to Grow the Social Investment Market* (2011). p4
[279] Poovey (1998). p9

numerical representation of reality. But at the same time, they are only being counted and aggregated and thought of as making up the 'supply' of housing because the theoretical structure of the market deems it meaningful to do so. The same applies to the people demanding the housing – they and their housing needs existed before the situation came to be thought of in terms of a market, but their views and needs were only collected, aggregated and thought of as making up the 'demand' for housing because the market structure made it meaningful to do so.

Bearing this example in mind, we can return once more to the market for social investment. Above we provided numerous examples of the SI market being talked about in an active sense, where the idea of the market brings with it a structure made up of different components that interact in specified ways. Consider once more the supply side of the market. Who makes up the supply? Research into the market identifies a number of sources. Charitable foundations and trusts hold assets that could be directed towards social investment, as do 'retail' investors – the mass population with small amounts of money kept in ISAs or other savings accounts:

> the opportunity is large. UK charitable investment and endowment assets alone account for nearly £95 billion. If just 5% of these assets, 0.5% of institutionally managed assets and 5% of retail investments in UK ISAs were attracted to social investment, that would unlock around £10 billion of new finance capacity.[280]

Wealthy individuals may also be drawn into the supply side of the market, as explored by the 2011 report *Investing for the Good of Society: Why and How Wealthy Individuals Respond*.[281] These are all pre-existing sources of capital, but it is only with the advent of the social investment market that they are being identified and grouped together as the 'supply side' of this market. This last example provides a particularly clear example, because they generate quantitative data (observed particulars) about the motivations of wealthy individuals via a process of *qualitative* research that allows them to specify the kinds of questions that would generate quantitative data. In other words, they specify a framework that helps them decide what to look for, and then use the framework to generate observed particulars that are then numerically and statistically manipulated in order to generate evidence of the supply of investment capital.

A parallel process takes place on the demand side of the market. Who makes up the demand side? The social sector. Take for example BSC's 2012 strategy paper:

> With earned income now representing a substantial proportion of the social sector's income and more and more social sector organisations operating to a greater or lesser extent as social enterprises, the sector is moving away from a model based on grants and donations towards models that focus on developing more sustainable ways to finance core costs, to grow, and to invest in capacity to generate future income. Consequently the demand for finance in the social sector is ever increasing.[282]

'Demand' is introduced as an almost self-evident way of referring to the capital needs of these organisations. Another report that explicitly tackles this issue is the 2011 report *Understanding the Demand For and Supply Of Social Finance*. Once again, that there is demand for SI is taken for granted; the purpose of the research is to better understand and quantify it:

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[280] HM Government (2011). p17
[281] The Fairbanking Foundation (2011).
[282] Big Society Capital (2012a). p10

> The aim of this research is to: "set out the nature of current and future demand for capital from social finance intermediaries and to develop an understanding of the mix of financing the Big Society Bank will need to support."[283]

The social sector, of course, already existed before the emergence of the SI market, though not in a particularly well-defined sense. 'Social sector' is another label for what had been referred to in other ways (such as 'third sector' or 'charity and social enterprise sector'), but these labels share a common referent: organisations that are driven to create social impact. Chapter 5 is devoted to examining the debate around what organisations should be included on the demand side of the market (and chapter 4 examines the debate over what kinds of investor should be thought of as making up the supply side), so the point here is to draw attention to the way in which the social sector becomes designated as the 'demand side'. These organisations already existed, but it was not until matters came to be thought of in terms of the SI market that this designation was introduced. And once it is introduced, it becomes a matter of fact: the social sector simply *is* the demand side.

Why is this significant? The statements above read almost as truisms. My point is that these designations are introduced regardless of how those affected by them feel about this change. They are not put up for debate. The factual, neutral character of these designations make them innocuous, not something to be objected to. They become the framework within which the debate takes place from this point on. The next two chapters explore this debate, marking out several points in which differences of opinion come to the surface. By chapter 7, we are in a position to mark out more clearly the effects of framing matters in this way.

MARKET FAILURE? OR EXPANDING THE MARKET?

The idea of the market for social investment did receive criticism from a group of individuals who wanted to challenge this reframing of the way the social sector is financed. It is instructive for us to look at which aspects they picked out as problematic, and which were left to operate in the background.

The 'Alternative Commission on Social Investment' in 2015 published a report highlighting the gap between the rhetoric found in reports advocating social investment, and "the reality on the ground in the UK":

> the idea of 'social investment' and the 'social investment market' are neither living up to the rhetoric of politicians and social investment leaders nor meeting the expectations of many charities and social enterprises.[284]

The report grounds its analysis in the argument that the Government's justification for building this new market for social investment is that it will provide something that is not otherwise being provided. The SI market means SSOs have access to capital of a kind that is not available from mainstream banks or investors. But the report identifies "in-built conflict" in the idea that a market can be built that

[283] New Philanthropy Capital and Nesta (2011). p5
[284] Alternative Commission on Social Investment, *After The Gold Rush* (2015). p3

> is 'sustainable' and which also offers access to 'affordable finance'….Investees have to be able to afford the money but for a sustainable market to exist, players in the market i.e. investors need to earn sufficient revenues to cover their costs.[285]

Logically, if there were opportunities for investment that already generated a healthy return, there would already be provision from mainstream capital providers. BSC, charged with building this market, is in a difficult position:

> BSC then, and others charged with developing the social investment market, have spent recent years attempting to solve the problem of how social investment can meet demand from social section organisations' that is not currently met by commercial markets whilst also developing a viable commercial model.[286]

They therefore recognise and extend the comments we made above about the expectations introduced by the market, directly questioning their applicability in a situation where certain parameters are fundamentally different.

Interestingly, the viability of the market model is also questioned by a senior member of staff at BSC, interviewed in 2015. He challenges the notion that investment readiness can be expected of all SSOs, even in theory:

> the idea of investment readiness presupposes that everybody has the capability to run a business. Or to execute a business plan if they get enough support. I'm not sure if that is necessarily the case. [Interviewee]

He suggests the motivations that drive demand for investment may be missing, and that this is a function of why people tend to start SSOs in the first place, and the institutional structures that are in place:

> There's no evidence that the sector has an appetite for loans. And it's - why is that? – I think some of that has to do with what Dai Powell describes as an entrepreneurial deficit in the social sector. And I think that is true to some extent. I think it's partly the culture, it's the type of people that start SSOs in this country. They tend to be very community focused. They tend to be motivated by making a difference in the community to people they know and see and touch. The idea of having a national organisation is not appealing. So there's no need to grow their organisation. And I think partly it's due to the natural conservative instincts of trustees, which are personally liable for losses. They are in actually a riskier position. [Interviewee]

These comments touch on some of the basic largely unspoken assumptions about how individuals act in a market, and challenge their applicability in the context of social investment. The implications of these observations go beyond putting a drag on demand:

> That's sort of an underlying thesis of a social investment market that you aspire to scale, and if you don't aspire to scale then there's a real mismatch there. And the idea that scale creates efficiencies, and by creating efficiencies you free up more money to help the people that you're really trying to help. ...it doesn't mean every social organisation has to aim to scale, but some do. And those that participate in the social investment market are those organisations

[285] Ibid. p54
[286] Ibid. p55

> that have those aspirations. But if you're constantly saying all the best social value is delivered by tiny community organisations, with four people in them…[Interviewee]

This is potentially a devastating critique. He offers reasons to think not just that the assumptions introduced by the market are not applicable in this context, but that the pursuit of social impact is best pursued by organisations that do *not* display these characteristics – by "tiny community organisations" rather than organisations that "aim to scale". But it is not a published opinion, and it is not an argument I have encountered anywhere else.

What I have encountered is that even the market's fiercest critics still use the market as a way of thinking about the current state of affairs, and what needs to change. This appears to be true of the Alternative Commission report. In its concluding paragraphs it argues that:

> the mismatch between the most heavily supported forms of supply and the research-backed demand are so great that there is need for more fundamental consideration of whether 'the social investment market' is a useful idea at all.

But then later on the same page concludes:

> If we are going to create a social investment market primarily focused on meeting unmet demand from social sector organisations and/or based on broader, fundamentally social approach to investing we need to support the most promising models of truly social investment and the development [of] new ones. We also need to be clear about what we think the social investment market is for beyond sustaining its own existence and that of its most significant players.[287]

That is, they suggest that a "more fundamental consideration" is needed over whether social investment should be thought of as a market, before going on to frame its concluding comments in terms of the "social investment market".

Now, we can explain these formulations in terms of the difference between the active and passive uses of the market described at the beginning of this chapter. It might be that the authors are objecting to the active sense of the term, with all the assumptions and brings with it, but are happy to use the terms in the more general, passive sense, as a way of referring to the general area of activity. It may be that this small qualification would help clarify their argument, and lend additional bite to their critique. For our purposes, this discussion helps us to see that even those keen to gain perspective on SI, in order to critique it, find themselves trying to work within the framework and step outside it at the same time.

CONCLUSION

Following this first area of discussion of the logic internal to SI as a programme of government, we can begin to see some our main themes emerging. An argument running through the thesis is that this programme of government sets out neutral, technical grounds for action. We have now seen that the duality present in the idea of the market enables it to appear as a neutral, innocuous matter of fact. This epistemological neutrality, if we can call it that, is of course corroborated by the way the market

[287] Ibid. p70

figures in the broader liberal rationality of government. As we know from chapter 2, markets simply coordinate the interests of those who have something to gain from transacting with another party.

There are plenty of settings in which the kind of neutrality we are pointing out would be entirely unremarkable. The 'market' for apples at a local farmers' market, for example, where no party suffers from starvation or poverty, could quite unproblematically be thought of in terms of the structures of demand and supply. The reason it is worth describing at such length in the case of social investment is all the reasons we have to think that these designations might not be suitable. Is it plausible to assert that the social investment market simply brings together pregiven interests in social finance? Or is it more likely that the market creators introduced a set of assumptions around what is in the interests of investors and (especially) the social sector? As the interviewee quoted in the epigraph acknowledges "this is a very 'build it and they will come' approach to the market" – all very well, except for the degree of *encouragement* required for SSOs to turn up. As another market actor commented: "How many pilots and pathfinder and boosters and funds and government support and interventions does a market need? If you really want it to grow as a market you should just respond to demand..."[288]

We are now at a stage where we can point out that introducing the market as a way of framing the conversation is itself a political argument, though it presents itself as neutral. The fact-based way of reasoning through the existence and relevance of this market effaces its political character, ensuring the (value-based) assertion that a market is a good way to deal with things appears as a matter of fact. The market as a political object provides a rich legacy. It strikes me that while Smith must have faced some difficulties in convincing others about this market system, it now seems entirely natural to talk in terms of a market, to switch between active and passive senses of the word, even within a single sentence, and to use it both to describe the current reality *and* how things should be. We switch between these different senses without even realising we are doing so. We also allow the facts about the market to slide in and out of focus: if we are thinking of the market as real, something that we are going to devote time and energy to growing and improving, then we can point to the facts about the market as objective sources of information, useful in supporting whatever argument is being made. But these same facts can simultaneously be seen as based on models and assumptions, as attached to a more metaphorical notion of the market, and certainly not as a direct reflection of reality. They are not undermined by being inaccurate, because there are no grounds for expecting them to *be* entirely accurate. That would be to misunderstand the nature of the market.

We have now spent some time drawing out the assumptions introduced by starting to think in terms of a market. In chapter 7 we will return to the question of how well these assumptions fit with certain aspects of reality, and how actors in the market reason through these points of strain in the logic. Before that, we turn to how the debate over what it means for social investment to be 'social' plays out within this framework.

[288] Quoted in Dan Gregory, *Angels in the Architecture: Building the Infrastructure of Social Investment* (2013). p18

CHAPTER 4: PROFITS AND TRADEOFFS

> Social investors are sometimes described as being willing to accept "below market returns". This is because they are happy to trade-off social returns with financial returns.

From a report commissioned by Big Society Capital,
Lighting the Touchpaper: Growing the Market for Social Investment in England (2011) p20

> [There is a] widespread assumption that one can't support social causes and produce market-rate returns at the same time, …. In fact, that assumption is false – and a growing body of research shows it can be possible for investors who want to achieve market rate returns to also create positive social impact with their investments.

From the report of the Independent Advisory Group to the UK Government,
Growing a Culture of Social Impact Investing in the UK (2017) p8

Here we have two sides of the 'tradeoff debate'. The first of these quotes makes passing reference to the tradeoff, the existence of which is energetically denied by some parties, including the Advisory Group report to DCMS, source of the second quote. The discussion in chapter 3 focused on the market structure, temporarily putting to one side what is distinctive about this market: the pursuit of *social* as well as financial return. With the tradeoff debate, and a range of other related issues, we now turn our full attention to the social aspect of SI. We will see that the implications of introducing this social element are a source of contention, because different actors reason through this puzzle in different ways.

Returning to the tradeoff example, we can see the authors of the first quote treat this feature of social investment as if it were obvious. It is easy to suggest a line of reasoning to back up this assertion: if you are prioritising social mission rather than financial gain, then it is reasonable to expect you will not generate financial returns on a par with those for whom profit is the main focus. But the Advisory Group are not alone in rejecting the assumption that there is a tradeoff. Three Harvard MBA students, for example, devote a paper to moving "beyond the tradeoff" in the social impact investing industry, based on the observation that "a destructive debate between the proponents and opponents of the tradeoff theory has created confusion about what different social fund managers truly prioritize".[289] Five years later, another team of academics published research demonstrating that funds targeting market-rate returns could also preserve social and environmental impact, lending weight to the argument that "there is little inherent tension between profits and 'purpose.'"[290] Importantly, those who oppose the tradeoff are not saying it is *never* the case that more social impact leads to lower financial returns, but rather that it is not *necessarily* the case. Investors in this market can choose to go for 'impact-first', lower return options, but there are also opportunities to generate market-rate returns while also creating social impact. The dispute is over what should be considered the general rule, and what should be the exception. And it is a dispute over what counts as social – those who refer to the tradeoff suggest there is something about being oriented to social mission that means profits will be

[289] Hui Wen Chan, Vera Makarov and Sarah Thompson, *Beyond the "Tradeoff": A New Analytical Framework for the Social Impact Investing Industry* (2010).
[290] Wharton Social Impact Initiative et al., *Great Expectations: Mission Preservation and Financial Performance in Impact Investments* (2015). p6

lower, while those who oppose it want to use the 'social' label more broadly, including activities that are profit-making.

There are other key phrases that have become touchstones in trying to clarify the significance of 'social' – the 'mission drift' debate questions whether there is a risk of more commercial capital influencing an organisation towards focusing more on financial return and less on social impact, while the 'mismatch of demand and supply' is often referred to in the course of discussions over who should set the terms of investments. In a more general sense, the terms 'social investment', 'impact investing' and 'social impact investing' are not only not used inconsistently by different authors, they are used to refer to sometimes entirely disparate versions of what this field of practice is all about. Some suggest that the label 'social investment' be reserved for situations where there is a tradeoff, while 'impact investing' be used in relation to a broader practice of investing for impact, whether 'impact first' or 'finance first'.

In this chapter I am going to focus in on how the 'social' status of social investment feeds through into reasoning about the motivation of investors. What motivates the investor in the SI market? How should social returns be understood? And how do they interact with financial returns? I do not mean to phrase this as an empirical question, answered by going out and asking investors what motivates them to invest. Rather, I intend to investigate what motivations are *assumed* on behalf of investors in the reasoning through of social investment.

Up until this point, no sense has been given of the differences of opinion over SI. We have pointed out the lack of conceptual clarity and the inconsistent use of terminology, but we have not yet touched on the presence of fundamentally quite different views. Bringing these differences to the surface is not entirely straightforward. They all operate within the same problematisation, accepting both the diagnosis of the problem and the solution. They use the same language and terminology. But, I am arguing, they are associated with different background assumptions over what counts as 'social'. To bring these differences to the surface I have developed a schematisation of two constrasting modes of reasoning discernable in the literature. The chapter starts by elaborating on these modes of reasoning. It then turns to the question of investor motivations. The conversation in the literature often adopts the language of ('social') risk and return, so an overview is provided of how these concepts are picked up and worked through by different actors. The discussion then uses the two modes to draw out differences of opinion over what should be expected of social investors.

TWO MODES OF REASONING

A central difference between these two modes of reasoning is based on contrasting assumptions about the role of self-interest – profit-making, or financial return – in the operation of the social investment market. For convenience, we can refer to them as the 'principled' mode and the 'innovative' mode of reasoning.

The principled mode of reasoning assumes a conceptual distinction between profit-making and creating social good. Within social investment, of course, both of these things are being pursued simultaneously. On the principled mode of reasoning there is room for both, but the distinction is maintained. Importantly, this provides a way to ground 'social' status. What makes social investment 'really' social is the *prioritisation* of social impact over financial return. Following this reasoning, we anticipate tension between the pursuit of profit and the pursuit of social purpose. It will often be the

case that these things pull in different directions, and if they do, it is essential that social mission is prioritised. There are lots of kinds of investment that try to create social impact, and those other kinds that place more importance on financial return should be welcomed, but they are not 'social investment'. The distinction is important when, as in the UK social investment market, public and philanthropic funds have been allocated to 'social investment' specifically. If we are to solve society's most pressing problems, we should be making sure that the organisations set up for that very purpose – the social sector – are gaining access to the resources they need.

On the innovative mode of reasoning, in contrast, social investment is understood in terms of the intention to create social impact, combined with the demonstration (through measurement and data) that impact is in fact being created. If this goal is achieved then the degree of profit-making is irrelevant. There is no reason why people cannot "do well and do good". Importantly, this is not a claim that it is *always* possible to create both financial and social return. There are of course situations in which investment is not an appropriate financing model. But these are a subset of the wider set of socially oriented activities. The assumption is made that such innovations in finance are necessary if we are to address social problems. It is only by opening up new sources of capital that we will be able to operate on the scale needed.

A fundamental difference between these modes of reasoning is the attitude to the pursuit of self-interest. On the principled mode, it is assumed that the pursuit of self-interest is legitimate as long as it is secondary to the pursuit of social purpose. It is committed to the principle that profit should be subordinate to social mission. A form of compromise is involved. Investors may not realise the financial returns they could achieve elsewhere, but they are achieving something else instead. On the innovative mode, in contrast, there is an insistence that *there is no need to compromise*. A basic *compatibility* is assumed between the pursuit of one's own interests and the pursuit of social impact. This is not a claim that all socially oriented activity is potentially profitable, but that what makes activity identifiable as socially oriented has *nothing to do with* the degree of profit-making. By making this assumption, this mode of reasoning opens up the possibility that large, established pools of capital can be brought into the social investment market even though they are restricted by commitments to minimum return levels. In this way unprecedented volumes of private capital can be brought to bear on social problems.

There is an intuitive connection between these two modes of reasoning about SI and the two problems marked out in chapter 1. The principled mode sits well with the problem of the undercapitalisation of the social sector, and the emphasis on making new sources of capital accessible to existing SSOs. The innovative mode, in contrast, is compatible with the attempt to build new mechanisms for finance, providing a route for investors to create both financial and social return with their capital. So why do we need these two sets of distinctions? Because the two problems, at the level they are described and understood in the source material, are compatible. They are both solvable by the introduction of a market for SI. By also identifying the two modes of reasoning, we bring to light basic incompatibilities that, as we will see, currently lie beneath the surface of the debate, unidentified but causing problems.

It will be helpful to clarify the (epistemological) relationship between these models and the social investment documents. The models will be used to draw out contrasting assumptions, but this does not amount to a claim to have *complete* knowledge of the assumptions made by the authors. I have no insight beyond what is written in these documents, and there is a degree of conjecture involved. Indeed, these are not works of philosophy, and the authors usually do not work their assumptions

through to their logical conclusions. My aim is to suggest an account of the reasoning being employed, in the hope that this account is convincing and useful to others. A possible criticism here is that I am simply determining the models in advance, then picking out examples of reports that align with one or the other. This would create a neat argument, but not one that reflects the reality of social investment. This criticism would be misplaced. As will become clear over the rest of chapters 4 and 5, the opposition brought to the surface by contrasting these two modes of reasoning is by no means clearly reflected in the literature. They are not a system of classification. Rather, after lengthy engagement with the literature, I have arrived at this distinction as a way of conveying the presence of basic assumptions about the interaction between private interests and the effort to create social impact – assumptions that do not sit easily alongside each other. It is in this sense that this distinction is an *analytical tool*.

When I use the modes of reasoning as reference points, therefore, they are used to highlight when a comment or phrase suggests one or other of the basic sets of assumptions. There are two main ways in which this is a useful tool for analysing the literature. First, it is sometimes the case that both sets of assumptions are referred to within the same article or report. In such cases the argument is likely to be unclear, and the modes of reasoning can be used to pinpoint where this lack of clarity comes from. Secondly, and more importantly, the distinction can be brought to bear on the problems that arise when different actors, who have developed their own mode of reasoning about social investment, attempt to communicate with others, to discuss and debate and reach conclusions. Currently the same language and very similar concepts are used to advance arguments that seem to occupy the same territory, but it proves almost impossible to reach productive conclusions. I make this statement on the basis of all I have read, and also on the basis of my experience in meetings and conferences and interviews with people engaged in the practice of social investment. The two modes of reasoning, therefore, are intended to provide clarity on where (unarticulated) basic assumptions are actually precluding agreement ever being reached.

(SOCIAL) RISK AND RETURN

In general, as a basic model, it is assumed that investors make decisions about whether to invest according to the risk/return profile of the investment in question. Risk and return are assessed in relation to each other. More risky opportunities tend to offer higher expected returns as compensation for the risk involved. Low risk options tend to offer lower, but more certain, returns. We are told as much by writers in the social investment space. Alex Nicholls and Tomkinson's chapter in the book *Social Finance* makes this point:

> It is a convention in mainstream finance to link the level of expected (or required) return to a calculation of the risk of a given investment opportunity, such that the higher the perceived risk of an asset the greater the return on capital.[291]

As does a report on impact investing from an investment bank:

> In traditional finance, modern portfolio theory (MPT) evolved as an important portfolio management tool because it allowed investment managers to distill a multi-dimensional set of

[291] Alex Nicholls and Emma Tomkinson, 'Risk and Return in Social Finance', in *Social Finance* (2015). p282

> information into a graphical representation using just two parameters: risk and return (and the correlation between them).[292]

Of course, theories of investor behaviour are immensely more complex than this simple set of assumptions, but it is a conceptual touchstone that plays a central role. The *Lighting the Touchpaper* report, one of the early scoping papers for social investment, perceives matters in this way:

> The risk-return tradeoff is a fundamental financial concept. It describes the principle that expected return must rise with an increase in risk. Low levels of risk (uncertainty) only demand low expected returns, whereas high levels of risk (high uncertainty) demand high expected returns. In simple terms, investment opportunities ask investors to put their money at risk in exchange for the possibility of making a return in the future. This is no different for social investments, other than the fact that the returns can be both financial and social. [293]

This last statement, in perhaps overly modest terms, brings us to our real area of interest in talking about risk and return. How has this basic model been *modified* to cope with the addition of social returns? We will make a brief tour of the different approaches to this challenge.

Overall, the focus has mostly been on how to understand the positive social gain achieved through a social investment, whether it is called 'social impact' (or just 'impact'), 'social value', 'social return', or something else. These are all attempts to solve the same problem: expanding the idea of what is achieved by social investment to include more than just financial value, and expanding it in way that is not a vague gesture but using a robust analytical framework that can intersect with investment decision making. Indeed, in many ways social impact measurement, discussed at length in chapter 6, is a response to this problem. There have also been attempts to expand the notion of risk, in a similarly robust and analytical way, though these are fewer in number and generally sparser in detail.

The earliest iteration of this idea that I have found is a 2003 paper in the California Management Review, which puts forward the 'blended value proposition':

> What is required is a unifying framework that expands the definition of investment and return beyond the historic one of finance and toward a new definition capable of holding a broader understanding of value than that most frequently reflected in traditionally endorsed financial operating ratios. In truth, the core nature of investment and return is not a trade off between social and financial interest but rather the pursuit of an embedded value proposition composed of both.[294]

This articulation of the problem predates social investment by a number of years, but it is present enough in the social investment literature to be worth mentioning. The concept of 'value' is often used as a vehicle for this expanded notion of non-financial benefit. 'Blended value' asserts that it is possible to build investment decision making on a broader, "more fundamental" conception of value. It is a vision that relies on the measurability of this broader version of value: "we must build better social management information and tracking systems, while evolving a new set of metrics upon which to assess our progress", the author, Jed Emerson, states. He places himself in contrast to prevailing norms in the social sector:

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[292] J.P. Morgan, *A Portfolio Approach to Impact Investment* (2012). p8
[293] The Young Foundation and Boston Consulting Group (2011).p20
[294] Emerson (2003). p38

> For many of those active in the social sector, it has been taken as a virtual given that most elements of social value stand beyond measurement and quantification. … Such logic is unpersuasive. There are numerous ways to "triangulate" around a given element in order to understand its worth from a variety of perspectives—numeric and otherwise.[295]

This numeric, quantitative approach is so important because it means investors can start making decisions based on a comprehensive understanding of the returns being created, rather than a narrow understanding of financial value only. Emerson suggests that a notion of "blended return on investment" is what is required to direct investment capital:

> it is clear that coming years will witness an increasing number of funds and investment pools created with the direct intent of providing capital to investees on the basis of both social and financial performance. These investments will be assessed on the basis of a Blended ROI.[296]

He makes no mention here of how financial return might be affected in this change of circumstances, possibly because blended value is intended to displace the notion that financial and social value should be conceptualised separately.

This work on blended value fed directly into one of the most prominent types of social impact measurement – the social return on investment (SROI) principles. SROI is promoted in the main by Social Value UK, an organisation that places a broader concept of value at the heart of its message and position. A detailed working through of the SROI method is publicly available, providing a way to calculate 'social return' by identifying, measuring and processing outcomes into a format that is intended to help inform organisations (who might be investors) of the value created by certain activities.[297] SROI is referred to again in chapter 6. In these two examples, the terms 'social value' and 'social return' are used interchangeably. Slightly confusingly, SROI is applicable in a broader context than social investment, and the term 'investment' in the title refers to a more general concept of time and resources being invested in creating social outcomes.

Another response to the problem of understanding what non-financial return is created is a 2012 report from an advisory firm, Cambridge Associates. The report puts forward a "framework for investor decision making". It suggests a concept of 'combined return', and also acknowledges the risk side of the equation with the parallel concept of 'combined risk':

> In our recommended approach, evaluating social investments is an extension of the familiar risk/return analysis applied to all investment assets. In this case, however, 'risk' is expanded to '*combined risk*', which incorporates both financial risk and social risk, while 'return' is broadened to '*combined return*', which incorporates both financial return and social impact.[298]

The authors visualise this as follows:

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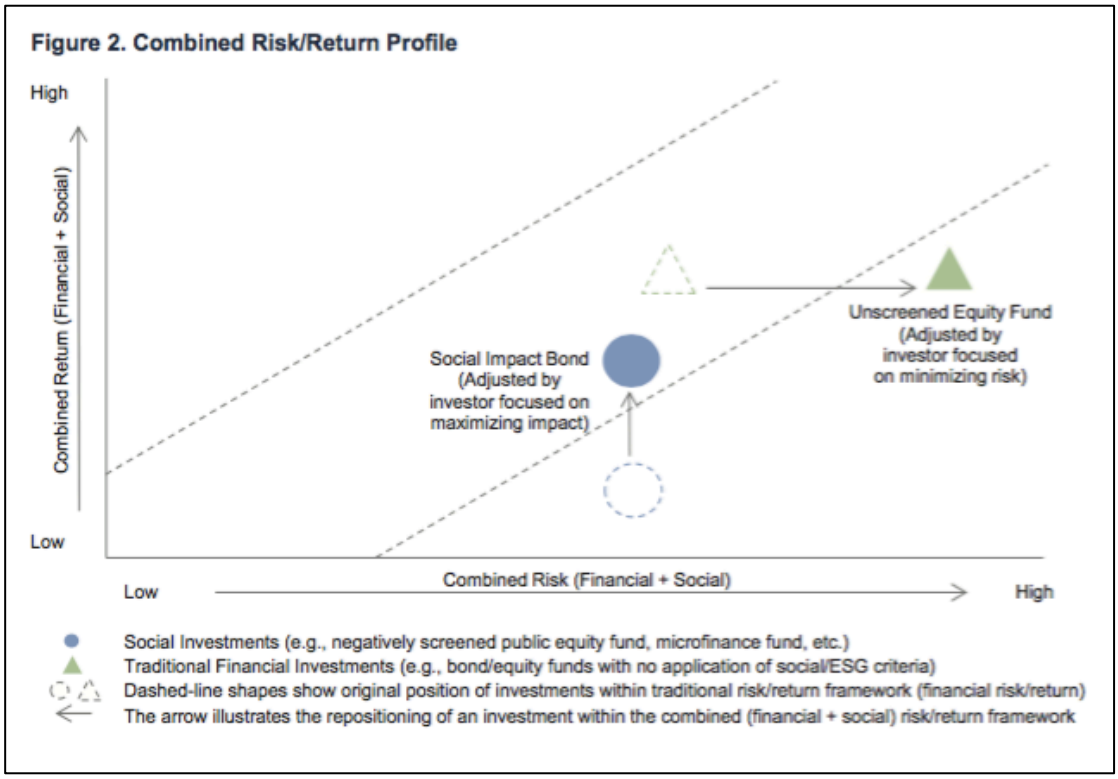
[295] Ibid. p40
[296] Ibid. p47
[297] Jeremy Nicholls et al., *A Guide to Social Return on Investment* (2012).
[298] Noelle Laing et al., *The U.K. Social Investment Market: The Current Landscape and a Framework for Investor Decision Making* (2012). p11 Emphasis in original.



From Laing et al., *The UK Social Investment Market: The Current Landscape and a Framework for Investor Decision Making* (2012) p15

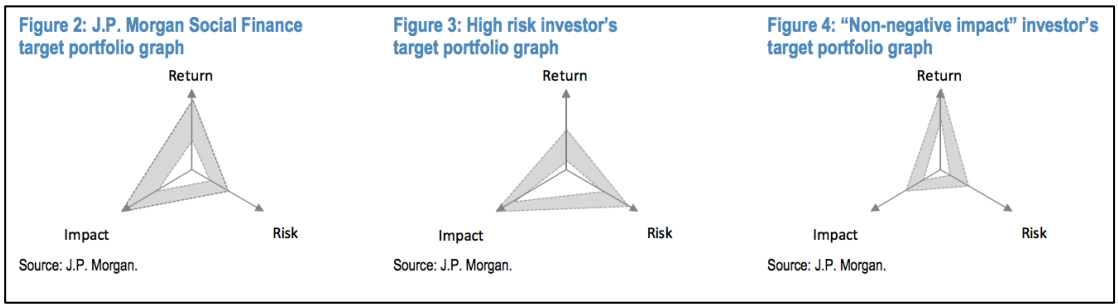
This version of investor decision making sees social return as additive to financial return, suggesting that the two types can be placed on the same continuum. Investors who are focused on maximising impact therefore make an assessment of a higher return profile than the return perceived by an investor considering only financial returns. 'Social risk' in this context is understood narrowly as "the risk that an institution's investments might alienate key stakeholders and/or compromise the values of the organisation."[299] This is not easy to quantify, the authors acknowledge, but it will be sufficient to increase the 'combined risk' measure "so that it is meaningfully higher than the financial risk measure. This will make it clear that a strategy with exposure to social risk is less attractive from a risk/return standpoint than a similar approach that is not exposed to the social risk."[300] This is represented by the move to the right of the green triangle in the diagram above. But, of course, an increase in expected social return might balance out the increase in social risk.

A different account comes from investment bank J.P. Morgan, which published research presenting "a tool to analyze impact investments across the three dimensions that determine the performance of these assets: impact, return and risk."[301] The author describes and visualises the model as follows:

> To illustrate how different investors might map their portfolio targets, we present the graph of our own J.P. Morgan Social Finance target portfolio – the shaded grey area in Figure 2 – alongside the profile that might be targeted by an investor with a higher risk appetite and a

[299] Ibid. p12
[300] Ibid. p12
[301] J.P. Morgan (2012). p4

> lower return threshold, and the graph that might represent the target for an investor pursuing only non-negative impact with a low risk appetite.[302]



From J.P. Morgan *A Portfolio Approach to Impact Investing* (2012) p5

The 'impact' axis represents the results of an 'impact assessment': "a due diligence exercise to come to a view on the intent and the impact of the proposed investment opportunity." Scores are allocated to questions regarding the fund manager's "intent", and how the impact will be delivered. A weighted average is calculated that gives an overall score between one and five for the investment.[303] Impact also appears in the 'return' dimension of the portfolio: "We assess the performance of the portfolio on a blended basis – the aggregate financial return and social impact of our invested capital are considered in determining success." That is, if the "impact objectives" of the opportunity are "compelling", they will accept an expected return that is lower than they would otherwise require. I find this representation of financial return and social impact as 'aggregated' to be somewhat at odds with the diagrammatic representation along three axes. Furthermore, the document suggests that the authors see no need to modify conventional understandings of risk; they simply explain that they "maintain flexibility with respect to all of the parameters that determine risk," but "also try to find a balance across risk factors to reduce the net risk profile of any investment."[304]

Another report, this time from Bridges Ventures, focuses exclusively on the riskiness of impact investments, suggesting a way to "shift the lens". The authors propose a way to "adjust the risk side of the equation – to 'de-risk' impact investment."[305] The impetus behind this effort comes from the observation that:

> a significant portion of asset owners, representing the lion's share of potential capital available, simply cannot participate in the market today because of a variety of risk factors, or perceived risk factors, whether on a commercial or impact-first basis. To broaden the market, we therefore need to grow the range of lower risk opportunities available for investors. This report takes a practical look at how this might be done.[306]

The authors highlight that risk is subjective, "since it is always relative to an investor's particular expectations." As a result, the "risk side of the equation" has to take into account the perspective of the investor in question, though they have identified some common concerns across investor groups.[307] They identify a number of risk factors that are thought to be enhanced by the use of an 'impact lens' -

[302] Ibid. p5
[303] Ibid. p20
[304] Ibid. p21
[305] Bridges Ventures, *Shifting the Lens: A De-Risking Toolkit for Impact Investment* (2014). p4
[306] Ibid. p4
[307] Ibid. p6

"Capital risk", "Exit risk" and others. The risk factor of interest to us is "impact risk", which is conceived as follows:

> As with financial analysis, understanding the impact risk of an investment is as important as understanding its potential for impact return. Impact risks can take various forms. For example, there may be a lack of evidence that an intervention will lead to the desired outcome. Even if the intervention is successful, the investment could cause displacement, leading to reduced or no net benefit.[308]

In other words, impact risk captures the uncertainty around whether impact will be created, and whether positive impact might be outweighed by negative impact. The report outlines a number of "de-risking features" that might be employed. The de-risking feature thought to counteract impact risk is "impact evidence". That is, robust evidence of impact is conceived of as reducing impact risk:

> Impact evidence is most robust when the product's method of intervention is well-understood and is supported by a randomised control trial (or other scientific study) that demonstrates the causal link between the investment's outputs and the asset owner's target social outcomes.[309]

Impact measurement is important once more. Just as the article on blended finance suggested that investors would assess expected return using accounting for both social and financial return, so these authors suggest that authors will use information about social return to inform their risk assessment.

There are two further examples to mention. *The Good Investor*, another guide for measuring impact, also maps out a notion of 'impact risk' – the certainty with which an organisation will deliver on its social impact. The assessment of this risk is grounded in an assessment of the organisation's 'impact plan', pursuing questions such as how well integrated the pursuit of impact is into the operation of the organisation, and the level of existing evidence regarding the efficacy of this kind of intervention.[310] Puttick and Ludlow's paper setting out a framework for standards of evidence in impact investing also uses the same concept of 'impact risk', but calibrates this risk to a series of standards of evidence, such that impact risk is reduced by higher standards of evidence.[311]

So far, we can see that the extension of risk and return into social investment can take a number of different directions. The risks associated with social investment can be categorised as simply another type of risk within the already extensive catalogue of risks faced by investors. Only some of the versions above view 'social risk' (or 'impact risk') in relation to the likelihood of the social return (or impact) being achieved. We also get some glimpse into the complexity of implementing concepts of risk and return. The J.P. Morgan paper posits its three axes of risk, return and impact for consideration at the stage where a portfolio is being assembled, in which case the score on the impact axis is determined by a due diligence process, which focuses on the fund manager's intent, and the organisation's plans for delivering impact – *not* data on whether impact has been achieved. But then 'impact return' does appear, as a component of 'return'. The 'standards of evidence' approach suggests that the *quality of information* about social return helps to determine the level of risk involved in making an investment.

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[308] Ibid. p9
[309] Ibid. p15
[310] Hornsby and Blumberg (2013).
[311] Nesta, Ruth Puttick and Joe Ludlow, *Standards of Evidence for Impact Investing* (2012). p5

Sitting in contrast to these examples are two scholarly articles on the topic. First is Lehner and Brandstetter's treatment of portfolio theory:

> [E]specially institutional investors commonly use a two-dimensional framework of risk and return to select investment opportunities and arrange portfolios. Since impact investors' focus is to generate an additional social impact alongside a financial return, applying the traditional lens evokes the following questions:
>
> (a) How does financial risk change when adding a second return perspective?
>
> (b) What kind of risks influence the social returns? [312]

This article reviews the same materials as we have used above, perceiving "several conceptual overlappings" across these formulations, and concludes:

> the overall perception of practitioners is that impact investments face a multifaceted set of interdependent risks and further research is desperately needed to define risk factors and empirically analyze interdependencies between those risks and their effects on financial and social return.[313]

Existing attempts fail to "describe how the [impact] parameters are concretely evaluated, measured or systematically embedded into a portfolio allocation framework", and so Lehner and Brandstetter present a "verifiable mathematical theory" that "incorporates social investments' specific parameters alongside financial values into the traditional logic of portfolio optimization".[314] That is, they take elements of existing frameworks and formalise them into the existing mathematical language of portfolio theory.

Second, Nicholls and Tomkinson go a step further in mapping out two additional dimensions of social risk and return, that sit in parallel to financial risk and return:

> it is timely to reframe debates concerning risk and return in a more holistic context that takes account not only of the limitations of existing risk calculation approaches in capital allocation but also acknowledges the distinctiveness of social risk and return. This social risk represents a calculation of the likelihood that an intended social return will be realized in a given investment context.[315]

They suggest that the preferences that lie behind investor behaviour in social finance markets "appear to operate beyond conventional market logics". That is:

> Social investors have often shown a willingness to accept a financial return below a comparable risk adjusted return expected in mainstream markets. Assuming that this behaviour is not completely irrational, this demonstrates that investors in social finance expect a compensatory value in social returns.[316]

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[312] Lisa Brandstetter and Othmar M. Lehner, 'Opening the Market for Impact Investments: The Need for Adapted Portfolio Tools', *Entrepreneurship Research Journal*, 5/2 (2015). p7
[313] Ibid. p11
[314] Ibid. p13
[315] Nicholls and Tomkinson (2015). p283
[316] Ibid. p292

Social risk, they argue, has to be conceptually distinct from financial risk. The argument proceeds by taking an account of different kinds of risk from conventional risk and return theory, and reframing it in terms of 'social risk'. The argument is too detailed to recount here, but this passage gives an idea of the approach:

> The probability risk of a social investment is the likelihood that its social impact will be achieved. The social probability risk is determined by two factors: the reliability and extensiveness of the evidence base of historical data; differentiated populations potentially sharing similar outcomes. Figure 10.4 illustrates the perfect world of historical data on programme performance: here the data are assumed to be normally distributed along a single linear scale. The likelihood of the programme's social return exceeding a certain amount (called here 'k') is calculated as the proportion of previous similar programmes that also exceeded this level of social return (in this case, 73 per cent).[317]

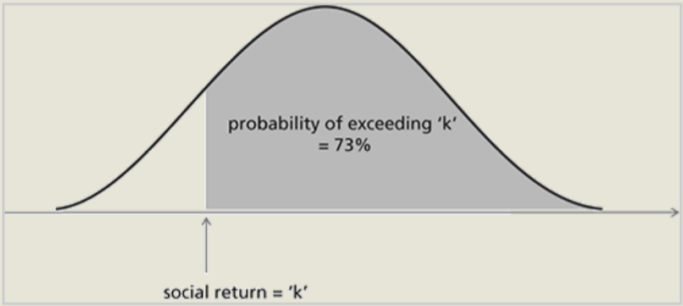

Figure 10.4. Probability risk

From Nicholls and Tomkinson, *Risk and Return in Social Finance* (2015) p294

This is one of several kinds of risk the authors identify as subcategories of social risk, which together open up even more dimensions to the problem of how to conceptualise social risk and return. They also tackle the matter of how the correlation of social return with the different varieties of social risk can be modelled.

By placing all of these versions next to each other, we can better see the variation in approach. Nicholls and Tomkinson's insistence that there should be four dimensions – risk and return, and social risk and social return – appears to contradict the J.P. Morgan model of three factors of risk, return, and impact. But the J.P. Morgan model is not obviously flawed, and has been developed for use by a bank in managing their clients' portfolios. Similarly, if we think about non-financial return, we can see that sometimes it is thought of as equivalent to financial return, and so called 'social return', but sometimes it is seen as something that is intentionally created by an investment, in which case it is usually called 'social impact'. The former suggests that the return in some sense accrues to the investor, which does not sit particularly well with the idea that it is an identified group of beneficiaries that are experiencing these outcomes. The latter avoids this connotation, but has a less obvious position within a risk/return model. 'Social value' has more of an alignment with 'social return', in that it suggests a parallel with financial value, but it also is associated with 'blended value', which suggests that these two types of value cannot or should not be seen as separate.

[317] Ibid. p294

These observations are not intended as criticisms, but are an attempt to highlight the *instability* of any attempt to extend the conventional risk and return model to integrate the social aspect of social investment. We might anticipate a couple of objections to this assertion. It might be objected that they are overly general – that there are countless different kinds of investors, facing different kinds of investment decisions, and that they have to be taken on a case-by-case basis. It might also be objected that this is still a relatively new area of practice, and that more time is needed for these different approaches to consolidate. I would like to suggest two arguments for why the assertion of instability stands.

Earlier in this section we emphasised the interrelatedness of risk and return in investor decision making. It is captured in the notion of "risk-adjusted return" referred to by Nicholls and Tomkinson, and emphasised when we note that the riskiness of an investment is calculated by analysing the historical *returns* data for that investment type.[318] It is not clear that we can posit such a relationship between social risk and return. One of the reasons these concepts are so unstable is because it is unclear if and how we should think of either the risk or return accruing to the investor. 'Social returns' are the outcomes experienced by the beneficiaries, not by the investor. One possible understanding of 'social risk' is the risk that the intended outcomes are not achieved, or even that things are worse than they otherwise would have been. The downside of the risk is borne by the beneficiaries as much as, if not more than, the investor. It is simply not clear how social risk and return can be logically interrelated either with each other or with financial risk and return in a manner comparable to the conventional risk-return model.

This argument can be extended into epistemological territory. That is, financial returns data provides important empirical anchorage against which to assess the accuracy of previous risk calculations, and to ground such calculations going ahead. In extending risk/return to social investment, I contend, 'social return' data cannot be called upon in the same way as financial return data. Unlike financial returns, social returns exist separately from the numbers used to capture them, and (as chapter 6 demonstrates) there are lots of variations in the techniques used to translate social return into numbers in a spreadsheet. Whether social return is created or not is a separate issue to whether the data captures these changes, or how well the data captures them.

This process of translation is not required for the reporting of financial returns, because financial returns are inherent in the numerical reporting that represents them. Of course, there are all sorts of questions around the accuracy of this reporting and the meaning they communicate, but it remains the case that there is no concept of 'financial return' that exists independently of the numbers used to represent it. I would suggest that this additional level of translation means social returns data cannot provide the point of empirical anchorage that financial returns data can. It is not just that the systems for measuring social returns are not yet adequate for generating data that can inform risk assessment, but that there are conceptual issues with the notion that social returns data could ever provide anchorage of a kind parallel to financial return. This argument is only strengthened by the variety of approaches already marked out to conceptualising this non-financial return.

There are reasons, therefore, to be sceptical that social risk and return will eventually consolidate into a model capable of playing a parallel function to financial risk and return. But the main point here is to

[318] Ibid. p283

familiarise ourselves with the reasoning that lies behind appeals to the concept of risk and return. This done, we turn now to the question of investor motivations.

INVESTOR MOTIVATIONS

The investor viewpoint is critically important to the successful functioning of the market. Investors, whether individuals or institutions, make up the supply of capital. Basic market theory asserts that investors choose to make their capital available because it is in their interests to do so. The potential for gain motivates them to transact. This means that the idea of a financial market carries assumptions about the behaviour and motivations of those who take part in it. Certain things have to be in place for it to work. Not only do there have to be investors motivated by potential financial reward, those investors have to be *confident* that the reward will materialise. This is not like a market for apples, where the quality of the apples can be verified before purchase. Investments are inherently risky, and may not turn out as planned, even with the best efforts of those involved. Confidence is rooted in having a good understanding of the market, and the risks involved.

For social investment advocates, therefore, it is very important to provide as many reasons as possible for new investors to be confident in the future of this new market. It is also important to provide as much clarity as possible. Investors will only transact if they are confident that the risk is worth taking, in comparison to all the other things they could do with their capital. This is, presumably, a challenge faced by any attempt to build a new kind of financial market. The social investment market brings with it an additional challenge: what does the 'social' aspect mean for investors? If investor expectations and confidence are so important, then this is itself a very important question. This wider problem of convincing investors to risk their capital contains within it the problem of convincing them that they understand and are comfortable with what it means to be a 'social' investor. This is why the tradeoff is so contentious, because those who insist that there is a tradeoff, and that there is something different and special about social investments, are effectively telling potential investors that they have to be willing to take a hit on their financial returns, and this hit is justified because the investment is creating social good. Those who attack the tradeoff do so because they want to avoid cutting down the potential pool of investors. They want almost any kind of investor to take part, and to avoid creating any kinds of conditions that have to be met to 'count' as an investor in this market. Though we will not engage in detailed discussion of different investor types, one important differentiation must be made. Some investors, mainly individuals, are investing their own capital and are free to make whatever decisions they like. Other investors, usually managing capital on behalf of an institution, are bound by fiduciary duty, and have to observe certain restrictions and regulations. Often they have to meet certain return targets, and are not at liberty to put the capital at more risk than is necessary.

As we have established, there are differences of opinion over how investor returns should be understood in social investment. The approach now will be to analyse these differences in terms of the two modes of reasoning described above. Two groups of reports will be used. The first group exhibits the principled mode of reasoning. The first example is a report published in 2016 by the Institute for Voluntary Action Research (IVAR), which "seeks to shine a light on the as yet underserved part of what ought to be a more varied social investment market place."[319] IVAR presents its own take on

[319] IVAR, *Small Charities and Social Investment* (2016). p2

social investment, asserting: "The aim of all social investments should be to leave an organisation in a stronger position not only financially but also in relation to its ability to pursue its mission."[320] Based on the interviews they did with a number of organisations that had taken on (or considered) social investment, the authors describe situations in which "some social investment purposes were not well thought through and led the charities into difficulties." Their recommendation is that *both* sides take measures to avoid this happening again. For investors, this means "a willingness to engage with inexperienced charities to help them survive", and for investors to both understand and share the charity's commitment to mission and values. They also recommend that financial products be better tailored to what charities need.[321] Charities are deserving of investment that is tailored to their needs; investors are called on to be sensitive to these needs.

The next example is a 2011 report produced by a social investment fund which seeks to draw lessons from microfinance, as a similar market that has been around for longer than social investment.[322] This report is striking in the language it uses to describe the market. "While it is heartening to see more mainstream pools of capital seeking to engage in impact investing," the foreword states, "there are also good reasons to be worried about how much of this capital will actually produce positive social change." The introduction suggests social investment is at "a critical juncture", and that it "remains fragile."[323] What are the authors concerned might happen? The phrase "actually produce positive social change" is suggestive – the alternative, we can infer, is that capital supposedly devoted to impact investing produces not social change but financial return for the investors. Their concerns are brought more to the surface in the section discussing the "mission drift debate". Several years into the development of the microfinance market it became partly "commercialised": microfinance institutes (MFIs) would operate as commercial entities so that they could access more varied and bigger sources of capital.[324] 'Mission drift' is the phrase used to describe the drift away from a focus on impact and towards a focus on profit:

> The argument is that a focus on generating financial profit and positioning MFIs to access commercial funding have weakened the industry's preference for servicing 'hard to reach' (marginalised) clients, and that such mission drift has weakened the social impact of the industry. [325]

And mission drift is a way of referring to undue focus on profit. Referring to the man who created microfinance, the authors write:

> Yunus says he is not against making a profit. But he denounces firms that seek windfalls and pervert the original intent of microfinance: helping the poor. From Yunus's perspective, it is essential that the industry move away from seeking maximum profits and get back to focusing on the poor. "If not, you are not helping poor people's lives," he says. "You are not patient. You are not restrained. You don't have empathy for the people. You are just using them to

[320] Ibid. p55
[321] Ibid. p55
[322] Microfinance refers to the practice of lending small unsecured loans to those that the mainstream banking sector would deem too risky.
[323] CAF Venturesome, *The Impact Investor's Handbook: Lessons from the World of Microfinance* (2011). p3
[324] Ibid. p13
[325] Ibid. p29

> make money. That's what blinds you when you are in the profit-making world. We need to see the people, not profit." [326]

On the other side of the mission drift debate are those arguing that access to mainstream capital markets is the obvious and best option for scaling up microfinance. Profitable microfinance can be managed sustainably and responsibly. How is this relevant to social investment? The lesson for social investment finance intermediaries (SIFIs) is that 'cherry picking' of the most profitable clients can be avoided as long as intermediaries have "an explicit goal to appropriately balance its service offering".[327] The authors are warning against social investment becoming a space in which financial returns take priority over social mission – implicit in these warnings is an assumption that investors should be motivated by social mission to a sufficient extent that they avoid prioritising their own financial gain.

An article published in 2017 indicates that their concerns were legitimate. Bolis and West are two people unhappy with the tone of debate around impact investing. Under the title "Marginalised Returns", they argue:

> Impact investing appears to have been seduced by a convenient narrative. According to the prevailing view, the achievement of both social impact and market-rate financial returns is the norm—not the exception. Those who question the financial returns aspect of this assumption are portrayed as lacking business savvy. … Impact investing was originally created to improve the lives of others; that impact investing could also deliver financial returns to investors was a means to that end. But nowadays, achieving predefined financial returns has become the primary goal, with the needs of investors taking priority over the interests of the communities their funding seeks to benefit.[328]

Now, the focus of these authors is not on the social investment market in the UK so much as social enterprises operating in emerging economies. But it is relevant because the stance they take is applicable to the social investment market, and indeed appears to implicitly draw on the way social investment has been presented in making assertions about impact investing. Bolis and West argue that "the most impactful" social enterprises are "likely to generate only low-single-digit financial returns", because that is what happens when you prioritise creating impact. By nature, these organisations face:

> the challenge of testing, adapting, and refining business models appropriate to marginalized communities—who typically have previously either lacked access to the new product or service, or had it provided for free. Furthermore, such enterprises make business decisions—on prices, wages, and hiring—in a way that maximizes long-term social benefit against short-term financial gain.[329]

They argue that the prevailing accounts of impact investing ignore the fact that many examples of successes have benefitted from years of subsidy before investors were able to make profits. Looking ahead, they highlight that impact investing has "changed finance by establishing social benefit as a goal," but "the problem is that too many impact investors have predefined expectations of financial return that are both too high and too short term." What can be done? Greater transparency in

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[326] Ibid. p29
[327] Ibid. p31
[328] Mara Bolis and Chris West, 'Marginalised Returns', *Stanford Social Innovation Review* (2017) <https://ssir.org/articles/entry/marginalized_returns> Accessed 27th September 2017.
[329] Ibid.

reporting social return, and more independent research, in order to establish more realistic expectations. "Most promising enterprises do not meet the risk-return criteria of today's impact investors," they comment, "which gets reported as 'lack of pipeline.'" But most of all, impact investing needs to return to the guiding principle of achieving impact, and so a voluntary code of conduct should be developed to enshrine principles such as the *prioritisation* of impact and appreciation of the challenges faced by social enterprises.[330] Here investor motivations are front and centre, and the plea is made for impact investing to be kept in line with its 'original' aim – which means investors lowering their return expectations.

One other report is helpful in this context, as it advances an argument that a different kind of finance, "builder capital", is needed by the social sector, and is not currently provided by the social finance market. This kind of finance would support social enterprises "through a period in which they can develop products and services that meet social need in a financially viable way"; only then are they "able to deliver both social and financial returns and take on the kind of funding that is currently provided by the social finance market."[331] Authors Heap and Davison describe the gap in terms of risk and returns:

> We ask are there any investors out there who are prepared to accept only social returns for an initial period with a high risk of capital loss, plus the prospect of sustained positive social and financial returns in the medium and long-term once the organisation achieves financial sustainability? The absence of genuine risk capital prepared to accept a period of social returns only is the key gap in the social finance market that exists today.[332]

Heap and Davison appeal directly to investors to accept very high risk for *no* financial return in the short term – though social return will be created – with the possibility of financial returns once the organisation reaches a stable position. This would be an investor who is almost entirely socially motivated. Such investors will be needed in order for all parts of the "market for social need" to be addressed, with particular urgency created by the way BSC has been set up:

> BSC's "need to balance the overall levels of financial risk it takes in pursuit of social impact with the need to generate sufficient financial returns to remain operationally viable" means that there will be substantial parts of the social sector that will not be able to access any of the capital provided from this source.[333]

Similar to the IVAR report, Davison and Heap's position assumes that the social sector is deserving of finance, and calls on investors to make finance available on terms that the sector can afford.

This is the first group of reports. Where IVAR, CAF, Bolis and West and Davison and Heap issue warnings and reassert the importance of impact, the next group of reports adopt a 'big tent' mentality, as it is sometimes called, emphasising breadth, variety, and opportunity.

The first of these we have already referred to. The *Shifting the Lens* report referred to above notes that:

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[330] Ibid.
[331] Robbie Davison and Helen Heap, *Can Social Finance Meet Social Need?* (2013). p3
[332] Ibid. p3
[333] Ibid. p4

> The debate about a supply-demand mismatch in impact investing has often centred on its characterisation as a relatively high risk strategy and therefore on whether sufficiently high risk-adjusted financial returns are achievable.[334]

"Supply-demand mismatch", therefore, is a way of referring to the problem of investor requirements – in terms of risk and return – not being matched by the kinds of investment opportunities in the market. Their focus is on presenting a different perspective on the riskiness of social investment opportunities. They provide recommendations "with the hope that [they] will translate into greater matching of capital and product – and ultimately into more capital flowing in service of society."[335] The emphasis is not on what investees need, but on how investments can be made more palatable from the investor perspective.

In 2011 ClearlySo, a SIFI, produced research on the same question of "investor perspectives" on social investment. This report is concerned with attracting sufficient volumes of capital to the market: "Without adequate investment," they write, "there is a risk that the high expectations of the social enterprise sector to help meet society's needs will not materialise."[336] They asked what would be needed for institutional investors to engage in social investment:

> Our research found that in general, investors are likely to engage if social investment can offer:
>
> - An expectation of market or close to market returns
>
> - Some guarantee or mitigation of risk while approaching market level returns; protection of the downside is more important than potentially high upside
>
> - Liquidity if possible, which helps reduce perceived risk
>
> - Robust measurement of the social returns generated by the investment
>
> - Larger-sized investment opportunities e.g. through pooled funds
>
> - Products and managers with a track record in which City institutions can develop confidence[337]

Of course, precise requirements vary from one investor to the next. But the investment products available in the market were targeted not at institutional investors but at "philanthropic and individual investor[s]" who are "prepared to accept sub-market financial returns blended with social returns." Institutional investors have duties and responsibilities to the capital owners, so the social investment has to find a way to accommodate them. ClearlySo's recommendation is for future "product design" to take into account these needs, and for intermediaries to play a role in advising institutions on the opportunities that are available, and "to mentor and support immature social enterprises until they are ready for the more conventional markets in which City institutions are generally active".[338] The onus,

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[334] Bridges Ventures (2014). p3
[335] Ibid. p5
[336] ClearlySo, *Investor Perspectives on Social Enterprise Financing* (2011). p5
[337] Ibid. p6
[338] Ibid. p8

then, is not on the investors to meet the needs of the social sector, but on the social investment market to meet the needs of investors. "Immature" social enterprises must be mentored and supported until they are "ready" to take on investment.

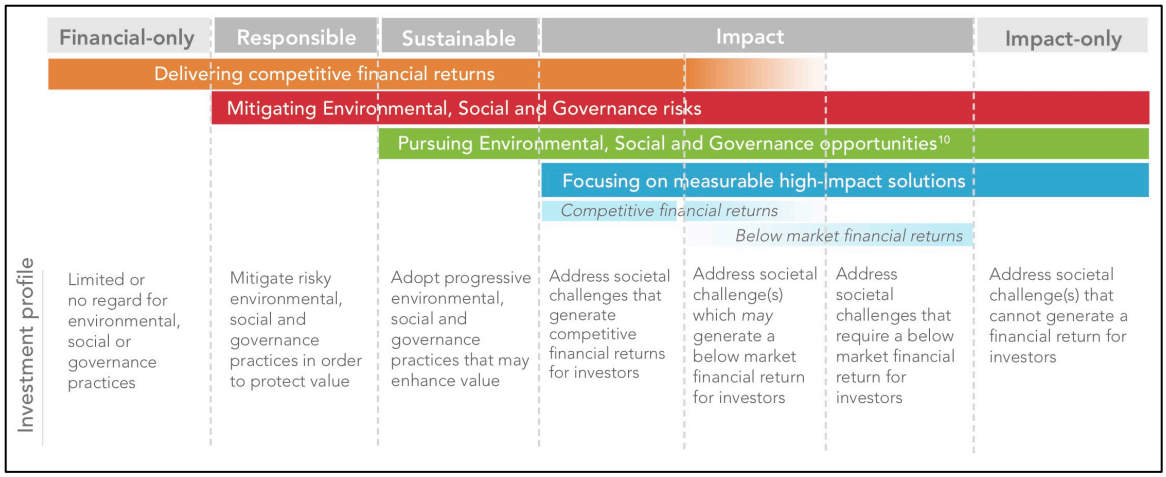
The Asset Allocation Working Group of the SIIT is oriented to a similar problem:

> To solve problems on a global scale, we need global capital pools to respond. This means that, alongside the pioneering investors already allocating for impact, we need impact investment to find its formal place within institutional portfolios.[339]

The report is devoted to setting out the investment opportunities available to institutional investors, and to demonstrating that they can be made to fit with their existing fiduciary responsibilities. This is a group of investors who are not flexible in their requirements, but who sit on enormous amounts of capital. Impact investing, the report argues, represents a very attractive proposition to these investors. It provides additional, new options for investment, and is the "strategy of choice for those seeking to align their wealth with their specific social and/or environmental objectives."[340] More significantly, from our perspective, they also argue there may be "*purely financial* reasons to allocate to impact investment", due to "potential diversification benefits". That is, the returns achieved on impact investments are *uncorrelated* with many of the other types of investment that investors might have in their portfolios, meaning they react to different factors. So when other investments go down in value, it is more likely that impact investment will be unaffected. This is helpful in balancing risk.[341] Far from suggesting investors have a duty to support the social sector, this report presents investors with *purely financial* reasons to invest in the social investment market.

How can the presence of purely financially motivated investors be integrated into a market that is supposedly about the intention to create impact? The authors represent the supply-side of the market as a 'spectrum of capital', differentiating three types of impact investing: one where market-rate returns are expected, one where it is not clear whether such returns can be expected, and one where "addressing a social issue requires *some* financial trade-off."[342] They use the following diagram to represent the spectrum:

[339] Asset Allocation Working Group, *Allocating for Impact: Subject Paper of the Asset Allocation Working Group* (2014). p1
[340] Ibid. p3
[341] Ibid. p4 Emphasis added.
[342] Ibid. p7 Emphasis in original.



From Asset Allocation Working Group, *Allocating for Impact* (2014) p7

The three types of impact investing are placed in an even wider spectrum.

On the demand-side, any "impact-driven" organisation can be a recipient, "provided it can deliver social impact and a financial return." These organisations are connected to investors through increasingly diverse investment products. These authors emphasise that there is a place for every configuration of risk and return:

> The resulting picture shows the powerful role that private capital can play in financing a wide range of impact-driven organisations to address social problems. It also highlights that the organisational form of the underlying investees need not dictate an investment's ability to deliver either higher impact or competitive financial returns: for example, there are non-trading charities who will access capital through financially-attractive SIB or DIB investments; there are Profit with Purpose businesses whose mission will prove so central to their commercial success that they generate competitive returns; and there are a whole range of impact-driven organisations that will generate competitive investment opportunities through use of tax credits, guarantees or first loss positions.[343]

The point is driven home in a section titled "varying motivations". Each investment is made up of a number of players along the "impact investing value chain", and the intention to create impact does not have to be shared by *every* player. The investor may only seek financial returns, but the investee creates impact; an enterprise may not have stated intended impact, but its location in an underserved community qualifies it for investment from an impact-motivated investor. Or it may be that neither the investee nor the investor is impact-motivated:

> There are also situations where the impact intention (and measurement) is catalysed not by an investor or investee but by the surrounding policy environment, which attracts capital and enterprises to deliver societal outcomes that governments can measure. Tax incentives to attract investors and enterprises to renewable energy projects are one such example[344]

An investor reading this report is encouraged to think that impact investing is broad enough to accommodate any kind of investor preferences, including those who are motivated only by maximising financial return.

[343] Ibid. p8
[344] Ibid. p9

The final example is a report from the UK Cabinet Office on "co-mingling social investment funds", which combine different types of capital in a single fund. There are three types of co-mingling funds: on the first, all investors take the same risk with the expectation of equal returns; on the second investors taking on different levels of risk according to their motivation, and those that take more risk take higher returns; on the third "Foundations and other impact-focused investors take a subordinate position in the fund which means that they accept a higher level of risk for a smaller proportion of any financial returns." Why would any investor, even an impact-focused one, take high risk and low return? The authors explain: "They do this to attract commercially-focused capital that otherwise would not be invested, and so create a fund to tackle an issue at a scale that could otherwise not be achieved."[345] Indeed, once more the vision is one in which the impact investing market can be expanded by tapping into new sources of capital. Co-mingling funds are exciting because they change the risk-return profile that can be offered to potential investors who are not interested in below market rate returns, due to the presence of a different capital source (i.e. a philanthropic foundation) willing to put their capital at risk. The justification is the scale of impact that can be achieved: "In many cases, co-mingling funds enable foundations to achieve impact at a scale that cannot be achieved with their philanthropic capital alone."[346] Once more different kinds of investor can find a home here, as those who are unwilling or unable to accept high risk or low financial returns can see expect these elements to be appropriately rebalanced by another investor with complementary motivations.

In this second set of reports, therefore, we encounter very different attitudes towards what should be expected of investors. Their needs and motivations are treated as predetermined, and the emphasis is on reasoning through a version of social investment – more likely to be referred to as social impact investment in this context – that retains some commitment to social impact while also accommodating all kinds of investors, even those uninterested in (or legally prevented from) pursuing higher-risk, lower-return opportunities. There is a determined agnosticism towards what investor motivations are. Investors in social investment are not *necessarily* motivated by either financial or social return.

These are two quite different views of what social investment is for. The reports in the first group exhibit assumptions consonant with the principled mode of reasoning – they suggest that what makes an organisation 'social' has a direct bearing on its ability to generate financial returns, with direct implications for investors, who need to recognise these differences. Too much of a focus on profit-making is seen as a threat. In contrast, the reports in the second group are in line with the assumption that the level of profit is irrelevant to the identity of social (impact) investing – what matters is the creation of impact. To reiterate, this does not amount to an argument that these reports demonstrate the accuracy of my distinction, or that they 'prove' that the distinction is 'right'. The two modes of reasoning are simply a vehicle for expressing the underlying differences perceptible in these contrasting accounts of social investment.

EXPANSION VS PROTECTION, ENDS VS MEANS

We can push this argument further. The contrasting assumptions go further than just the matter of profit-making. They extend to epistemological assumptions about what kinds of reasoning counts as

[345] Cabinet Office, *Achieving Social Impact at Scale: Case Studies of Seven Pioneering Co-Mingling Social Investment Funds* (2013). p9
[346] Ibid. p7

valid. To recap, we can see that on the one hand, there is a clear thrust to *expand* the market as much as possible, and on the other hand, there is a movement to prevent this expansion, to *protect* what it means to be 'social' or 'mission driven' from the threat of profit-seekers. The innovative mode of reasoning treats the social aspect as grounded not in the limitation of profit but in the explicit intention to create impact, and the measurement and reporting of results. As we have seen, this logic supports a spectrum of investor motivations – a broad church in which all kinds of investors are welcome. The motivation here is to maximise the amount of impact created by maximising the amount of capital devoted to the cause. Following the principled mode of reasoning, in contrast, prioritising impact means putting impact *ahead* of financial returns. The market is open to investors who are happy to prioritise impact, and impact will be maximised by ensuring it is always the priority.

This is a difference that can be framed in terms of ends and means. The innovative mode of reasoning is ends-focused. The ends justify the means. What is important is the creation of impact; the focus should be on creating the conditions that enable impact creation to happen as easily and quickly as possible. Think back to the report on co-mingling funds. Some of these funds are structured so that 'philanthropic capital' agrees to high-risk, low-return terms in order to attract commercial capital that needs higher returns. Why would they agree to such terms? "To attract commercially-focused capital that otherwise would not be invested, and so create a fund to tackle an issue at a scale that could otherwise not be achieved."[347] Co-mingling funds mean "foundations are creating mechanisms through which they are able to unlock more of their endowment capital in pursuit of their charitable mission"; their involvement "multiplies the impact of their assets by creating opportunities for other investors who would not otherwise invest".[348] If the important thing is that as much impact as possible is created, then this is a sensible arrangement.

But if we focus on the means, the question arises: doesn't this arrangement amount to foundations *subsidising* the returns of commercial investors? Why should a foundation do this, when its resources could be channelled directly to an SSO? Isn't it wrong on principle that charitable funds should end up in the pockets of investors? The principled mode of reasoning, as the name suggests, is based on principle. It is grounded in the principle that public and private benefit are distinct, and that the former should be limited. It follows from here that what makes something 'really' social is a matter of principle – SSOs must be able to demonstrate limits on profits because of the principle that public benefit should take priority over private benefit. The means are important, not just the results.

In the final section of this chapter, we will explore how the difference between a focus on ends and means entails not just framing things differently, but a basic incompatibility of reasoning that leads to actors talking past each other. We will return to the Bolis and West argument used above.

Bolis and West argued that social investment has begun to lose sight of what it was set up to achieve, placing more emphasis on the returns available to investors at the cost of being realistic about what returns are possible from working with the world's poorest and most disadvantaged populations. I have suggested that their argument lines up with the principled mode of reasoning, which assumes a form of social investment that prioritises impact over profit, that wants to see limits on profits as a result, and is based on principles rather than results. Based on a detailed reading, this is not quite the argument that Bolis and West make. They start their argument with a general statement: "The most impactful and successful of social enterprises in emerging economies—even in developed countries—

[347] Ibid. p9
[348] Ibid. p13

are likely to generate only low-single-digit financial returns". They back this up by pointing to the characteristics of social enterprises that make them impactful: working with marginalised communities, and making decisions that maximise impact, not profit.[349] This appears to be an argument from principle. But further down their diagnosis of the problem and potential solution is as follows:

> To be sure, impact investing offers a spectrum of financial and social returns. The problem is that too many impact investors have predefined expectations of financial return that are both too high and too short term. There is therefore a need for greater transparency in reporting the social return as well as the actual financial returns (gross and net) achieved by impact investors. This, in turn, requires more independent research, starting with an understanding of the concrete realities, needs, and challenges of social enterprises.[350]

Here they appear to be emphasising the importance of *results* as a way of determining the social status of an investment. By acknowledging the spectrum of returns, they are allowing the possibility that investors make high returns, and implicitly incorporate them into their definition of impact investing, given that impact can be demonstrated. But their concluding comment returns to a principle-based argument:

> impact investing needs to return to its original guiding purpose: to achieve social and environmental impact. We call on impact investors to agree to a voluntary code of practice that enshrines how the field should evolve—based on the intention to make decisions in ways that prioritize impact; to appreciate the challenges at the enterprise level; and to measure, verify, and report impact achieved.[351]

They do not go as far as saying profits should be capped, but it is strongly implied, I think, by the call to "make decisions in ways that prioritise impact". My suggestion is that they would like to make a more forcefully principles-based argument than they are, but that they are anticipating the reaction from people in the field. Further insight is possible by looking to the comments section below the article. Several respondents agreed with Bolis and West's argument. Some of them voiced their concerns in blunter terms:

> Bolis and West hit the nail on its metaphorical head with this thought piece. I have been in the impact investing space now for seven years and am also skeptical of the "no tradeoffs" approach. … I suspect this is only going to get worse though as more online lenders begin to differentiate by referring to themselves as impact investors—all while pitching investors on 10x returns.
>
> Great article. The cause of this, which is entirely predictable, is that investment service providers are keen to label what they have got as "impact investments" but they are unable to settle for lower financial returns, as businesses. They have huge marketing budgets and have unfortunately somewhat hijacked the agenda as they push to include what fits their business model into the definition of "impact investing"[352]

[349] Bolis and West (2017).
[350] Ibid.
[351] Ibid.
[352] Ibid. In comments.

Clearly there are others out there who perceive a threat from the profit motive taking over. But the article also provoked strong disagreement. We can identify themes across the counterarguments put forward. Several people point to the heterogeneity of the field:

> so far, all we can do is talk in terms of broad brushstrokes regarding impact success, and write articles about myths, based upon anecdotal evidence around the nexus between impact success and financial returns. This can no longer stand. We can't continue to talk about all of these asset classes, strategies and geographies as if they are going to attract the same type of capital and produce the same type of return, investment by investment, and the same type of impact.
>
> The idea that there is a clear yes/no answer to the question about whether there is a trade-off between financial performance and impact performance is, in our view, oversimplified. The true answer – as with any complicated question – is "it depends." It certainly stands to reason that pursuing impact can often be good for the bottom line.[353]

Arguments that look to the ends to justify the means are also present. This person uses the argument that social enterprises will only reach scale if commercial capital is used:

> There is room for grants and low cost capital for businesses that are experimenting on new business models to deliver essential goods and services at affordable prices. Commercial capital is required to bring to scale to those ideas that work[354]

Reference is also made to the scale of the impact investing market overall. That is, some people consider the point of impact investing to be the influence it might have on the behaviour of mainstream finance:

> In particular, I'd like to flag [another person's] comment about an "impact continuum". While it may be tempting to establish a minimal floor for impact performance, I suggest that there is a rational argument to be made for "better" in all asset classes and investment strategies[355]

In response, Bolis agrees with those who say that these principles should be applied as widely as possible. But she also reiterates the warning about profit dominating purpose:

> Of course – we are trying to push all private sector actors in this direction. This also reflects [another commentor's] view that the end-game is to shift industry practices in a more pro-poor and pro-environment direction. To move the needle on poverty our goal "must [be to], slowly but surely, change the way Wall St. and Fleet St. thinks and acts." Yes, absolutely. But what happens when profit and purpose aren't in alignment? Who will win out – investors or disconnected/unrepresented populations who these investments purport to serve? [356]

She goes on to highlight the problem that relying on reporting of 'the facts' about impact is inadequate:

> Given levels of disclosure and the extent to which impact is often assumed rather than proven, how would you ever know the difference? In traditional finance, there is only one master to

[353] Ibid. In comments.
[354] Ibid. In comments.
[355] Ibid. In comments.
[356] Ibid. In comments.

> serve. In impact investing it's more complicated. We need to build in oversight mechanisms that protect the purpose side from being over-run by profit objectives when times get tough. We should enter into this space wide eyed about the power imbalances and information asymmatries [*sic*] at play within the investment value chain[357]

So while Bolis eariler had pointed to the importance of more transparent and independent research, she also casts doubt on the protection such research might afford from the risk of profit-seeking.

One further exchange is enlightening, starting with a comment from a couple of academic researchers:

> Could Bolis and West's characterizations of impact investors' beliefs, practices, and ultimate impact be correct? Yes. But, is there rigorous research to support (or to refute) most of their claims? No, not yet. Where Bolis and West see facts – evidence that impact investing has gone awry – we see hypotheses to be tested.[358]

This is an epistemological argument. It asserts a version of what counts as valid knowledge, and implicitly rejects the validity of an argument based on the *principle* that the prioritisation of impact entails deprioritising returns. They go on to reframe several of Bolis and West's arguments as research questions. But what is Bolis' response?

> [This comment] is critical. Ours is a "viewpoint" piece that is a reflection of our lived experience and response to the prevailing literature. If this article spurs more independent research into some of the questions we've raised, we will consider this effort wildly successful. In particular, proliferation of research examining the experience of those seeking impact investing … is critical for the success of the field. Because, as stated above, the downside risk of a failed social enterprise – or failed social investment, to broaden beyond the socent [social enterprise] space – is borne also by the community it was set up to serve.[359]

In other words, she accepts the need for more research, and as a result appears to accept the criticism that the grounds of her and West's argument are flawed. To me, this exchange helps to make visible some of the epistemological assumptions shaping the conversation around social (impact) investing. This exchange suggests that end-focused, evidence-based arguments are dominant over those based on principles or values. Principle-based arguments, correspondingly, are difficult to make in this space. These are not assumptions that we can fully determine, but we can be aware of them, and the influence they have on what arguments are made, or not made.

This exchange also serves to highlight how these two types of logic do not engage each other directly. On the one hand, the ends-focused logic, which seeks to maximise the volume of capital in the market, cannot perceive any merit in introducing principles which will only serve to *limit* the potential of the social investment market. The critical issue is that social investment remains committed to embedding social mission, and measuring and reporting social impact. From a means-focused perspective, on the other hand, this is insufficient. Given the starting point of the principled mode of reasoning, the issue is not just the *results* – the empirical facts about what has happened – but what *might* happen. Profit is limited on principle because of what is likely or possible if the line between public and private benefit becomes blurred. It is important that those who would pretend to pursue social impact while actually maximising their own gain are prevented from doing so. The aim is to

[357] Ibid. In comments.
[358] Ibid. In comments.
[359] Ibid. In comments.

prevent the takeover of social investment by profit-motivated investors; it is decided in advance that their involvement on principle cannot be the best way to address social problems.

CONCLUSION

Whereas chapter 1 discussed the shared problematisation that defines and grounds social investment as a programme of government, and chapter 3 examines the market structure, this chapter has for the first time in the thesis begun to open up the debate around what it means to do *social* investment. The approach taken here is not to provide a definitive answer to this question, but to investigate how actors in the field reason through their response.

Social risk and return provides important conceptual architecture in working through a model for social investment; since the risk/return model is an absolutely core component of conventional investing, it is an obvious starting point for determining what social investment means from the investor perspective. The documents used to inform this overview suggest, however, that there is a large degree of instability inherent in attempts to extend risk and return to allow for the social aspect. It is tempting to look at this instability and predict troubles on the road ahead for social investment – how can this field of practice ever consolidate and standardise its theoretical grounding when so very many dimensions are opened up by this idea of social return/value/impact? But I will resist this temptation, partly because predictions do not help me to make my argument, and partly because the historical epistemology literature teaches us that conceptual issues with systems of knowledge production have no direct bearing on their success or failure. Statistics and cost-benefit analysis are two examples of knowledge production that from the beginning have faced fiercer critiques than the one I offer above, and yet they continue to play a central role in governing public affairs. What matters is what functions these systems are called on to perform, and whether there are any alternatives.

The main purpose of providing this account of social risk and return is to equip us for understanding the terms of the debate around investor interests. The main bulk of this chapter demonstrates that we can dig beneath the question of risk and return to the basic assumptions being made around what kinds of returns are *appropriate*. Disagreements emerge here in a way that does not seem to be the case in conceptualising social risk and return. People disagree over what it means to be a social investor, and whether the social investment market should be trying to maximise capital flows that intentionally create impact, or trying to maximise impact using the tool of investment – a position that assumes that 'social' status has direct implications for the ability to generate profit. Identifying the two modes of reasoning brings these differences to the surface. The next chapter continues this analysis by looking to the question of what counts as a social sector organisation.

CHAPTER 5: BORDER DISPUTES

> "we are fundamentally stuffed if we think social investment means financing of charities and CICs."
>
> Investor, quoted in report
> *Angels in the architecture: Building the infrastructure of social investment* (2013) p19

> Because what we see in the marketplace from the social enterprise perspective is a lot of people, a lot of these social enterprises are phenomenally enthusiastic about whatever venture is doing good in the society and think because they are doing good in the society, they are justified to receive funding … Whereas for lots of other commercial models out there, an SME line is quite challenging and they deserve to be funded too.
>
> Interviewee, BSC interviews (2013)

Just as the question of investor returns is a source of disagreement, so is the question of what counts as a legitimate recipient of social investment. What makes an investee organisation 'social'? It is through these questions that the borders of the SI market are policed. Some think that social investment should be for organisations that have their social status regulated in some way, while others think that it is the creation of impact that matters, not the legal form chosen by a company. The two modes of reasoning introduced in chapter 4 continue to be useful, because the differences fall along very similar lines to those identified in the case of investor interests.

The issue of defining the demand side of the market takes on a more pointed character than the equivalent issue on the supply side. While it is hoped that investors can be enticed to invest their capital in the SI market, there are several instances where those distributing capital have needed to develop formal policies identifying who does and does not count as an SSO. This forces a clear articulation of the boundaries of the market. The chapter begins with three such examples, demonstrating that the only workable options available to regulators were company forms that ensure public benefit is prioritised over private gain; the third example makes the case for a new kind of company form that does not rely on the public / private distinction, suggesting a framework for regulating 'profit with purpose' businesses. It is shown that public / private benefit can be explained in terms of interest. Because these examples are specific to the regulatory structures of the UK, this element of the analysis is more geographically specific than the overall argument of the thesis.

The second half of the chapter turns to a series of debates taking place in the sector over this issue of who should receive social investment, which are explained in terms of the two modes of reasoning.

THREE FORMAL EXAMPLES

We turn now to three examples of efforts to create a formal boundary between what counts as social investment and what does not. I am not presenting these definitions of social investment as definitive and clear-cut versions that everyone should agree with. Indeed, these are pragmatic responses made out of necessity. They are needed for the practices of social investment to continue, and so they are a best effort to tackle a thorny problem. And they help us to see what reasoning is used by actors when they are forced to make their assumptions explicit.

The introduction chapter explained that the thesis overall is focused on the UK, but that the debate and reasoning around social investment does not respect national borders, and so numerous reports are brought in from elsewhere, mainly the US. More than the thesis as a whole, this chapter is focused exclusively on the UK setting because it is tied to legal and regulatory features specific to the UK system.

SOCIAL INVESTMENT TAX RELIEF (SITR)

A proud feature of the UK social investment market is the tax relief created to encourage more social investment to take place by providing investors with a tax incentive. The legislation was passed in 2014.

Making a tax relief workable requires defining eligibility criteria. How, then, did the officials who wrote the legislation distinguish between investments that do and do not qualify for the tax relief? The consultation draft of the SITR legislation informs us that qualifying investments have to be into "qualifying social enterprises". A qualifying social enterprise must take one of three regulated identities: a community interest company (CIC), a community benefit society (Bencom) that is not a charity, or a charity.[360] These three identities are what is meant when reference is made to the 'regulated' social sector. There is some complexity involved in the full range of possibilities this presents; the CIC and the Bencom are both legal forms for an organisation, whereas charitable status is granted by the Charity Commission and can be attached to a variety of legal forms. Our interest is in what restrictions the CIC or Bencom legal form, or charitable status, place on those who want to claim them.

To determine this we have to look beyond the SITR legislation to the documentation of these three regulated identities. We discover that there are two principal tools deployed in regulating the activities of social enterprises: the 'public benefit' test for charities and the 'community interest' test for CICs. The regulation of the 'community benefit' aspect of Bencoms borrows from the charity and CIC legislation,[361] so Bencoms will not be discussed directly.

Guidance from the Charity Commission (the body that regulates charities in the UK) provides insight into the identity of charities. A charity "is established for charitable purposes only", where a charitable purpose "is for the public benefit".[362] The public benefit test is used to determine whether a charity's purpose is in fact for the public benefit. There are two aspects to the test: the 'benefit aspect' and the 'public aspect'. The benefit aspect means that a purpose must be beneficial, and any detriment or harm must not outweigh the benefit; the public aspect means the purpose should benefit the general public or a sufficient section of the public, and not give rise to "more than incidental personal benefit".[363] A variety of legal forms are permissible and so the precise nature of these restrictions varies, but regulation by the Charity Commission ensures that trading activity and the use of assets is restricted so that public benefit remains the priority.

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[360] HMRC, *Social Investment Tax Relief: Consultation Draft* (2013). p2

[361] https://www.communitysouthwark.org/sites/default/files/images/Registered%20Society%20-%20Industrial%20and%20Provident%20Society%20-%20Co-operative%20and%20Community%20Benefit%20Society.pdf Accessed 13th April 2017.

[362] The Charity Commission, *Public Benefit : The Public Benefit Requirement* (2017). p4

[363] Ibid. p5

CICs have a different identity to charities, and are regulated by a different body. Guidance from the CIC regulator describes them as follows:

> CICs are limited companies which operate to provide a benefit to the community they serve. They are not strictly 'not for profit', and CICs can, and do, deliver returns to investors. However, the purpose of CIC is primarily one of community benefit rather than private profit.[364]

CICs therefore have to meet the "community interest test", which means they must "satisfy the Regulator that a reasonable person might consider that the CIC's activities are or will be carried on for the benefit of the community."[365] In practice there are several components required to "satisfy the regulator". The company must be able to identify the community that they exist to serve. They are subject to an 'asset lock', meaning assets are retained within the company, or can be transferred to another asset-locked body or for the benefit of the community, and if they are of a form where they can pay dividends, such payments are limited to a cap.[366]

The guidance explains the link between the asset lock and the test:

> There is a clear relationship between the asset lock and the community interest test in that the test may not be seen to be met if a reasonable person might consider that the activities of the CIC are being carried on for the benefit of the company's directors, employees or service providers rather than for the benefit of the community.[367]

Similarly, the dividend cap is intended to "[strike] a balance between encouraging people to invest in CICs and the principle that the assets and profits of a CIC should be devoted to the benefit of the community."[368]

If we refer back momentarily to our two modes of reasoning, we can see that both of these sets of tests and restrictions employ a logic consonant with the principled mode. They distinguish between public and private benefit. The Charity Commission talks about "public benefit" in contrast to "personal benefit", while the CIC regulator uses the language of "community benefit" in contrast to "private profit" or the "benefit of the company's directors, employees or service providers". The language varies but both regulators are sketching the same dichotomy between activity for personal gain and activity for the gain of others.

Returning to the tax relief, we can now see that SITR relies on these regulatory structures to identify what counts as a legitimate recipient of social investment. The investee has to have met the requirements of either the Charity Commission or the CIC regulator, which means they have to show that they are set up for the pursuit of public or community benefit. Some profit-making is permitted within the context of CICs, but it is restricted.

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[364] Department for Business Energy and Industrial Strategy, *Office of the Regulator of Community Interest Companies: Information and Guidance Notes. Chapter 1: Introduction* (2016a). p3
[365] Ibid. p10
[366] Ibid. p9
[367] Department for Business Energy and Industrial Strategy, *Office of the Regulator of Community Interest Companies: Information and Guidance Notes. Chapter 6: The Asset Lock* (2016b). p5
[368] Ibid. p8

It is important to note that this does not amount to a claim that the Government is committed in principle to the restriction on profits in social investment. In a document summarising the responses given to the consultation on how the tax relief should be structured, Government officials report that there was a "strong view" that the tax relief, if limited to the regulated social enterprise forms, would miss other kinds of social organisations. Why were the eligibility criteria not made more flexible? Because "there was no consensus or sufficiently robust alternative definition for unregulated social enterprises."[369] The regulation provided by the Charity Commission and the CIC regulator was the only ("sufficiently robust") system known to the Government, at the point of drafting the tax relief, for formalising the difference between social and non-social. This tells us nothing conclusive about prevailing opinion on the matter, but it alerts us to established structures and possible ways of thinking about what it means to be part of the 'social sector'.

BSC'S INVESTMENT POLICY

For our second example we turn to the policy published by BSC regarding what kinds of organisation are eligible to receive social investment. Just like those developing taxation policy, the managers at BSC have to apply a consistent policy in deciding where to invest. As wholesalers, they have to make sure that this policy is suitable for use by the intermediaries they invest in, and so it needs to be general enough to cover all different kinds of investment. Moreover, BSC's policies have to be understood in relation to the source of money used to capitalise the institution. The money BSC manages is directed to the organisation by an Act of Parliament that contains its own restrictions and specifications for how the money is used.[370] The Act specifies that "A distribution of dormant account money for meeting English expenditure" must be directed to one or more of three purposes, the third of which is "a social investment wholesaler". How, then, did the Act specify what a social investment wholesaler is? It states:

> In this section—
>
> "social investment wholesaler" means a body that exists to assist or enable other bodies to give financial or other support to third sector organisations;
>
> "third sector organisation" means an organisation that exists wholly or mainly to provide benefits for society or the environment.[371]

Where the SITR uses the more specific 'social enterprise', restricting the definition to regulated company forms, the Dormant Accounts Act leaves considerable room for interpretation of what counts as a 'third sector organisation'. The question becomes: how do we identify an organisation that "exists wholly or mainly to provide benefits for society or the environment"? The interviews offer a brief window onto the internal discussions that took place as BSC was being set up. These comments come from an individual involved in developing the legal and governance side of BSC:

> one of the discussions we were having a lot early on was: what is a third sector organisation? What is an organisation that exists wholly or mainly to benefit society and the environment? … Our assessment was, you can put certain types of regulated entity in it as a starting point…

[369] HM Treasury, *Social Investment Tax Relief: Summary of Responses* (2013). p6
[370] HM Government, *Dormant Bank and Building Society Accounts Act* (2008).
[371] Ibid. p. 10

> Beyond that there's still room for other entities that are third sector organisations according to this wholly or mainly test. At the same time I think I was writing about social business… the idea of (let's say) 'for-profit' businesses that have a sociology that really is about creating impact but doesn't necessarily restrict the distribution of profits. Now, I think we need to lock it in a bit more than that. So we went for 51% of income and capital gains must be reinvested effectively. [Interviewee]

These comments provide insight into how the need for restrictions on 'eligible' investees has been rationalised. He is grappling with the balancing act that is starting to become familiar: if you start with the position that SSOs (TSOs) should be thought of more broadly than just the regulated company forms (i.e. charities, CICs and bencoms), how should the wider pool of SSOs be differentiated from non-social, non-third-sector organisations? This new piece of legislation introduces into law the 'wholly or mainly' test. For reasons he does not explain, in the case of BSC he considered it appropriate to "lock it in a bit more than that" with the requirement to reinvest at least 51%. The most likely reason for this measure, I would suggest, is that 51% acknowledges the 'wholly or mainly' test, as it means more than half of profits are devoted to non-private interests.

We can see how these discussions fed through into company policy by turning to BSC's website, which explains that:

> Big Society Capital can only invest in SIFIs providing finance to "Social Sector Organisations". Social sector (or third sector) organisations are defined by the Dormant Accounts Act as those that "exist wholly or mainly to provide benefits for society or the environment". We have interpreted this to include regulated organisations such as charities, Community Interest Companies or Community Benefit Societies, as well as some profit-making companies or enterprises that have a clear social mission. These ventures need to be able to meet the principles set out in our Governance Principles.[372]

The governance principles, in turn, state:

> 1.1 A for-profit SSO will:
>
> 1.1.1 have objects set out in its constitutional documents which are primarily concerned with the provision of benefits to society (see addendum detailing Social Objects);
>
> 1.1.2 have a policy in relation to the distribution of profit after tax that ensures surpluses are principally used to achieve social objectives. Practically this means that the payout of cumulative profit after tax to shareholders will be capped at 50% over time, and therefore ensures that any surpluses generated over time will be mainly:
>
> • reinvested in the business;
>
> • applied in advancement of its Social Objects; or
>
> • distributed or donated to other social sector organisations.
>
> 1.1.3 have a constitutional or contractual lock on its Social Objects, dividend and surplus distribution policy

[372] https://www.bigsocietycapital.com/faqs Accessed 9th April 2017.

> 1.1.4 be able to demonstrate that the remuneration of its officers and employees, including salaries, benefits and all forms of distribution or other participation:
>
> • is reasonable and proportionate relative to market practice for social sector organisations generally; and
>
> • is disclosed in a manner consistent with the Statement of Recommended Practice for accounting by charities.
>
> 1.1.5 make best efforts to preserve the social purpose or social mission of the SSO in the event of a change of ownership or control.[373]

So a non-regulated SSO still needs various measures in place: stated commitments to being *primarily* concerned with community benefit; policies ensuring caps on the distribution of profits and controls on where surpluses will be directed; a "lock" on its social purpose; appropriate remuneration for employees; and preservation of social mission on change of ownership. What exactly do all of these conditions look like in practice? In the final section of this chapter we will discuss a blog post that touches on exactly this matter, from a commentator who considers this policy of BSC's to be both unclear and too flexible to be effective. I will rely on his judgement rather than embarking on a detailed dissection of the technicalities. Putting this example alongside SITR, we can conclude that it must be really quite difficult to clearly specify a definition of SSOs that goes beyond the regulated forms. SITR decided not to try. BSC clearly felt they needed to, but ended up with a policy that is relatively complicated, and perhaps not very clear to potential investors or investees. The one thing we can say with certainty about BSC's policy is that they maintain a conceptual distinction between public and private benefit, and in this matter they remain aligned with the principled mode of reasoning. An investee's objects must be "primarily" concerned with community benefit; only 50% of profits may be distributed; and an organisation is considered to have 'social objects' if any purposes "concerned with other matters" – with matters other than community benefit – are "*subsidiary*".[374]

PROFIT-WITH-PURPOSE BUSINESSES

Our third example is a creation of a determined cohort within the social investment field to expand the definition of who should be deemed legitimate recipients of social investment. This group challenges the association of 'social' status with limits on profits. A detailed working through of their ideas is found in the 2014 report *Profit-With-Purpose Businesses*, the output of the 'Mission Alignment Working Group' (MAWG), which formed part of the Social Impact Investment Taskforce (SIIT). As well as advancing arguments for adopting the idea of profit-with-purpose businesses (PWPs) into the social investment mainstream, the report contains a draft bill of legislation, the "Clark Bill", designed to act as a template for the countries of the G8 to adapt in their own national legislatures. The Clark Bill may not have been put into law but, as we will see later in the chapter, it is a reference point in the debate over how the social investment market should be developed.

The report opens with the statement:

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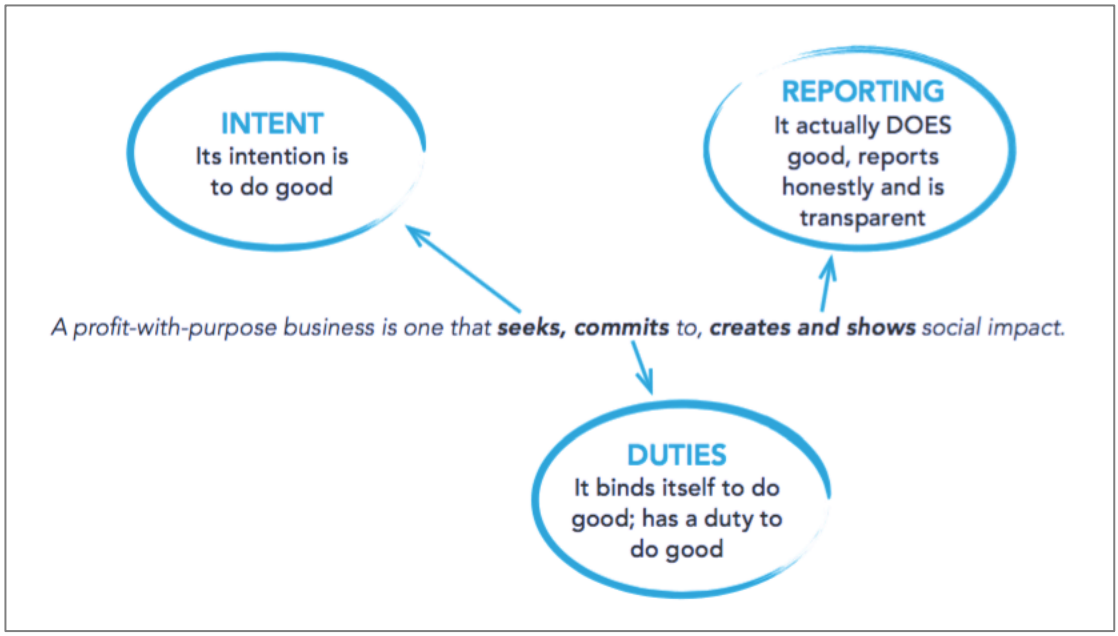
[373] http://www.bigsocietycapital.com/sites/default/files/pdf/Governance%20Agreement.pdf Accessed 9th April 2017.

[374] http://www.bigsocietycapital.com/sites/default/files/pdf/Governance%20Agreement.pdf Text contained in addendum on social objects. My emphasis. Accessed 9th April 2017.

> It is becoming clear that substantial numbers of entrepreneurs are interested in creating profit-distributing businesses for social impact. … If we can create the legal and market mechanisms to allow these businesses to thrive as identified, profit-distributing and mission-driven enterprises, they have tremendous potential to create social impact.[375]

This is the premise for developing the PWP form. Companies effectively operating as PWPs could take a variety of legal forms, making them "hard to recognise". PWPs "may find it hard to convince critical stakeholders – social impact investors included – of their social mission and their commitment to it, as the old dichotomy of non-profit versus for-profit becomes blurred."[376] Formalising PWPs, therefore, is about "creating the confidence, that we are talking both about real businesses, and about real commitment to create social impact for the long term."[377] That is, PWPs respond precisely to the problem of a lack of a 'sufficiently robust alternative' to existing regulated company forms.

If restrictions on profit are removed, what takes their place? The suggested approach is built around three main components: 'intent', 'duties' and 'reporting'. 'Intent' denotes "committing to a social purpose", 'Duties' entails "Creating duties for directors and officers that relate to striving for and delivering the social purpose", and 'reporting' refers to "Measuring and reporting on social impact – related to the intended social purpose and more broadly."[378]



From Mission Alignment Working Group, *Profit-with-Purpose Businesses* (2014) p12

'Intent' and 'duties' are familiar from the previous examples. But 'reporting' is a new feature. This is the first time we have encountered it as a defining feature of a type of social purpose organisation. So how are these three components translated into specifications within the Clark Bill? The Bill is made up of 20 "recommendations for a legal framework." There is only space to pick out the more salient details here.

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[375] Mission Alignment Working Group, *Profit-With-Purpose Businesses: Subject Paper of the Mission Alignment Working Group* (2014). p3
[376] Ibid. p3
[377] Ibid. p3
[378] Ibid. p12

Recommendation 7 specifies the characteristic that "is at the heart of what it means to be a social mission business"[379]:

> A social mission business must have a purpose to create […] social and environmental impact […] The law of the country should either provide legal forms in which a company organized as that form has such a purpose or provide for the enforcement of an election of such a purpose in the constituent documents of the company.

Recommendation 8 "follows logically" from recommendation 7, suggesting that:

> The duties of the directors and officers of a social mission business must include furthering the social impact purpose of the business and require them to have regard for stakeholder interests affected by the business.

Recommendation 9 is that social mission businesses "must be required to prepare and periodically make available a report on the performance of the business as it seeks to create general social and environmental impact. […]", while recommendations 11 - 13 state that social mission businesses should be permitted to be set up either with or without an asset lock, a profit lock, and a mission lock. Recommendation 14, however, specifies that:

> The law of the country should provide one or more means by which the social impact purpose of a social mission business may be enforced.

And recommendation 15 suggests:

> The law of the country should provide mechanisms by which investors in and owners of a social mission business may provide for continuation of the mission of the business upon a sale of control.[380]

The recommendations contain a lot of detail, but a rough summary would be: the business must have a stated social purpose and the duties of the directors must reflect this purpose; it is essential the business be treated in law as a for-profit businesses, and is not subject to the restrictions that are placed on charities; the business has a duty to report on this purpose, but what this report contains is contingent on the nature of the purpose, and the stage that the business is at in its development; the law of the country should provide a way to enforce the social impact purpose; there should be provisions in law for asset locks, profit locks and mission locks, but none of these is required. We are not in a position to judge how successful these measures would be in 'locking in' social mission, nor do we know how these measures would be received by an organisation trying to implement them. Instead, we can view these recommendations as a concerted attempt to specify in detail what it means to be a 'social' organisation given unrestricted profit distribution. The result is certainly more complicated than the charity and CIC regulation. It relies on specifying a range of possible measures, without saying that any individual measures should be compulsory. It is trying to be flexible, but as a result provokes the need for clarification. It suggests that reporting should be compulsory, for example (rec. 9), but also suggests that reporting is less important in the early stages of an organisation's growth (p12).

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[379] The recommendations use the language of 'social mission business', a category that groups PWPs with 'social enterprises' (of the kinds already discussed).
[380] Group (2014). p17-26

The real significance of the PWP model is that it establishes new conceptual foundations for defining what it means to be a 'social purpose' organisation. In a manner that adopts the innovative mode of reasoning, profit is assumed to be irrelevant; the principle that public and private benefit sit in opposition is put to one side, and new mechanisms are suggested for determining the 'social' aspect of social investment. The change in emphasis can be seen in the way the report specifies the 'spectrum of impact investees', which ranges from sustainable businesses at one end to grant-based organisations at the other. Where once we might have thought of the dividing line falling between profit-making and non-profit organisations, the PWP report configures matters in terms of "asset-locked organisations" *versus* "organisations with no kind of asset lock". What matters on this new model is not whether profit is present, but whether there are restrictions on its distribution.

INTERESTS AND PUBLIC / PRIVATE BENEFIT

These three examples help us to see some of the different positions regarding what counts as 'social'. The two modes of reasoning help us to bring to the surface the contrasting basic assumptions being employed. Before we continue our engagement with the literature, it will be helpful to demonstrate that there is a close link between public / private benefit and interests.

If we focus in on how public and private benefit are defined, we find that they are defined in relation to each other. Public (or community) benefit is defined not on its own terms, but in relation to what it is not, i.e. *private* benefit. Take, for example, a report produced by the Law Commission providing guidance for charities on whether it is appropriate for them to use their endowments to make social investments. It explains that:

> when charities (having already established their charitable status) carry out any activity; being a charity, they must continue to act for exclusively charitable purposes for the public benefit which, *necessarily*, requires them not to confer unacceptable private benefit.[381]
>
> If private benefit is an organisation's purpose then the organisation will not be charitable. By contrast, if private benefit is merely a consequence of an organisation's activities, that will not preclude charitable status.[382]

Similarly, the guidance provided by the Government for interpreting the CIC regulation states that:

> the purpose of CIC is primarily one of community benefit rather than private profit. Whilst returns to investors are permitted, these must be balanced and reasonable, to encourage investment in the social enterprise sector whilst ensuring true community benefit is always at the heart of any CIC.[383]

How can we gain better purchase on what assumptions are introduced by the concepts 'public benefit' and 'private benefit'? This is where interests can play a role. I would suggest the following line of reasoning is at play. It is an important part of our culture that we can distinguish between the pursuit of profit and the pursuit of charitable ends. If we enter into a business transaction where private interests are being pursued, then we act quite differently to situations of philanthropy. We *donate*

[381] Law Commission, *Social Investment by Charities* (2014). p39 Emphasis added.
[382] Ibid. p40
[383] Department for Business Energy and Industrial Strategy (2016a).

money to charities, but we *transact* with businesses, paying in exchange for goods and services. Thinking in terms of interests, we can see that different rules and conditions attach to these different types of activity. The pursuit of private interest is a kind of economic behaviour, perfectly legitimate in the context of market-based activity, which comes with a model of accepting risk and maximising one's own gain. The pursuit of public interest takes place within a different framework, a scenario in which furthering one's own position is absolutely not acceptable, because it would undermine the claim to be helping others. We have to be able to believe in the intentions behind such claims, because we do not necessarily have direct insight into whether those claims have been realised.

To put it another way: in situations of market exchange, the parties on either side of the transaction are both engaged in order to further their own interests. It is clear what they are set to gain, and they have recourse to various measures if their interests are not met. In a situation of philanthropy, the two-sided transaction does not exist. If I give to charity, the charity then goes on to help a third party. I am unlikely to have any knowledge of the third party's interests, and whether they are being met by the activities that the charity undertakes as a result of my donation. If charities were allowed to generate profits, then my donation might simply turn into someone else's private gain.

I think that this is the kind of reasoning that sits behind the self-evidence of the difference between acting for public or for private benefit. It is also, of course, consonant with the principled mode of reasoning. The innovative mode of reasoning, in contrast, poses a challenge, because it seeks to move beyond the public / private benefit distinction, to offer a version of what it means to be 'social' that simply makes no reference to this distinction. We can in fact see this challenge taking place by looking to *The Law Commission's Consultation on Social Investment by Charities*, published in 2014. It points out that the 'acceptable' degree of private benefit is a matter for ongoing debate, but that those responsible for ensuring compliance with charity regulation have reason to be wary:

> [W]hether private benefit is unacceptable is a question of fact and degree and there will often be scope for argument. … This can cause charity trustees concern, particularly as unacceptable private benefit may have unfavourable tax consequences for the charity or may threaten its charitable status. [384]

There have nevertheless been attempts to alter the regulation of private benefit in charities, in order to make it easier for them to take part in social enterprise and social investment. A review of the 2006 Charities Act was undertaken by Lord Hodgson in July 2012 to precisely this end. Lord Hodgson takes a favourable attitude towards social investment, suggesting a range of measures to make it easier for charities to make social investments. He includes a comment on the matter of private benefit:

> I also consider that the wording of the test of private benefit should be altered in relation to investment. While it remains the case that private benefit must be 'necessary' in order to maintain the emphasis on public benefit, altering the second limb of the description to 'proportionate' seems a better reflection of the reality of investment. [385]

The Law Commission's Consultation tells us how this recommendation was received by Government:

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[384] Law Commission (2014). p43

[385] Lord Hodgson, *Trusted and Independent: Giving Charity Back to Charities. Review of the Charities Act 2006*, *The Office for Civil Society* (2012). p111

> This recommendation was opposed by the Charity Commission and rejected by Government on the basis that it *threatened to undermine the fundamental concept of charitable status*. […] Ultimately, the extent of acceptable private benefit goes to the heart of what a charity is.[386]

This is just one example. It tells us that the reasoning I suggested above regarding the connection with interests is at least compatible with reasoning employed by official bodies, which we can assume is reflective of wider assumptions and points of view. More generally, the point here is to show that in the process of elaborating social investment as a programme of government, a line of reasoning has developed that seeks to ground a version of social investment in different intellectual territory. The PWP report is a well-developed example of this, but this kind of reasoning has a broader significance. The assumption that profit should not be a determining factor in deciding what counts as 'social' investment is widespread. The final section of this chapter will look to examples of the broader debate to illustrate how these assumptions interact with reasoning that prefers to maintain the distinction between public and private benefit.

DEBATES

BIG SOCIETY CAPITAL

We will start with BSC. BSC is not involved in *all* aspects of social investment, but it is an integral component of the market, and its presence dominates wider discussions of social investment, as the examples below indicate. The interviews give us insight into some of the discussions taking place internal to BSC in the first years of its operation. The two modes of reasoning continue to be helpful in showing that there are multiple versions of what counts as social investment at play in the way that these actors reason about what BSC should be doing.

Chapter 1 explains that BSC is a wholesale financial institution, and that it was capitalised with money directed by the Dormant Accounts Act, and by an investment of £200m from four high street banks. In determining its investment strategy and organisational mission, BSC's management is bound by the terms stated in Act, as mentioned earlier, but also by the terms of the agreement with the banks. They are then accountable to several parties, including the social sector, in whose name the capital was devoted to social investment. The intricacies of this situation are beyond the scope of our discussion.[387] We just need enough detail to give context to the comments quoted below. Since all of BSC's money is put into the same 'pot', the conditions imposed by the Act *and* by the banks apply to all of the funds they distribute. The agreement with the banks states that BSC is bound to generate a 4% return on the banks' investment, and that the banks can resort to punitive measures if BSC fails to comply. This means that although BSC does not have to repay the Dormant Accounts money, it is bound to generate enough return for it to cover its own running costs and repay the banks. In addition, the provenance of the dormant accounts money, combined with the original justification for directing it to BSC rather than other ends, lends weight to the argument that these are public funds that are destined to provide finance to the social sector.

These conditions and restrictions led to a three-pronged investment strategy. For each prospective investment agreement – and remember that BSC invests in intermediary bodies who then go on to

[386] Law Commission (2014). p43-4 My emphasis.
[387] Considerably more detail is contained in a case study I co-authored: Daggers and Nicholls (2016a).

invest in the 'frontline' SSOs – three sets of criteria are applied. Does the investment help to build the market? Does the investment create social return? And does the investment create financial return? Such an approach, to say the least, was more complex than standard investing. As one of the interviewees commented:

> as time has developed my understanding of it in terms of looking at each investment three ways [has improved] – financial, social impact and market building, and which one is more important, and how do we achieve all three, and assessing the pros and cons – I mean it's a much more complicated investment decision than the mainstream, which is really just risk and return. [Interviewee]

These objectives by no means contained a clear decision making process for the individuals involved to follow. There was ample room for differences of opinion over how BSC should be directing its investments. It is in this context that we can identify some highly contrasting attitudes. Take, first, these comments from a senior figure within BSC:

> So I think we've got it right in that we're focusing on building this intermediary market. It's a hard story to tell and I think the difference is that obviously in 2006 things weren't as hard on the front line as they are now.[388] Things are really really, really tough at the front line. And so I think, you know, what seemed right in 2006 I think is still right, in terms of building this intermediary market, and it's right to have a long term plan to build a social investment market. I think the challenge here is that the nature of the market is changing, both in terms of downsides and upsides. Before it was a bit of a theoretical, yeah it would be great to do that, because actually it would be a good thing to do. Now there's a real need to do it, as opposed to theoretically it's a good idea. It would be nice if SSOs were stronger, now it's imperative that they're stronger, it's imperative that they get this money, and quickly. And I think that's the flip, we need to be doing this right now, as opposed to having this ten year plan for how it might look in 10 years' time, it's happening much more quickly than we thought it was going to. [Interviewee]

This interviewee feels a sense of urgency in ensuring the capital BSC is managing makes its way as quickly as possible to the front line. She recognises the benefit of building a market, but there is tension running through her comments, because she suggests that the lengthy process of market building should not be given precedence over the urgency of need for funding for SSOs.

Contrast her comments with the following remarks, from someone who speaks from the perspective of the banks. He has been asked about the banks' requirement of a 4% return on their investment:

> Both the Big Society Capital and the shareholders felt that having this commercial rate of agreement would support the business [BSC] in many senses. You're running at a commercial rate of return, would push and endeavour to be profitable, therefore sustainable in the long term. Because what we see in the marketplace from the social enterprise perspective is a lot of people, a lot of these social enterprises are phenomenally enthusiastic about whatever venture is doing good in the society and think because they are doing good in the society, they are justified to receive funding, grant funding or equity funding or bank funding. Whereas for lots of other commercial models out there, an SME line is quite challenging and they deserve to be funded too. They [BSC and the shareholders] felt that the organisation required to generate commercial rate of return to promote sustainability. [Interviewee]

[388] In 2010 a change in Government saw the introduction of severe austerity measures and cuts in funding.

His view of the social sector is quite different. SSOs are not "justified to receive funding" just because they "are doing good in the society". The difference between these two positions can be understood in terms of the two modes of reasoning. On one hand, in the first quote, we find the assumption that SSOs are deserving of finance. At least in relation to the funds managed by BSC, social investment should be made available to those organisations already trying to address pressing social problems. The suggestion is that this is where efforts should be directed, rather than in relying on new kinds of solutions being identified. This, of course, looks like the principled mode of reasoning, and sits in contrast to the claim that only by unleashing new forms of capital can the world's social problems be solved. The point is that the social sector already exists, and is in desperate need of finance that is available on terms that SSOs can afford.

On the other hand, the second quote suggests the opposite, that SSOs are not deserving of finance just because they are social. This position does not extend to visionary statements about the transformative possibilities of social investment, but it does place emphasis on financial sustainability as priority over responding to claims of cash-strapped SSOs. Profitability, he reasons, equals sustainability. A model that insists on profitability is a route to a more sustainable financing arrangement for sorting out social problems. This logic is consistent with the innovative mode of reasoning, though bounded in its claims.

These comments also suggest that the reason for the banks' insistence on receiving a 4% return was not just about protecting their own balance sheet. The imperative to create a return was expected to have a helpful disciplining effect. The "commercial rate of return" would help to "promote [the] sustainability" of BSC as a financial institution. This point is made more explicitly by a third interviewee, with a senior management position in BSC. He reflects on the fact that all of BSC's capital was placed into the same 'pot':

> Who knows what would have happened if we'd done it differently, because if we had had separate pools of capital then we would have had even more pressure from the sector to piss the money away, to piss the dormant accounts money away. Having the banks in the same pool did give us the reason to say – and I do honestly think that this pressure will go on and on and on as long as we're here. The sector want money – they want grants, right? They want something that looks like a grant. And feels like a grant. Like a Futurebuilders loan.[389] And that to me is not going to build any sort of long-term market, it's just not. [Interviewee]

In other words, being able to say that the banks required a 4% return made it easier for BSC to resist the demands of the social sector. Elsewhere in the interviews it is made clear that the 4% figure was agreed without any real expectation, at least on the side of BSC, that it would be repaid at least for the first few years. A kind of unspoken agreement was made that BSC would attempt to be disciplined in the way it distributed its funds, and the banks would choose not to use the mechanisms they have available for holding BSC to account. This is how the situation was described by somebody involved in the negotiations:

> The strategy that we took is that we would just kinda fudge it for the next four years that we got their money, basically, to be perfectly honest. And they knew that, we knew that. And it

[389] Futurebuilders was a programme intended to provide repayable finance to the social sector, but the difficulty of distributing the funds under these conditions meant that the money was largely distributed as grants or very soft loans. Daggers and Nicholls (2016a). p6

> just seemed to be a bit of a silly thing to do really, rather than just kinda go "well, this is what it is…" [Interviewee]

In this light the 4% return figure takes on a more symbolic hue. It certainly suggests that some actors were prioritising market building over getting capital to the 'front line' – or at least that they potentially had more leeway in the terms on which they could provide the funds than they liked to communicate to the social sector. SSOs do not *deserve* finance, they appear to be saying, and their demands and claims must be filtered through the need to build a market.

In the context of BSC the restrictions are such that these opinions cannot be acted on directly. Actors are not free to direct the money however they reason is most beneficial. They are bound by the terms attached to the money. But these comments give us some insight into how different parties think about the options available to them.

WIDER CONVERSATIONS

Looking beyond BSC, there is a wide variety of reports providing insight into how different actors reason through who social investment is for and how the market should be developed.

We will start with a pair of examples which demonstrate some of the variation in language found in discussions about the social investment market. The first is the IVAR report already referred to in chapter 4, which recommends ways in which the social investment market can better meet the needs of small charities. Having done fieldwork with a number of SSOs that had taken on, or decided not to take, social investment, they identify the need for "A willingness [on the part of social investors] to engage with inexperienced charities to help them survive." The values of the investor must be aligned with those of the charity, so that the charity could feel "confident in sharing and discussing financial challenges in the context of what was right for the organisation's mission and beneficiaries, rather than what was most profitable."[390] An unspoken assumption made in this argument is that charities have a claim on the social investment market, which should take note of their needs, and that they are *deserving* of a different kind of treatment, that recognises the prioritisation of social mission. The report is an attempt to articulate a vision of social investment that starts from the perspective of organisations that are in need of finance. It pre-empts and rejects reasoning that starts from what is conventionally expected of organisations looking to take on investment. This is the salience of their assertion that SI should be about leaving investees in a stronger position to pursue their mission.

In contrast, *New Specialist Sources of Capital for the Social Investment Market* suggests a version of social investment that bears almost no resemblance to the version in the IVAR report. This report builds on the premise that "a lack of appropriate finance may pose a significant barrier to market growth."[391] The research identifies eight types of institutional investor that might in future direct more of their capital towards social investment. Strikingly, the focus here is on the *preferences* of the investors. There is no language about social need, or the needs of investees. The report sets up a vision of the social investment market as follows:

> It can be helpful to think of the social investment market as a spectrum with two types of investment opportunity at each end: 1. The need for risk finance capital required to support

[390] IVAR (2016). p55

[391] The City of London Corporation and The Social Investment Consultancy, *New Specialist Sources of Capital for the Social Investment Market* (2014). p5

> UK social sector organisations, estimated at circa £500m. 2. A separate, multi billion pound opportunity to invest in more established social industries estimated as the 'next £5bn' of investment capital, to help scale up and grow the market.[392]

The first of these 'opportunities' sounds quite familiar, but the second less so. What are these 'more established social industries'? A footnote explains:

> Within this research, 'established' social industries refer to those less risky industries with some track record of performance, including but not limited to – sustainable forestry, microfinance, clean tech, social housing, healthcare, sustainable and environmental industries.[393]

These industries are loosely described without any acknowledgment of the difficulties around identifying legitimate recipients of social investment. The authors explain "These two 'ends' of the market can be difficult to differentiate fully until viewed from investors' perspectives." Different kinds of investors, with different risk appetites, will be attracted to one or other end of the market.[394] These authors conceive of social investment as including activities by investors who are *not* driven by positive social impacts, who invest into industries that do not meet standards of 'social' credentials. This is an extremely flexible version of social investment that would probably be rejected by many people in the sector, but it is helpful in illustrating the range of the debate. The IVAR report emphasises the needs of SSOs who, they argue, should not be judged by the same standards as those applied to mainstream business. The *Sources of Capital* report is focused on growing the market with reference only to investor preferences. They are both talking in terms of 'social investment', but there is little resemblance between them.

This degree of variation causes problems for those trying to make general statements about what social investment is and how the market should be developed. *Angels in the Architecture* is a 2013 report which aims "to outline a vision for the social investment market and the 'infrastructure' required to deliver it, to take stock of the current state of the market and to make recommendations for the future."[395] Its author, Dan Gregory, sketches an overview of the market, based on consultation and interviews with market players. He observes:

> Some [respondents] … argue that "there should be expectation of market rate returns in the sector and no reason why that should not be the case". Others argue that this sector will never be able to deliver commercial returns and doubt that terms of investors and investees can be reconciled (as long as the social investment market is limited to the a defined social sector).[396]

The research is clearly encountering contrasting opinions about what degree of self-interest is possible or appropriate within social investment. Gregory extends this analysis by marking out two perspectives on the future of the market.

> The first of these perspectives places greater emphasis on the relationship between intermediaries and investees working on the frontlines and whether they can access finance that works for them. Many here argue that "a walled garden" is important - they are attached

[392] Ibid. p4
[393] Ibid. p8
[394] Ibid. p8
[395] Gregory (2013). p4
[396] Ibid. p16

> to particular models of ownership, governance, control and profit distribution - and often want to protect the defined social sector against its 'colonisation' by commercial capital. …
>
> The second perspective … takes a different view … Here, the "game is shifting investment flows from areas which create less social value to those which create more". … From this angle, a 'walled garden' can look too narrow or provincial, given the scale of the challenges facing society. … Investors, intermediaries and infrastructure bodies tend increasingly to be more concerned with impact above ownership (unless under direction from government otherwise) arguing that we need "other ways to think about social mission and social impact beyond social ownership and limits to profit distribution".[397]

Here we can see the same contrast we drew out above, between regulation that relies on public *versus* private and regulation that seeks new ground, reflected in these two perspectives. The first perspective aligns with the principled mode of reasoning; the second with the innovative mode. The passage continues:

> There is perhaps a growing frustration among some investors that social enterprises are, literally by their very nature, precluding opportunities for capital to be invested for social ends. As one intermediary puts it, "A social enterprise is a business that restricts itself from accessing equity." Here, this is meant as a criticism, whereas many social entrepreneurs might say almost the same thing, except with pride.[398]

We can bring to the surface an issue that has hovered in the background in our discussion so far. The case of legal form is not just a matter of principle. It has an influence on the ease with which investments are made, and so the development of the market. Within the context of social investment, if we remain committed to a version of the 'social' that restricts profits then we exclude ourselves from investment opportunities that seek to achieve social ends, but that cannot accept those limits.

Gregory's way of handling this situation is to draw a distinction between 'access to finance' and 'social investment', suggesting that "a clearer distinction [between them] is perhaps slowly emerging."[399] This is an unproblematic statement if we allow these terms to mean what Gregory wants them to mean, but it belies the fact that the term 'social investment' is so strongly associated with the project of capitalising the social sector. It also loses salience when we note that this distinction is not recognised elsewhere in the literature.

The problem continues into 2016. *What do we mean by 'Social Investment'?* by Phil Caroe, Director of Social Finance at a social investment organisation, is an attempt to clarify. He writes, "It was becoming increasingly clear to me how much confusion there is out there – not only a variety of different terms being used, but also the same terms being used by different people to mean different things." His aim "is to find consensus in a short guide to act as our 'touchstone' and help us all communicate more consistently and effectively."[400]

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[397] Ibid. p19-20
[398] Ibid. p19-20
[399] Ibid. p20
[400] Caroe (2016). p4

Caroe seeks to establish common ground in the collective attempt to use repayable finance to create "positive social impact", then identifies four different objectives[401] contained within this space, arguing that confusion arises from these objectives being conflated. One of the issues he identifies is as follows:

> it's not always clear what to expect from investment with a 'social' label. Sometimes what investors mean is that it's finance exclusively for social organisations. But investees may interpret the label to mean that there's something different about 'social' investment compared with ordinary commercial investment – perhaps a willingness to accept lower returns and longer timeframes, and to not mind so much if it all doesn't work out and the money can't be repaid. So you can also understand the frustration from investees when some sources of 'social' investment turn out to be much more commercial than they expected.[402]

He identifies tensions that grow out of differences in interpretation of 'social investment' very like those illustrated by the two examples above. How does he think that this confusion could be overcome? We need to "stop giving the impression that social investment is a thing with definable characteristics, and instead simply talk about how repayable finance could support their [charities and social enterprises'] mission." The term 'social investment', he concludes, should be reserved for efforts to provide finance to SSOs at less-than-commercial rates, while 'impact investing' should be used to refer to the broader activity of investing for impact, in a manner associated with higher returns.

Once more the effort to clarify, like Gregory's, seeks to distinguish between provision of finance that recognises something different about the social sector, the logical consequence of which is sub-commercial rates of return, and a kind of investment understood in terms of the creation of impact, not in terms of the financial returns that can be expected. Once more the divide we identify here maps on to the divide between the principled and innovative modes of reasoning.

ONLINE DISCUSSION

The final example is a blog post by a well-known commentator in the social investment space, David Floyd. The post, and the comments posted by various other practitioners in response, is particularly apt for our discussion because it brings together many of the issues referred to above: PWPs, BSC's role and strategy, the significance of public money and the need for restrictions on profit.

In January 2015, under the title 'Purpose unclear', Floyd published the post, opening with the statement:

> One of the most baffling developments of 2014 was the emergence (at least in social enterprise policy-world) of the 'Profit-with-Purpose' business.[403]

Floyd is not convinced of the need for this new company form. He looks to the way that the need for PWP businesses is justified by those who support them: the main issue, he finds, is that existing legal forms do not allow sufficient *flexibility*. This is not a valid point, argues Floyd – look for example to the condition for membership imposed by Social Enterprise UK, an umbrella body, which is already very flexible. It allows 49.9% of profits to be paid out to investors. Furthermore, SEUK is happy to

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[401] 1, providing access to finance for SSOs; 2, providing capital to companies that create impact, but do not fall within the social sector; 3, investing in mainstream companies that act responsibly; 4, convincing investors to change their perspective on investing, so that they are interested in more than just adding a 'social' filter.
[402] Caroe (2016). p12
[403] https://beanbagsandbullsh1t.com/2015/01/05/purposeunclear/ Accessed 4th April 2017.

accept social enterprises as members even if they do not have an asset lock. To add to this, if somebody wants to set up a social business that can distribute more than 50% of its profits to investors (i.e. with a conventional for-profit structure), they are free to do so, and market themselves to customers however they see fit. Doesn't this provide enough flexibility already?

Floyd reasons that there must be other reasons for this "bizarre wild goose chase". One reason – and he considers it a good reason – is that there is a need to change the perception that making money and having a social purpose are incompatible. Here he quotes a colleague in the sector who says:

> there's need for a new level of awareness-raising (partially with consumers/government and funders/investors but mostly with really talented, imaginative, ambitious entrepreneurs) that it's ok to make money out of social purpose – if social outcomes are genuinely achieved and evidenced.

This reasoning is an explicit articulation of the assumption behind the PWP report – private benefit is not incompatible with creating social impact, and this should be more widely understood. Floyd builds on this point with the rhetorical statement:

> Why shouldn't people who want to earn a decent living, provide well for themselves and their families and make the world a better place in the process be encouraged to do so? It's difficult to imagine many of us in social enterprise world offering any suggestions as to why not (although some of might [*sic*] argue that that's often possible using a social enterprise structure, too).

In other words, Floyd has no problem with the idea that social purpose and private benefit are compatible, but he does not think that further regulation is necessary to create a new company form. The provisions that could potentially be written into law, as set out in the PWP report, could be "just as usefully written into an investment agreement".

But Floyd is concerned about more than just the waste of time implied by developing unneeded legislation. He is concerned about *BSC's* role in encouraging the development of PWPs. He suggests that BSC is in favour of the PWP idea because it acts as a potential solution to the sluggish growth of the social investment market. Why would this be the case? Because the current state of affairs is far from clear. Floyd refers to BSC's governance principles, which we have also referred to in the section above, and concludes that the document "combines the clarity of wool with the flexibility of nylon to deliver a set of criteria that virtually any business could meet if it could be bothered."[404] Investors and investees alike, faced with such a lack of clarity over what counts as a social enterprise, are unlikely to get involved in social investment. From this perspective the PWP business fulfils a clear purpose, as it provides "a way for social investors to identify eligible profit-with-purpose businesses with confidence and familiarity" (from page 19 of the report).

Floyd does not put it in so many words, but we can see that his objection to BSC's role is grounded in the difference between public and private money. He writes:

> Few within either civil society or social investment world disagree with the idea that if Government is going to provide money for a social investment (and tax relief for it) it should provide a regulated registration system for those eligible to receive it (particularly if their social mission is not already regulated in some other way).

[404] Ibid.

Instead of creating a new legal form, that is, clarity could be achieved by creating a register of organisations that are approved to receive the money from BSC. The rhetorical device he uses – "Few… disagree with the idea" – suggests that his claim, that public money should only go to regulated entities, reflects only what is generally recognised to be appropriate. My interpretation of this comment is that it implicitly appeals to the distinction between public and private benefit discussed above. Floyd is concerned that without regulation, public funds will be used to support private interests.

This post, and the comments that it provokes, is particularly interesting because it contains an articulation, at different points, of *both* of our two basic positions. In the first half he supports the argument that private profit and doing social good should be seen as compatible. Non-regulated SSOs create social good and they should be allowed to call themselves social enterprises if they want to. But when it comes to the matter of public money, Floyd appears to be committed to the idea that there should be some way of distinguishing legitimate from illegitimate SSOs. He clarifies his position in the comments section:

> While I'm very much in the liberal/broad church wing on 'what is a social enterprise?', I have no sympathy whatsoever for social investors and intermediaries who've received shedloads of government money on the basis that they'll find ways to meet the finance needs of specifically social organisations who can't access mainstream finance, who then say that social sector organisations represent a risky market where their cut and paste mainstream finance approaches don't work.

He therefore finds himself making a distinction between 'social enterprise' as a broad label and "specifically social organisations"; a distinction that once more begs the question of how this line can be systematically drawn.

Comments from an individual called Dan Lehner (who in fact is the individual that Floyd quoted approvingly in suggesting that "it's OK to make money out of social purpose") help to bring the two basic positions into sharper relief. Lehner refers to his employer, a business set up, in his words, "explicitly to deliver social impact." He emphasises that "we invest heavily in a team to evidence our impact – even at a time when cash is tight. Because that's why we're in business. It's in our governing documents for all to see: impact first." To him, this means his company:

> should surely be able to access support and cash (including government, philanthropic money, unclaimed assets and the like) if we can prove that we can help the funders achieve their social goals. There really is nothing more to it for me.

Lehner is not only asserting that his company should be part of the social investment market, but that they should be entitled to support and investment of public as well as private money. If they can prove their social impact, there should be no objections. Floyd's response is to say:

> I'm keen to see as many people as want to launching conventional private businesses that do good. If relevant to either them or investors, I also wish these organisations socially motivated investment based on what they do – as opposed to what [they] are – but I don't wish them access to public funds allocated to Social Sector Organisations.

One interpretation of this exchange is that Lehner pushes Floyd to clarify which basic position he agrees with, and the result is that we have a clear articulation of each, pitted in opposition to each

other. Lehner says the pursuit of public and private benefit are compatible, and that his company is therefore qualified to any kind of funds, including public funds, *in virtue of* the social impact they create (and evidence). Floyd, in contrast, wants to protect social sector organisations' claim to public funds, implying that organisations that are *really* social are those that are regulated, which in turn implies a limit or cap on private profit.

CONCLUSION

Where chapter 4 looked at what makes an investor 'social', this chapter looked at the 'social' status of investees. The three formal examples making up the first part of the chapter show what happens when actors in the market are pushed to mark out clear boundaries. The SITR and BSC's investment policy both fall back on established ways of determining 'social' status: the prioritisation of public over private benefit, made visible through a variety of methods (such as taking on a regulated legal form, or embedding limits on profit distribution in the organisation's governing documents). The PWP report, in contrast, attempts to expand the boundary, mapping out a version of the market that includes the 'regulated' social sector, but also includes businesses that have no restrictions on profit distribution. The draft bill suggesting how to determine which organisations qualify to join this expanded version of the market includes a range of measures, including the measurement and reporting of social impact.

The two modes of reasoning help to draw out the differences between these approaches. The first two examples seem to follow the principled mode of reasoning, while the PWP example works through a line of reasoning consistent with the innovative mode. The distinction between public and private benefit plays an important role in more established ways of determining 'the social'. It is the core conceptual distinction allowing us to distinguish charities from businesses. I argued that the public/private distinction in this setting has an intrinsic link to interests. There are settings where self-interested behaviour is entirely appropriate, but the regulation of charities based on the prioritisation of public benefit demonstrates the need to carve out a space where it is illegitimate. The principled mode retains a commitment to this distinction, and the innovative mode seeks to move past it.

To reiterate, the modes of reasoning are not a way of classifying the opinions of different actors. They may or may not be recognised by actors in the field, because it is quite possible for the same person to employ both modes of reasoning, as the 'debates' section of this chapter demonstrated.

Taken together, chapters 4 and 5 advance our understanding of how the vision for social investment is taken up and worked through by a variety of actors. The implications of this discussion operate at two levels. First, in drawing out differences of opinion, we can claim a more detailed and nuanced understanding of what social investment means to those involved. It is my hope that the disentangling I have managed to do might be seen as useful by those engaged in practice. It could be found to be relevant to practitioners, and to clarify much of the conceptual fuzziness they encounter on a day to day basis.

Secondly, and more importantly, we have moved on a step in our argument. We can now see that the vision for social investment contains two quite different versions of what it means to do investment in a way that is social. By identifying the innovative mode of reasoning, we can see the radical streak running through social investment that seeks to effectively discard or remove embedded ways of thinking about what it means to be socially motivated. This does not amount to the argument that charity/social enterprise regulation should be abolished and every organisation should act as a business.

But it does mean that the difference between the social sector (traditionally understood) and the wider spectrum of social purpose organisations is understood in terms of the restrictions SSOs place on capital, rather than their particular suitability for addressing social problems. It denies the social sector the distinctiveness that grounds its contribution to a system of government.

The principled mode of reasoning provides a way of drawing out those construals of social investment where the distinctiveness of public benefit-oriented action is respected, even if the assumption that public and private benefit are incompatible is deeply buried, and possibly not really visible even to the person making the assumption. Presenting the argument in this way, it becomes easier to see what acts as common ground, and what is contentious. We do not find reasoning that objects to the market per se, nor to the idea of repayable finance, nor even to the idea of profit. The crunch point comes with the idea that *unlimited* profit-making is compatible with social purpose, and that those pursuing a social purpose should be expected to meet standards specified by those focused on the financial viability of a market, rather than what is needed to ensure social needs are met.

These dividing lines are in fact aligned with the well-trodden path between left and right. The principled mode of reasoning sits comfortably with the typically 'left wing' view that the market should be constrained, and that there is a space of social interaction that should be protected from profit-making. The innovative mode of reasoning supports the typically 'right wing' view that the way should be opened up for the market to coordinate interests uninhibited by regulations. The 'invisible heart of the market' proclaimed in the SIIT report, remember, invokes the doctrine of self-interest, and the notion of spontaneous harmony of interests. It is true that social investment gets dismissed as neoliberal marketisation in some quarters, but these are criticisms at the fringes, and have no traction on the practice of SI. I think this is an aspect of a kind of depoliticisation achieved by the vision for social investment, which is rooted in the modes of reasoning and argumentation that have become acceptable within its parameters. This issue will be addressed further in chapter 7.

Measurement is our next concern. We already have some idea of its importance. In chapter 4 we saw that impact measurement is endemic to the concept of social value/return/impact, and is assigned an important role in making the idea of social investment more tangible. This importance only increases where the innovative mode of reasoning is being employed, as measurement is one of the main methods for differentiating between social investment and other forms, something confirmed in this chapter's analysis. Chapter 6 therefore turns our focus to how the need for social impact measurement is conceived of within the vision for social investment.

CHAPTER 6: THE ROLE OF SOCIAL IMPACT MEASUREMENT

> Impact measurement is central to the practice of impact investing and vital to the growth of the impact investing market. Measurement demonstrates the social impact that these investments are having, which further legitimizes the practice. Without it, effective impact investing could not occur. Effective impact measurement generates value for all impact investment stakeholders, mobilizes greater capital, and increases the transparency and accountability for the impact delivered.
>
> From a report by a working group of the Social Impact Investing Taskforce, *Measuring Impact* (2014) p1

Impact measurement is the last area of focus in this exploration of the logic of social investment. So far we have skirted the issue of measurement. We know that it is looked to for providing evidence of impact, and that it is particularly important on the innovative mode of reasoning, as it grounds claims to impact when other signifiers, such as restrictions on profit, have been removed. This opening passage helps us to open up the issue of measurement more fully, as it hints at the multiple functions assigned to SIM within the vision of a fully functioning SI market.

We must be quite explicit about the scope of this discussion. Measurement and metrics extend into almost every reach of life. Within this broader picture of the growth of metrics, the measurement of social impact is a subfield in its own right. It certainly exists beyond the boundary of social investment. It could even be framed as another programme of government, one focused on increasing the effectiveness of social purpose organisations by encouraging a data-driven culture. There is no clear boundary between the logic of SIM and the logic of social investment, but articulations of the logic supporting the need for SIM are not made solely in relation to social investment. So we will be bound to draw on resources that do not respect the limits we set for ourselves in this study.

This is not overly problematic – it will require careful handling of source texts, to be clear about limits to what can be said – but it does draw attention to an issue in developing this line of argument. How do we frame and discuss these measurement practices in a way that sufficiently acknowledges the complex, multifaceted context in which they are being developed? After all, the way SIM is conceived of within SI, and the broader SIM project, are not being developed in isolation.

The first point to make is that I will not be discussing SIM practices themselves, but rather the *need for* SIM practices. To be entirely precise, I am discussing the way the need for SIM practices is reasoned through in the context of social investment as a programme of government. This means my aims are relatively contained: I am not looking to the broader context of the development of measurement practices, nor am I looking to offer an explanation of why SIM takes the form it does. The point is not that this broader context is irrelevant, but that it is not necessary to make the argument I want to make.

This is because we already have the tools that we need to explore the role of SIM. They are contained in the notion of the production of knowledge, discussed in chapter 2. Poovey's work makes it possible to see that there are commonalities over time, and the same issues are faced by somebody trying to measure impact in 2018 as were faced by a 19th century scientist trying to build an argument on the

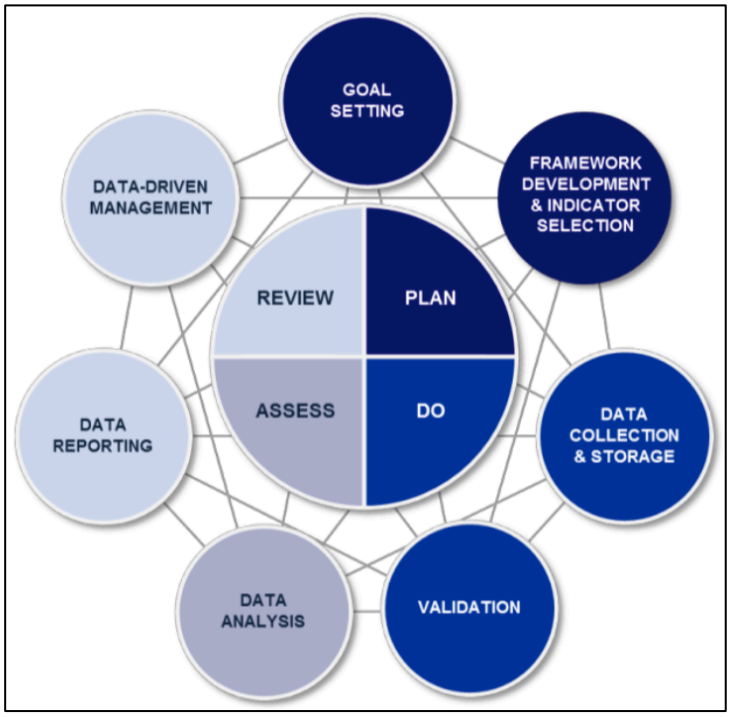
basis of data points collected through observation: how are those data points systematised? and how do actors in the space rationalise the leap from particular to general? Of course, as we pointed out in the conclusion to that discussion (page 100), academic discussion probing the limits of what we know and how we know things have moved past the modern fact. There are significant and influential bodies of work looking at the role objective knowledge making plays in society, including Foucault's work as well as the growing field of Science and Technology Studies. But it is still the case that much of the time, including in the context of social investment, the assumption is very much in place that facts about impact can easily be gathered and manipulated. So despite more recent developments in thinking about topics such as the role of measurement, paying attention to the problem of induction continues to yield dividends.

The chapter starts with a brief introduction to what is meant when actors refer to 'impact measurement.' The next section points out that impact measurement faces the problem of induction, and so is amenable to analysis by the tools provided by Poovey. It is shown, first, that the need for impact measurement is conceived of both in terms of the need to prove impact, and also in terms of the need to generate information that is useful in making decisions, which suggests a focus on improving rather than proving. This is a debate that is found in the literature, but I argue that it cannot be fully understood without looking to the connection between impact measurement and accountability, and the need to protect the integrity of the field. The approach in this section is slightly different to that of previous chapters. The source material is sparser, more is left unsaid, and there is more ambiguity in the terms being used. As a result, I am less able to anchor the argument in the texts available. I nevertheless think it is possible to present a version of how the logic of social investment works with respect to the need for SIM. Drawing on Hacking's concept of multivalence, the logic behind appeals for accountability is unpicked further, and connected up with the demands of the market model. Finally, the chapter considers the assumptions put in place around 'impact facts' for them to become a viable way of capturing, analysing and acting to bring about social change.

THE SIM CYCLE

We will begin this discussion with a brief overview of what it means to 'do' social impact measurement, based on a series of best practice guidance documents aimed at practitioners.

The general wisdom on SIM – and this is corroborated by my experience providing impact measurement consulting services – is that it takes place through a cycle of activity. We can borrow a diagram from the WGIM report, which is a typical example:



From WGIM, *Measuring Impact* (2014) p9

The "four phases" split out the process of designing a data collection system (plan), collecting data (do), analysing that data (assess) and then using the insight gained to review what needs to be changed in programme implementation (review). The "seven guidelines" then suggest a more detailed version of what should take place at each stage of the cycle.[405]

Certain aspects of the cycle are particularly well resourced in terms of published guidance. One such aspect is the framework used to structure the measurement system.[406] 'Frameworks' usually take the form of a 'theory of change' or 'logic model'. There is variation across these tools, but they share common ground in the notion that social change can be broken down into a number of discrete components that are *causally* linked.It is common to find logic chains depicted as follows:

From WGIM, *Measuring Impact* (2014) p8

'Input' refers to the resources that go into an activity; 'activity' refers to the actions that take place under the remit of the programme in question; 'outputs' are a quantification of the "practices, products and services" created through the activities; 'outcomes' are the changes that take place as a result; and 'impact' is the broader social or environmental changes that follow from the outcomes. The arrow shapes in the diagram above are deliberate, because there is supposed to be a sense of flow over time.

[405] Working Group on Impact Measurement (2014). p9

[406] The IRIS catalogue was an early iteration of social impact measurement for investors. It is a freely available database of indicators designed to give a comprehensive set of options for investors to choose from when deciding which metrics to use. While IRIS is still used widely by investors (as reported in Abhilash Mudaliar, Rachel Bass and Hannah Dithrich, *GIIN: Annual Impact Investor Survey* (2018)), it does not take a prominent place within the best practice guidance being used here. I would suggest this is because IRIS largely fails to include measures of outcomes, sticking instead to output measures, which are easier to define in advance.

Within these models, 'outcomes' become the focus of the measurement system – they are the discrete, identifiable, measurable changes thought to come about as a result of the organisation's activities. The difference between outputs and outcomes is emphasised as important, because the vision of impact measurement is one that moves *away* from commonly used output-based measurement systems, to one that focuses on the changes (outcomes) that occur as a result of this activity.

Once outcomes have been identified, data collection tools have to be specified. Organisations might write their own survey tools, or they might choose to use an 'off-the-shelf' tool – some kind of scale-based measure or questionnaire developed, usually in a research setting, and then published. An example I have come across on numerous occasions is the Warwick-Edinburgh Mental Wellbeing Scale (WEMWBS), which asks respondents to score themselves on a series of statements such as "I've been feeling optimistic about the future" and "I've been feeling confident".[407] Respondents give two rounds of responses, one at the beginning and one at the end, enabling the calculation of a 'distance travelled' score. As an NPC report on the topic of 'off-the-shelf' tools explains, such tools have been tested and piloted for "validity and usability", and can be used to "demonstrate change". [408]

Once the data has been collected, it has to be analysed and then put to use. There are various factors highlighted as needing consideration in the guidance. The GECES guide, for example states that impact reporting should contain, among other things, "a clearly explained account of the effects of the intervention (outcomes, and identified beneficiaries, also explaining, at least in qualitative terms, deadweight, development and drop-off)".[409] With a hint of divergent views, the WGIM guide simply advises that organisations "Distill insights from the data collected: Review and analyze data to understand how investments are progressing against impact goals."[410]

There is one other approach that deserves to be mentioned alongside the good practice described above. This is the Social Return on Investment (SROI) methodology, which is built on the "seven principles of social value" [411, 412] SROI advocate the same kind of cycle as that described above, of specifying a framework, collecting data, analysing it and using the restults. It differentiates itself through its strong emphasis on the 'stakeholder perspective', arguing that it is only possible to understand the social value created by asking those who experience it, rather than defining outcomes in advance.[413] Where the more general guidance gestures in the direction of the form analysis should take, SROI prescribes how the data should be analysed, even providing a spreadsheet tool that automatically completes the calculation. As we will see, the leader of the SROI network is a vocal contributor to the debate over how SIM should be done.

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[407] From https://warwick.ac.uk/fac/med/research/platform/wemwbs/wemwbs_14_item.pdf Accessed 13th March 2017.
[408] New Philanthropy Capital, *Using Off-the-Shelf Tools to Measure Change* (2014). p3-4
[409] GECES Sub-group on Impact Measurement (2014). p31
[410] Working Group on Impact Measurement (2014). p10
[411] The seven principles are: 1) Involve stakeholders; 2) Understand what changes; 3) Value the outcomes that matter; 4) Only include what is material; 5) Do not overclaim; 6) Be transparent; 7) Verify the result.
[412] The SROI methodology was first developed in the US. Jed Emerson, referred to above, published in 2000 a paper introducing the idea (Jed Emerson and Mark Cabaj, 'Social Return on Investment', *Making Waves*, 11/2 (2000).) It was picked up by people in the UK who created the SROI Network, which morphed into the Social Value UK and its international counterpart Social Value International. These are membership organisations for those committed to embedding social value into the way their organisation operates. They promote the principles of social value and the SROI methodology.
[413] Nicholls et al. (2012). p20

In attempting to summarise the latter half of the SIM cycle, we bump up against an issue lurking in the background: 'analysing' the data that has been collected means making a series of decisions about the principles that should be followed in conducting this analysis. How seriously should the need for robustness and rigour be taken? What does it mean to be robust and rigourous? How much data is needed for the results to be valid? What is validity? These decisions are already made for those using SROI, but this is only one of myriad approaches. In every case, a method is needed. The numbers will not just speak for themselves.

One last aspect of the situation to highlight is the emphasis the guidance documents place on leaving room for the autonomy and choice of the organisations they are seeking to advise. The guidance presents an ideal world scenario, something to be aimed for, while acknowledging that the realities of resource constraints means it may not be possible, or will take some time to achieve. The WGIM report, for example, comments on "the importance of taking a realistic approach", asserting that "impact measurement approaches must be proportional to the available resources, scale, and stage of maturity of both the investors and investees.[414] The notion of 'proportionality' is thus used to communicate that advocates of SIM are not suggesting that measurement good practice be pursued at any cost.

THE ROLE OF IMPACT MEASUREMENT

We now have an idea of what kind of process is being referred to when documents refer to social impact measurement. We are moving quite rapidly across a set of issues that in other circumstances would be worthy of much deeper consideration. The process of identifying outcomes and indicators is often one of translating quantities into qualities, for example, and even of translating some of the most personal and intimate aspects of an individual's lived experience into metrics. Mennicken and Miller write about precisely these kinds of processes in their article 'Accounting, Territorialisation and Power',[415] which contains analysis that could be fruitfully brought to bear on the spread of SIM. But to properly explore these processes we would have to go beyond the fact that these tools are being advocated, and look to how they are being used in particular times and places. That would be another study.

For now, we will continue building our argument. Our task is to explore how SIM is drawn on within the logic of social investment. What functions is it called on to perform? As ever, we have to do more than just look for explicit statements to this effect. We are looking for a way to uncover the implicit assumptions being made by those elaborating this programme of government. The way to do this is to draw a connection back to chapter 2's discussion of the production of knowledge.

The connection is not hard to make: SIM, just like any other attempt to generate systematised knowledge, faces the problem of induction. SIM is fundamentally and inherently about collecting data, outcomes data, and then finding a way to reason through the leap from these observed particulars to more general knowledge about impact. This is exactly the set of questions outlined above in relation to the 'analyse data' stage of the SIM cycle.

[414] Working Group on Impact Measurement (2014). p11
[415] Mennicken and Miller (2012).

If SIM can be analysed in terms of the production of knowledge, then SIM can be analysed in terms of different *orientations* to knowledge production. Examples from Poovey, Porter and Hacking's texts were used to illustrate points of divergence between knowledge oriented to certainty, using statistical analysis, and knowledge oriented to a practical purpose, such as CBA, where the scrupulousness of method was deliberately relaxed. We can now see that these distinctions are helpful in looking to the conversation around what SIM should look like. To be clear, I am not saying that these examples, which happen to be historical, lend any weight to my argument *because* they are historical. I am not drawing any connections through time, suggesting the the historical examples mark a point of emergence of somehow fundamental knowledge categories that are identifiable in the present. Instead, I use these examples as a way of highlighting where I, or the reader, might otherwise make unexamined assumptions about attempts to generate knowledge. It might be the unexamined assumption is that all knowledge creation systems are aimed at discovering 'the facts' or 'the truth'; these historical examples simply illustrate the sense in which different knowledge production systems are oriented to varied ends. With these examples in mind, it becomes easier to see how a similar configuration is present in the case of social investment.

The argument I am making, therefore, is that if we approach the debate around impact measurement as it appears in these documents with an eye for different orientations to knowledge production, we find that we can indeed discern two contrasting such orientations. They are discernable in the to-and-fro over whether SIM should be about establishing what impact has been created with as much certainty as possible, or if certainty should be demoted behind other considerations such as usefulness, timely feedback, and so on. That is, is SIM about *proving* impact, or about *improving* impact by informing decision-making? We can characterise the two sides of the debate as follows.

Nesta's widely recognised 'standards of evidence' approach provides insight into the reasoning behind the need to prove impact. Nesta's approach is an attempt to make experimental methods palatable to SSOs by placing them in a framework that gradates the expectations of rigour. Nesta considers it important that "demand for evidence is appropriate for different stages of product or service development, that it doesn't hamper innovation, and that it is realistic and proportionate."[416] As a result:

> Investees will be expected to move up through the levels over the life of an investment, giving increased certainty that impact on our target outcomes is being achieved. The higher levels involve more in–depth evaluation techniques, including randomised control trials (RCTs), a method which enables the impacts observed to be isolated to the product or service.[417]

Nesta elaborates further than most on the reasons why RCT-type approaches are needed:

> We know that good intentions don't necessarily lead to good outcomes. There are well known cases of people and organisations delivering services or products that mean well, who want to positively enhance the lives of their users and the wider community, but end up doing more harm than good. This means we need to get much better at understanding impact.[418]

In other words, the direct observations of those trying to create positive social impact, even with the best of intentions, might be mistaken, and experimental methods are the best way to know for certain

[416] Nesta et al. (2012). p3
[417] Ibid. p9
[418] Ibid. p4

that the intervention is having the desired effects. References to RCTs as a gold standard for SIM crop up fairly often. Reeder et al's article on social impact measurement, for example, points out that "A prominent strand of debate among analysts argues that rigour in assessment is vital and that randomised control trials are the most powerful tool for achieving that rigour."[419] Similarly, these comments appear in a document on SIM in the 'youth justice sector':

> One particularly acute issue for impact measurement, particularly in youth justice, is attribution. Young offenders often receive several services at different stages of the criminal justice process, which makes it hard to ascertain how much each service contributes to change. … Randomised controlled trials or a good comparison method should ideally be used to prove a new approach works.[420]

RCTs sit out at one end of the spectrum of rigour – they are some of the most time-consuming and technically difficult types of impact measurement. But even when RCTs or experimental methods are not mentioned explicitly, I think it is often the case that authors, when writing about the need for SIM, have in mind a process that proves or demonstrates that impact *really is* being created. The WGIM report, for example, states "Measurement demonstrates the social impact that these investments are having, which further legitimizes the practice."[421] While the word 'demonstrate' is less forceful than 'prove', in this context I think it suggests a need for SIM to show even the sceptics that investors claiming to create impact are in fact doing so. I think it is this kind of concern that is being expressed in this passage from the Inspiring Impact report:

> Poor quality impact measurement practice can lead to scepticism about findings. 'People don't believe our findings,' might become a regular refrain if these issues are not addressed and if standards are not raised. So building the capacity and skills of CSOs is critical to making impact measurement work for them, but also critical to preventing impact measurement as a field from being discredited.[422]

This concern for demonstration and proof is made clearer by contrasting it with the other side of the ambiguity. Here SIM is about generating information to *inform decisions* about creating and 'managing' impact. Here is a very explicit statement to this effect from Jeremy Nicholls on the purpose of SROI:

> SROI … can be compared with financial accounting in that the purpose of the [social value] principles and their application is to provide good enough information for those receiving the social returns to make decisions.[423]

The GECES report also puts emphasis on decision making:

> In the case of all stakeholders, a key need for social impact measurement can be seen in decision-making. … All are aiming, to draw a parallel with accounting principles, to obtain all

[419] Reeder et al. (2015). p8
[420] New Philanthropy Capital, Camilla Nevill and Tris Lumley, *Measuring Together: Impact Measurement in the Youth Justice Sector* (2011). p3
[421] Working Group on Impact Measurement (2014). p1
[422] Lumley et al. (2011). p16
[423] Jeremy Nicholls, 'Social Return on Investment — Development and Convergence', *Evaluation and Program Planning* (2016). p4

> reliable (with all that that means in terms of objectivity and consistency as between persons and across time frames) information relevant for decision-making.[424]

The point is not that decisions are important in their own right, but that decisions are being made about how to best create impact. I think it is decision making that is being invoked in comments such as this one, from the WGIM report, that their guidelines "are based on the fundamental principle that impact measurement should help impact organizations manage performance, learn [and] improve outcomes."[425] The term 'performance' is taken from business and expanded to mean performance in relation to the creation of impact. Just as managers of a business need indicators to help them decide how best to run their business, and maximise profit, so the managers of a social investor or an SSO need indicators of impact to help them decide how best to continue creating impact. SIM is about *improving* outcomes, not *proving* them.

Now, the tension between these two orientations has not gone unnoticed. The criticisms, as far as I have seen, only go in one direction, with some actors attacking the preoccupation with proving impact (and nobody arguing that the focus should not be on informing decision making). The focus, they argue, should really be on improving impact. Jeremy Nicholls, longtime standard bearer for SROI, asserts that the "focus on levels of accuracy for scientific proof" detracts from efforts to make "choices between different options for creating impact."[426] Similarly, a blog post by Ben Carpenter, colleague of Nicholls (and appointed his successor in 2018), states:

> Perhaps it's time we stopped worrying about rigour when it comes to impact measurement. The parallels with highly rigorous academic evaluation are not healthy and if you look at businesses, low levels of rigour is used frequently to support decisions. (Low levels of rigour often better than nothing). As someone on[c]e said to me… "it's about enough precision for the decision"[427]

They do not quite say it precisely, but my interpretation of these comments is that they are aimed at attempts to use experimental methods to *prove* impact, defending instead the generation of impact data to inform decision making.

A similar line of argument is found in a report published by Acumen Fund in the US, who in 2015 publicised a new approach to impact measurement called 'Lean Data'. In this report they claim that the "prevailing wisdom within the sector is that collecting data about social performance is burdensome and expensive, and some impact investors and social entrepreneurs would assert that it is a distraction from the 'core' work of building a financially sustainable social enterprise." This is because "we've allowed ourselves to be convinced, incorrectly, that the tools we inherited from traditional monitoring and evaluation (M&E) methodologies are the only way to gather social performance data." Using these "traditional" methodologies, "to state that an intervention has 'impact' usually requires a high degree of certainty of attribution, based on the existence of a relevant control group against which to judge a counterfactual (i.e. what would have happened anyway without the intervention)."[428] The Lean Data approach, in contrast, which relies on techniques for data

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[424] GECES Sub-group on Impact Measurement (2014). p2
[425] Working Group on Impact Measurement (2014). p1
[426] Nicholls (2016). p6
[427] www.socialvalueuk.org/impact-management-is-a-state-of-mind/ Accessed 13th June 2017.
[428] Acumen Fund (2015). p5

collection that use mobile data technology, means that "we can finally see – in close to real-time and at a fraction of the cost of traditional research studies – the data we need to understand if we are achieving our purposes as agents of change." Using Acumen's approach, the data collected gives an "indication" of social change. In most cases they do not use formal control groups, "largely because we have found it impractical in the context of the social enterprise."[429] Acumen therefore make a direct attack on the portrayal of SIM as about proving impact and establishing findings with quasi-scientific certainty. In contrast, they emphasise light-touch data collection that gives an indication, rather than proof, so that decision makers can make better informed choices about how to maximise impact. Impetus PEF, a foundation based in the UK, similarly published its approach to impact measurement as a response to the confusion around what SIM is trying to achieve.[430]

These examples tell us that the experience of trying to *prove* impact has proven sufficiently unsatisfactory to prompt these authors to speak out, and in the case of Acumen to spend considerable resources on developing and marketing an alternative approach.

In some ways these two functions seem quite compatible. Indeed, there is huge potential for confusion here about the argument I am seeking to make. It seems very logical to suggest that a decision maker would want to measure impact in as robust a way as possible, to provide themselves with the best information for decision making. There is agreement that, in establishing impact, it is important to think about attribution, deadweight, displacement and so on. It is always important to be robust, it is always important to be transparent in one's reasoning, and to use a clear, explicit method in backing up claims about impact. The contrast is not between a scientific approach to proving impact that is rigorous and robust, and a decision maker's approach to improving impact which is sloppy and inconsistent. The language of method and rigour does not help us in drawing the distinction between proving and improving.

The contrast is, instead, between different intended audiences for the information. When SIM is being used to prove impact, it is being prepared for an external (and potentially sceptical) audience, and used to convince them that impact is indeed being created. When SIM is being used to improve impact, on the other hand, it is being used internally. It acts as a system for generating information about what is taking place on an ongoing basis, to inform decision making. The salience of this contrast becomes clearer when we turn to the matter of accountability.

ACCOUNTABILITY AND INTEGRITY

To recap, this is the last of four chapters exploring the logic internal to SI as a programme of government. Our focus is on the way the need for measurement is formulated within this logic. So far we have drawn attention to the fact that there are different knowledge orientations present within the debate around SIM. These observations are not specific to social investment, and they are relatively straightforward to demonstrate based on the discussion around choice of method.

But if we narrow down our focus to the logic of social investment, it is clear that this conversation around method is influenced by the uses to which SIM is (supposedly) put. I want to draw attention

[429] Ibid. p6
[430] Impetus PEF (2016).

to the interplay between SIM and two other aspects of the vision for social investment: accountability, and what we can call the 'integrity' of the SI market.

What do I mean by these two things? 'Accountability' is curiously difficult to pin down. It is nowhere defined in the social investment literature. If we attempt to think for ourselves what it means for someone to 'be accountable', we do not find a simple, general answer to that question. It strikes me that it is a matter of opinion whether an individual or an organisation has been properly holding themselves to account, or been properly held to account by an outside party. That is, different parties may have very different opinions over whether an organisation is properly accountable, which will depend to a large extent on whether they are happy with the organisation's activities. Similarly, an employee might in theory be accountable to their manager, for example, but if they contradict that manager's instructions without consequence then it is not clear whether they 'really are' accountable for their actions. What it means to 'be accountable', I would suggest, is based very much in individual or group perspectives, or in a particular context, and cannot easily be 'objectively' determined.

It is easier to pin down what is meant by the idea of the 'integrity' of SI. An obvious criticism faced by social investment is that it is not *really* social at all, it is just another form of profitmaking in disguise. This concern is referred to in various ways – more recently 'impact washing' has entered the SI jargon, echoing 'greenwashing' as a way of calling out companies that pretend to more environmentally friendly than they really are.

Whether it is referred to as "the integrity of the impact investing market" or "potential mislabelling of an impact investment"(all phrases used by WGIM), social investment advocates want to be able to say with confidence that there is a difference between social investment and mainstream, profit-making investment. As we have highlighted at multiple points, it is the innovative mode of reasoning about social investment that faces the heaviest burden of proof, because it remains committed to the idea that social investment need not entail any restrictions on profit.

Integrity, I am arguing, is a central concern of SI advocates, and it is intimately linked to both accountability and impact measurement. WGIM articulates connections between these three elements that support the direction I want to take my analysis. The report enshrines accountability in the first of "four overarching long-term priorities" for social investment, and links it to the notion of integrity:

> #1: Embrace impact accountability as a common value
>
> WHY: Unless impact investors hold themselves and each other accountable for living up to their commitments to invest with intent for impact, the integrity of the field will be compromised.[431]

It also makes the following claim:

> Thus, mechanisms being developed to support impact measurement should … help minimize the risks around potential mislabeling of an impact investment. This involves the eventual integration and alignment of practices that can allow a range of investors to adopt social and

[431] Working Group on Impact Measurement (2014). p25

> environmental impact considerations into their portfolios. This action would also serve to protect the integrity of the impact investing market.[432]

If market integrity is an anticipated line of attack from sceptics about SI, then claims to accountability are a key line of defence. By calling for accountability in social investment practice, advocates anticipate the sceptics with the response: social investment is different because actors in the market willingly hold themselves and each other accountable for the impact they create. In turn, these kinds of accountability suggest some reliance on measurement, because accountability relies on there being knowledge or evidence of impact.

There is a degree of conjecture in making these connections. They are not explicitly supported by the texts; rather they are *compatible* with what is said, if the large amount of ambiguity is interpreted in certain ways. The reason for setting up this formulation is to bring to light certain aspects of SI that have significant implications for the development of the field.

How do we advance from here? The next step is introduce Hacking's notion of multivalence.

MULTIVALENCE

'Accountability' is both descriptive and evaluative. Accountability refers to accounting for something – to counting, enumerating, establishing the facts. But it also refers to being held responsible, to subjecting oneself to the opinions of others, to doing the right thing. It therefore displays the same kind of multivalence that we have encountered at several points over the course of the thesis: in chapter 2 we summarised Hacking's comments on the matter, and noted the presence of multivalence in Smith's account of the market, which contains statements both of how things are and how they ought to be, and in chapter 3 we saw this multivalence at play in relation to the SI market. In this section I will suggest a schematisation of these two senses of accountability in the context of social investment, before going on to demonstrate how they are both present in the source material.

On the one hand, we can consider accountability as accounting. Actors in the social investment market are called on to account for the social impact they create, which is another way of referring to SIM. As we have seen above, SIM is (usually) about generating numerical data about impact, both so the organisation can demonstrate its results, and so that it has a better understanding of its impact, and can make better informed decisions. These practices are associated with a form of accountability where the process of defining a measurement framework and then reflecting on the results means that organisations are considered and intentional about what they are trying to achieve and whether they are achieving it.

On the other hand, we can think about accountability in terms of those in charge being held responsible for the decisions they make. This implies a process of managers being subjected to questioning by others, and being made to justify their decisions, potentially changing tack if the parties that the manager is accountable to deem it necessary. This version of accountability implies the views of multiple parties being acknowledged. The former sense is concerned with the *facts* about what has been achieved, while the latter sense is concerned with ensuring the *right* decisions are made.

[432] Ibid. p17

This difference can be brought into relief by considering a situation where the impact being created is not welcomed by all groups. Consider an investment in building a new renewable energy plant in the north of England. The impact of this investment would be thought of in terms of a range of metrics such as how much energy is being produced from clean sources, improved access to clean energy, reduced pollution and so on. If we are thinking about accountability in terms of accountability for results, then the investors and investees would be held accountable for performance against these metrics. Has the project achieved the results expected of it? If not, why not? The results, moreover, can be used to demonstrate that the investment has indeed created impact, confirming its status as a social investment, and not just a profit-making venture.

But the creation of the plant might not be welcomed by everybody. Local residents might feel it destroys natural beauty, or creates unacceptable noise, and so on. Accountability for results is no good to them, because they are unhappy with the changes regardless of how much clean energy is produced. These local residents might seek ways to hold the decision makers to account. Ideally, there would be a process before the changes taking place by which the plans are made available for scrutiny, and local residents have an opportunity to negotiate with the decision makers.

This difference can be explained in terms of *interests*. If we construe the need for accountability in terms of accountability for results, the assumption is being made that the intended impact is welcome, and what matters is whether it is being achieved or not. It follows that interests are (assumed to be) aligned. Everyone is oriented to the same end. In contrast, if accountability is construed in terms of holding decision makers to account for the impact they intend to create, there is recognition that not everybody always wants the same thing, and that there may be situations where interests are *not* aligned. In this case, accountability mechanisms are needed to ensure that the impacted parties have some say in deciding what happens. Of course, this is a dichotomy that also maps onto the difference between the political and the technical. Accountability for results is important on a version of things where interests are aligned, and the question of accountability pivots on the *technical* matter of whether the stated impact has been achieved or not. Being held to account, in contrast, is important when the creation of impact is viewed as taking place in a *political* arena, where conflicts of interest are anticipated.

ENSURING ACCOUNTABILITY

We have marked out two forms of accountability. This will now help us to consider the mechanisms that would be suitable in ensuring these different kinds of accountability, not, to be clear, whether accountability is in fact ensured in any given instance of social investment.

Chapters 4 and 5 have already touched on a number of different mechanisms for accountability available to actors in the social investment market. These are the mechanisms used to help ensure social status: SIM, regulated legal forms, embedding social mission in governing documents, and so on. If we think once more of accountability as being held responsible, we can see that a number of mechanisms present themselves as suitable.

Governance structures are an option. If a company embeds a commitment to social mission in its governing documents, then the people running the company can be held accountable by the board. We saw in chapter 5 that the draft plan for profit-with-purpose companies included various measures

for adapting governance structures, and the possibility is acknowledged in other settings. The *Angels in the Architecture* report, for example, reports comments from an interviewee:

> GOVERNANCE AND OWNERSHIP MODELS: … One [interviewee] described a "massive accountability gap between investors and intermediaries and the people they are benefiting. The ultimate beneficiaries have no voice and have no way to hold them to account." Some nascent infrastructure bodies recognise this challenge, arguing themselves that emerging structures "have to be collaborative, and collective either legally or in principle… independent of any one investor".[433]

Guidance on CIC regulation reinforces this point, stating that "An effective board will take steps to ensure that there is accountability and transparency both internally and externally."[434]

As well as internal governance measures, accountability can also be enabled through third party oversight. CICs are already subject to light-touch regulation by the CIC regulator, while charities are subject to more intensive regulation by the Charity Commission. As we saw in chapter 5, both of these bodies regulate on the basis of ensuring any private benefits are subordinated behind public or community benefit.

But what about those actors who advocate a version of SI in line with the innovative mode of reasoning, who are keen to define SI far more broadly than the regulated social sector? There are isolated examples of actors calling for third party oversight of the social investment market. One suggestion for what this might look like comes from an SSIR article titled *Accountability: The Golden Opportunity in Impact Investing*. The article opens:

> While impact investors rightly focus on positive investment returns, they should also be on the lookout for the social and environmental harm that their investments might cause—because in the final analysis, some of those investments do more harm than good. If impact investors adopted a stronger focus on rights-based development and accountability, they could make better decisions and improve their impact.[435]

The author points to examples of "projects sold as impact investments" having "devastating effects", arguing that "When failure happens … then the people harmed need a forum to raise grievances". She suggests that impact investors "create a freestanding accountability office" that ensures SI is in line with "rights-based development".[436]

Taken together, these versions of accountability suggest either internal governance processes or external stakeholder engagement that are about holding decision makers responsible, whether it is about ensuring that they remain committed to the social mission, or ensuring that any unintended side effects are properly recognised, and negatively affected parties compensated.

These versions of accountability sit in contrast to accountability as counting and measuring social impact. This second form of accountability is made possible through SIM practice. The quote above

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[433] Gregory (2013). p27
[434] Bates Wells and Braithwaite, *Governance for Community Interest Companies* (2015).
[435] Natalie Bridgeman Fields, 'Accountability: The Golden Opportunity in Impact Investing', *Stanford Social Innovation Review* (2016) <https://ssir.org/articles/entry/accountability_the_golden_opportunity_in_impact_investing> Accessed 28th March 2018.
[436] Ibid.

from the WGIM report about "embracing impact accountability as a common value" continues as follows:

> WHAT: While many impact investors and investees increasingly understand that impact measurement is important, not everyone acknowledges its inherent link to impact accountability … Investees often have mixed feelings about measurement because, while it should help them achieve financial and societal objectives, it can feel like a burden which distracts them from their core operations. Similarly, while investors increasingly understand the importance of impact measurement, too many of them still view it as part of monitoring and evaluation activities rather than a way to improve and increase their impact.[437]

These authors go as far as asserting an "inherent link" between measurement and accountability. They are not the only ones to make connections like this. A second example is a more academic paper trying to establish clarity around what measurement should be aiming to achieve. It opens as follows:

> Since the early 1990s, the refrain of "accountability" has been ascendant, with funders, taxpayers, concerned citizens, and clients demanding that nonprofits be more transparent about their fundraising and spending, how they are governed, and what they have achieved with the resources entrusted to them. A more recent manifestation of this discourse has centered on the mantra of "impact," or demonstrating results in addressing complex social problems such as poverty and inequality.[438]

These authors associate impact with "demonstrating results". Further down, they refer to how impact measurement is used to satisfy "external accountability expectations".[439] In this context, accountability seems to mean being able to show external stakeholders that impact has been created, and in sufficient quantities. The EVPA guide also makes a connection between accountability and the results of SIM, i.e. that SIM produces evidence of impact that can be used to hold the SSO to account. They develop this notion by connecting accountability to the degree of rigour being used. "Depending on how accountable you expect your investees to be," the EVPA guide states, "you can increase the rigour of your analysis and thereby reduce the risk of any impact claims made."[440] Investees who undertake the longer and more complex SIM processes can say with more certainty what impact they are having, and in this sense are more accountable. This suggests that organisations with less robust, lighter touch SIM processes are less accountable due to the greater uncertainty over their claims to impact. This begins to take us into murky territory – the connection between impact data and social risk and return – but the example stands to show that accountability in the minds of these authors is closely linked with SIM.

Setting things out in this way hopefully convinces the reader that these two senses of accountability are distinct, and that they are associated with different mechanisms available in social investment. Before we go any further, it is worth acknowledging the argument that is sometimes made that measurement processes can be used not just for accounting and enumerating (one sense of accountability), but also for holding decision makers responsible (the other kind).

I have in mind here the argument made specifically in relation to SROI that the process of stakeholder consultation undertaken in the course of specifying the outcomes framework is an opportunity for beneficiaries to hold the delivery organisation to account. One of the seven principles of social value

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[437] Working Group on Impact Measurement (2014). p25
[438] Alnoor Ebrahim and V Kasturi Rangan, 'What Impact?', *California Management Review*, 56/3 (2014). p118
[439] Ibid. p122
[440] European Venture Philanthropy Association (2013). p10

that structure the SROI approach is "value the things that matter". The Guide elaborates on this principle:

> Financial proxies should be used in order to recognise the value of these outcomes and to give a voice to those excluded from markets but who are affected by activities. This will influence the existing balance of power between different stakeholders.[441]

It also states that one of the reasons why SROI is beneficial is its role in:

> creating a formal dialogue with stakeholders that enables them to hold the service to account and involves them meaningfully in service design.[442]

The emphasis within SROI is on ensuring that the data collection framework is based on consultation with stakeholders, not a top-down imposition of what management thinks its impact is. It is down to stakeholders to say what social value is being created by an intervention. The methodology recognises, however, that it is not feasible to include every single outcome mentioned in the consultation process. It is up to the analyst to apply the 'materiality' test, asking whether each of the outcomes are material to the analysis:

> materiality is a concept that is borrowed from accounting. In accounting terms, information is material if it has the potential to affect the readers' or stakeholders' decision. A piece of information is material if missing it out of the SROI would misrepresent the organisation's activities.[443]

Stakeholders' comments, therefore, are filtered through the materiality requirement. This passage from a 2016 article reviewing the progress of SROI sheds further light on the connection between stakeholder engagement in SROI, materiality and accountability:

> Social Value International's perspective is that organizations should be accountable for the effects that their activities have, for the material outcomes caused by the organization that can be attributed to it … This is a wide view of materiality, considering what is material from the perspective of stakeholders … This does not mean that an organization would need to account for every effect that individual stakeholders argue are [*sic*] material. Judgements are inescapable in materiality decisions and this leads to the need for independent assurance of those judgements. The assurance provider is, in effect, acting on behalf of those who have been affected is assessing whether these judgements are reasonable. … Nonetheless the starting point is that those without power and without a voice will be less likely to find ways to hold organizations to account for the effects of their activities and so the materiality decision is designed to ensure that these effects are included.[444]

Here, Jeremy Nicholls acknowledges that the materiality requirement places decision making power in the hands of the analyst, rather than the stakeholders, and that ideally independent assurance would be used to ensure that the analyst's judgements are fair. This kind of independent assurance does not currently exist. There *is* a third party assurance service provided by Social Value International, but this assures the quality of the analysis, and does not check the accuracy of the reporting against independently collected data. The assurance process therefore would not be able to verify the analyst's

[441] Nicholls et al. (2012). p97
[442] Ibid. p10
[443] Ibid. p9
[444] Nicholls (2016). p5

representation of stakeholder views. We can therefore cast doubt on the extent to which stakeholders taking part in an SROI consultation are really given an opportunity to hold the delivery organisation to account.

In any case, SROI is only loosely drawn under the same umbrella of SIM, and much of the time, where SIM is appealed to, the process being referred to is more like the basic steps described in the first half of this chapter. That is certainly the case with the WGIM report, because it goes on to elaborate a best practice version of SIM that follows these steps.

If we consider the possibility that this more general form of SIM practice, in which a framework is specified, data collected and analysed and delivery improved based on the findings, can play a role in ensuring decision makers are held responsible, then I think we encounter more fundamental problems. Measurement requires a framework specified in advance, that guides data collection. Beneficiaries and other parties are then asked to provide data in a specified format. This data is not an open invitation for the expression of opinions. Measurement means beneficiaries are asked to respond to the questions asked. They are not given an opportunity to comment on whether the questions are appropriate, or suit their situation. The process of producing impact metrics requires a quite specific form of data.

Of course, it may be that (some) beneficiaries are included in the process of specifying the measurement framework. This suggests an openness to multiple opinions at the stage where the organisation is deciding what exactly their intended impact is. But *if* impact data is going to play the functions asked of it – deepening understanding of impact across the organisation, and allowing *comparison* over time and across locations – those outcomes become at least partially fixed. Measurement requires consistency across geographies and over time. It is part of the programmatic delivery of social change. This suggests incompatibility with a process of questioning what is being done, and potentially changing tack.

My intention here is to bring attention to the incompatibility between accountability for the way things are done and measurement. They make different starting assumptions. This has no bearing on the motivations or intentions of those who attempt to use measurement in this way. It may well be the case that much of the time, in practice, measurement processes are combined with forms of stakeholder consultation that do genuinely try to understand the needs and views of those affected, and to be responsive to them. My point is that those latter forms of consultation are not *measurement* practices, and they are not what is meant when actors talk about the importance and need for SIM in social investment. It may well also be the case that organisations prioritise responsiveness to beneficiaries over consistency of data collection, in which case their SIM will not be able to prove their impact, and is less likely to be useful in improving it, because benchmarking and comparisons will not be possible. There are, in fact, signs that SIM practice has already started to move away from the best practice described above towards what is being called 'impact management'. This is a topic for discussion in chapter 7.

MEASUREMENT AND THE MARKET

So far we have made the argument that accountability for results is different from accountability for how things are done, and that the former is most obviously enabled by measurement mechanisms, while the latter is most obviously enabled by governance and oversight mechanisms. At this stage, I am suggesting this schematisation as a way of looking at the issue of accountability in the vision for social

investment. As I noted at the start of this section, the way that the term is being used is hardly specified at all. Actors do not always explain what they mean by accountability. We are therefore limited in how firmly we can root these observations in the source materials. I have used a number of examples above that seem to correlate with one or the other view. I think the main strength of the argument, however, lies in joining up this discussion around measurement and accountability with the concept of the market. Given the ambiguity and lack of specification we face over references to accountability, my claim is that the following account makes the most sense in explaining the role of accountability in social investment.

The two modes of reasoning come back into play here. The principled mode is not of prime interest here. Entailing an emphasis on regulated company forms, or at least on ensuring impact is prioritised over profit, this way of thinking about SI places less faith in the market mechanism, seeing SI as one of numerous techniques for creating impact. But if we adopt the innovative mode, we seek to move the territory of 'social' investment onto ground that is agnostic towards profit-making, instead emphasising the intention to create impact, and the collection of data to inform decision making and demonstrate results. I now want to make the argument that reasoning in the innovative mode entails appealing to a version of accountability that is *compatible with the operation of a market.*

In making this argument, I am suggesting that when actors make general statements about the need for accountability such as those quoted from the WGIM and GIIN reports above, they have in mind measurement practices that enable a kind of accountability for results, *not* governance and oversight mechanisms that would introduce radically different elements to this market to those found in mainstream finance. We have already encountered this argument in chapter 5, with the insistence that social investment can be made into the 'unregulated' social sector – organisations that have no regulation with respect to their social status. The Clark Bill in the PWP report acknowledges a whole range of possible governance mechanisms, but emphasises that none of them should be compulsory. The message is that organisations in the SI market should be able to decide for themselves what mechanisms they use, whether they embed social mission in their governing documents, specify duties of directors and officers of the company to pursue social mission, and so on. The one exception is measurement, which features in the definitions of social investment. The SIIT, as a reminder, defines social impact investments as "those that intentionally target specific social objectives along with a financial return and measure the achievement of both."[445]

From this perspective, calls for actors in the market to *hold themselves* accountable take on renewed significance. The GIIN, for example, aspires to "create a world" where "businesses and investors will hold themselves accountable to multiple sets of stakeholders."[446] Viewing matters in terms of the market allows us to see that the direct implication of this claim is that businesses and investors hold themselves accountable *rather than* being held to account by any outside parties. I think that external governance and accountability mechanisms are not being talked about because they are incompatible with the growth of a market. They would constitute a barrier to entry. Of course it would be very difficult to create such mechanisms in a way that was effective, considering how variable social investment practice is, and the degree of disagreement and conceptual fuzziness over the basic tenets of the field. But these are problems that plague impact measurement as well, and yet we see enormous

[445] Social Impact Investment Taskforce (2014). p1
[446] Global Impact Investing Network, *Roadmap for the Future of Impact Investing: Reshaping Financial Markets* (2018). p4

energy and resources going into realising the potential of SIM. There is no parallel effort for governance and oversight, and very few calls for such things to be developed. I contend this is because they do not play a significant role in a vision of social change made possible by the market and measurement.

This is why I think that when actors make calls for accountability in social investment, particularly when they reason along lines consistent with the innovative mode, they are referring to a kind of accountability for results enabled through impact measurement. Crucially, the multivalence characteristic of the term makes it possible for actors to invoke a political form of accountability for the way things are done while simultaneously referring to technical practices that are fully compatible with the operation of a market. This is a significant plank in the overall argument of the thesis, that social investment puts forward a vision of social change that relies on technical mechanisms for solving social problems. The multivalent nature of accountability helps to explain why social investment so convincingly occupies a thoroughly political terrain without recourse to political mechanisms.

This discussion also gives us greater perspective on the material earlier in this chapter regarding the multiple functions assigned to SIM. Measurement not just enables accountability, it is also useful to the organisations engaging in it. The debate around proving or improving impact tells us that actors see measurement as something that generates information that is useful for decision making. To the extent that actors recognise the difference between these two impulses, the argument is usually made that the emphasis should move away from an unhelpful preoccupation with proving impact.

But if measurement is also being called on to play a function with regards to accountability, then this debate can be reinvigorated. SIM oriented to proving impact could plausibly play a role in enabling accountability for results. It would provide information that outsiders could use to establish whether and how much impact has been created. SIM oriented to improving impact, on the other hand, plays a much less obvious role in enabling accountability for results. Not only is that information oriented to generating indicators for internal use, the results are grounded in the judgement of the analyst. If that analyst has incentive to skew the analysis in one direction or another, the results are not obviously useful for holding that organisation to account.

I am not arguing that these inconsistencies *ought* to be addressed, but asking how and why it is that SIM practice continues in this manner *despite* these inconsistencies. By bringing calls for accountability into contact with the market and measurement, I think it becomes clearer that measurement is looked to as a solution for a range of problems, all of which are indispensible components of the vision for social investment.

These questions are critical to the ongoing expansion of social investment. If this analysis is persuasive, it is implicated whenever somebody talks about the integrity of the field, because any reference to integrity or the risk of 'impact washing' invokes the possibility that actors will enter the field who are not *really* committed to impact, thus threatening the very identity and distinctiveness of social investment as different from investment as usual.

We turn now to a different line of attack in understanding the role SIM plays in the context of SI.

SIM can be analysed in terms of the epistemological nature of the knowledge it generates about impact. As we have already set out, the SIM cycle involves gathering facts about impact, and then analysing them. We will now turn our focus onto the nature of these facts, which display the same kind of duality we have found at multiple points over the course of our discussion.

The way impact data is treated within discussions of impact measurement and its role in social investment strongly suggests 'facts' that behave just like the observed particulars Poovey discusses. As a reminder, Poovey describes the duality as follows:

> On the one hand, facts seem (and can be interpreted as being) simply the kind of deracinated particulars that Bacon claimed to value; on the other hand, facts seem (and can be said) to exist as identifiable units only when they constitute evidence for some theory – only, that is, when a theoretical reason to notice these particulars and name them as facts.[447]

In chapter 3 we noted this duality is present in the market, and the designation of supply and demand. Something similar is going on with SIM. Consider the SIM cycle described above. It is clear and explicit that the first stage in the measurement process is to define a measurement framework, because that is how one decides which outcomes should be measured. Furthermore, that framework lends structure to the analysis once the data has been collected. I am arguing that these measurement frameworks are used, borrowing Poovey's words, to determine "a theoretical reason to notice these particulars". The other side of the duality is also clearly in place, because impact facts are very much treated as "simple descriptors" of "deracinated particulars". In this sense, impact facts display the duality Poovey identified, which is present in any impact data that is used to support *systematic* knowledge about impact. It is present whenever a piece of information is gathered that is then recorded, aggregated and numerically manipulated, the reasoning that went into collecting that particular number lost from view.

This might sound like a criticism, stopping just short of labelling SIM as meaningless. That is not my intention. Poovey's work demonstrates that the kind of duality exhibited by impact facts have been a feature of scientific and social scientific knowledge since Bacon, in the eighteenth century. Identifying the same feature here is not a criticism in itself. I do not have the right to say what forms of knowledge are meaningful or not. Meaning is found by those who generate and use these numbers. There are plenty of systems of knowledge production that could be criticised on similar grounds – financial accounting, for example – that have an established role in the functioning of modern society.

The point here is to ask what this feature of SIM as a kind of knowledge production makes possible. It is this duality that makes it thinkable that complex, heavily context-dependent features of reality can be meaningfully captured through techniques such as scale-based measures. It opens up a new frontier, a version of social change backed up by metrics. I think that the mixed pedigree of SIM is important here. Many of the techniques used in SIM practice were not developed in this context, but have instead been borrowed from other settings. Accounting practice, economic modelling, social science research and psychological testing have all been drawn on to provide the techniques used in SIM and

[447] Poovey (1998). p9

– crucially – their conceptual backing. These techniques have existed for some time. The SI context is different because the measurement of social change is combined with its *management*. Once more, this is the difference between proving and improving. A new frontier is opened up because a whole range of organisations are finding themselves newly susceptible to demands for impact measurement. It is not just researchers and academics seeking to understand impact, but SSOs and investors. And because these organisations are not seeking to establish knowledge for knowledge's sake, SIM good practice has also drawn on performance management and organisational strategy. This can be seen in calls for proportionality in SIM, recognising that SIM requires resources and has to be balanced against other demands.

As these varied influences have coalesced in the context of SI, 'impact' has emerged as an abstract noun in its own right, something that can be both measured and managed, broken down into component parts, enumerated, and tracked over time. Social investment is not the only domain in which impact has assumed such a status – higher education being another example – but it is distinctive to social investment that impact has come to be used in a parallel sense to social change itself. Furthermore, impact has enabled an understanding of social change that assumes it can be brought about even by those who are some distance from where the impact is taking place. Briefly, I would like to highlight a few examples of the most optimistic reasoning about the possibilities afforded by impact data.

OPTIMISM ABOUT DATA

The assumption that social change can be measured, based (I am arguing) on the duality in impact facts, and bolstered by a broader excitement around the possibilities opened up by large volumes of data, has made it quite possible to become enormously optimistic about what SIM might make possible.

Consider, for example, the ideal of standardisation often stated as a long-term goal for SIM. The goal is for SSOs across the social sector to all generate the same kinds of impact facts, so that these numbers can be aggregated, manipulated and compared across sectors and geographies. "Comparability is key to creating an efficient marketplace", writes the WGIM, "where decisions between investment opportunities can be made in a timely manner, objectively, and with minimal costs."[448] This goal relies on the creation of (deracinated) impact facts that can be extracted from the context in which they are generated.

One of the purest versions of this vision is in the ideal of converting impact data into financial form:

> Capital markets work best when all relevant parties can quantify and agree upon the financial value of a good being traded. The financial value of the social and environmental outcomes achieved by impact investments is not, for the moment, as easily quantifiable. But this is changing. Currently, calculating the cost and/or return of an impact investment or outcome is often constrained by the intangible nature of many of these outcomes and the considerable resources often required to quantify and attribute these outcomes, which can put a financial strain on an organization. Yet, participants recognize that quantification is essential for the growth of the marketplace.[449]

[448] Working Group on Impact Measurement (2014). p23
[449] Ibid. p17

The optimism is palpable. *Just imagine* what would be possible if we could collectively agree on a way to quantify social outcomes in a manner consistent enough to assign financial values. This optimism is made possible by existing SIM practices that depend on the deracination of impact facts.

One of the most striking examples of the optimism over what data can make possible is an initiative called the 'Impact Genome Project'. The Genome will "will systematically code the vast evidence-base drawing from corporate, NGO, academic and government resources in order to quantify outcomes, identify key success factors and create critical benchmark data in this vital area."[450] It "turns unstructured data from academic studies, nonprofit programs, and expert opinion into the Impact Genome®, a structured knowledge system of effective program components, best practices in measurement, and simplified impact reporting."[451] The parallel with the better-known Human Genome Project is intentional, creating the impression that the key to understanding social change can be discovered in the same way that scientists are discovering the genes that cause various human traits. This is a project that assumes underlying consonance of outcomes, outcomes that underpin "unstructured data" from thousands of different studies. One of the most prominent figureheads for this initiative is a man who freely admits he has no knowledge of the social sector, but has been brought in because of his experience in the tech industry.

One final example is the growing excitement around 'blockchain' technology.[452] The potential of blockchain for social investment has been picked up by (among others) an organisation called The ixo Foundation. A white paper published on its website opens with a quote from the WGIM report about the importance of impact measurement, and goes on to make the following statement:

> All impact investments need verified impact data, to prove that value has been delivered, to get evidence for results and to improve how impacts are achieved. Verified impact data should also increase accountability and reduce inequalities and injustices by ensuring that the right goods and services are delivered to the right beneficiaries.[453]

In light of the earlier discussion of accountability, this claim comes off as enormously optimistic, if not naïve. As we know, the issues surrounding the ability of SIM data to enable accountability extend far beyond issues of verification. Further into the white paper, it becomes clear that ixo Foundation's proposal is built on one of the clearest articulations I have seen of the consonance between the market and measurement as two mechanisms for solving social problems. In this paper, the improvements to data infrastructure made possible through blockchain represents a "compelling market opportunity"; the "marketplace for Impact Data", currently inefficient and fragmented, will soon become a "fast-scaling, decentralized marketplace in which verified impact data is produced and traded through networks".[454]

The Impact Genome and ixo are extreme examples, but they help to illustrate the extent to which it has become taken for granted that social change, and social problems, can be understood in terms of

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[450] From http://www.missionmeasurement.com/about/ Accessed 17th April 2018.
[451] From https://www.impactgenome.org/igp Accessed 17th April 2018.
[452] "A blockchain is a digital, secure, public record book of transactions (a ledger). 'Block' describes the way this ledger organizes transactions into blocks of data, which are then organized in a 'chain' that links to other blocks of data. The links make it easy to see if anyone has changed any part of the chain, which helps the system protect against illegal transactions." Doug Galen et al., *Blockchain for Social Impact: Moving beyond the Hype* (2018). p6
[453] The ixo Foundation, *The Ixo Protocol White Paper Draft 3.0* (2017). p4
[454] Ibid. p6

impact, and that impact is intrinsically amenable to data-driven intervention.[455] This is the sense in which impact measurement introduces a raft of assumptions, just like the market does. Engaging with SIM means buying into a view of social change that sees it as measurable and amenable to management.

INTERESTS AGAIN

To tie up this discussion of the duality of impact facts, we can return to one of our main themes: the role of interests. The duality inherent in impact facts enables a kind of *disinterested* knowledge about impact. Poovey identified the ways in which the modern fact enabled the production of knowledge that appeared to be disinterested. Something similar is happening here. The neutral status of the market relies on actors in the market only pursuing their own interest. The duality in impact facts means that impact can be treated *as a matter of fact*, as something outside of interests. Impact is something to be maximised as part of a technical process.

But for the creation of impact to be absolutely uncontentious in this way, another assumption has to be in place: the assumption that impact is inherently good. It is quite simply taken for granted, in the vast majority of reasoning about the social investment market, that impact should be increased as much and as quickly as possible.

We have already touched on this issue with the example of a renewable energy plant creating unwelcome impact. This kind of eventuality is sometimes recognised in the literature in terms of 'unintentional negative impact', which is something that has to be minimised. This example comes from a report about impact measurement from an impact investing fund:

> We were acutely aware that, as impact investments deliver their intended results, unintended impacts also occur, whether for the target end user or for other stakeholders. These consequences may be positive or negative. For example, an investment in a low-cost solar lighting company that seeks to improve respiratory health (by reducing kerosene usage) will create employment as it scales up its salesforce. If those employed increase their skills and income more than they would have done otherwise, then positive societal impact is occurring beyond the investment's original intention. Conversely, if the lights are being manufactured by an organisation that uses child labour, or the lights rely on polluting batteries, there is negative social and environmental impact.[456]

In this example, the investors emphasise how keen they are to understand the needs of their beneficiaries. They use "case-by-case outcome assessments by gathering feedback from relevant stakeholders, understanding what performance looks like for each and aiming to eliminate the negative and increase the positive."[457] I give myself no right to comment on the intentions or motivations of this investor, nor to question their integrity, but their reasoning helps to demonstrate a more fundamental point about the nature of impact. Where negative impact is acknowledged as a possibility, we are still operating on the assumption that impact can *uncontroversially be classified as*

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[455] I continue to come across examples of projects like this. Alice is the name of another 'blockchain for social impact' startup (https://alice.si), while the Universal Commons is another project attempting to to establish consensus on metrics for social impact to help 'fix' capitalism (https://www.universalcommons.com , both accessed 27th January 2019).

[456] Skopos Impact Fund and Bridges Impact, *More than Measurement: A Practitioner's Journey to Impact Management* (2016). p9

[457] Ibid. p9

either positive or negative. The concept of impact does not allow for the possibility that what makes something positive or negative is a topic of ongoing contestation.

So while the concept of impact makes room for the possibility that the intended impact might be accompanied by unintended negative impact, as a kind of side effect, it cannot accommodate the possibility that *intended* impact might be seen as negative by some parties. Viewed in this way, it becomes clearer that impact is conceived in a way that is amenable to the market. Impact is a matter of fact.

CONCLUSION

This is the last chapter exploring the logic internal to SI. The argument regarding accountability and integrity is admittedly on less stable ground than preceding chapters, because I am drawing connections between elements that are not often talked about together. Much of the conversation around SIM is not specific to the growth of the SI market, and much of the conversation around the growth of the SI market includes only brief comments about the importance of SIM. Accountability and integrity are both referred to without close examination. We can almost glean more from the things that are *not* said than the things that are said – It is not spelled out that accountability is conceived of solely in terms of SIM, but there is very little discussion of other forms of accountability mechanisms, and no connections made between these other mechanisms and the need to protect the integrity of the field.

The argument is worth making in this way because it captures a crucial aspect of this project to change the way we solve the world's social problems. The issues addressed in this chapter help to explain how a form of financial market can extend itself so confidently into this domain. SIM means SI has a response to calls for accountability; as we have seen, the multivalence of the term introduces a crucial kind of ambiguity, making it possible to refer *both* to actors involved being held responsible for their actions, in a manner not present in mainstream investment, *and* to actors measuring and accounting for the impact they create, in a manner that only answers a limited range of questions.

It would be easy to imply that this double meaning of accountability allows actors in the market to get away with not *really* being held to account. On the contrary, I am not making a distinction between true and false accountability. I am not advancing an argument for what it would mean for actors in the market to be truly accountable for their actions. Instead, I am bringing attention to the flexibility contained in this term. This feature of social investment is a crucial component in making the argument that SI is a thoroughly political project. We can now see that the persuasiveness of this vision relies on the technical nature of the mechanisms it uses. Social investment makes it possible to do politics without being political.

Meanwhile, the duality in impact facts play a crucial role in making thinkable a fact-based version of social change, which in turn is fully amenable to incorporation into the mechanisms of a financial market. This observation strengthens the argument that claims around SIM should be understood in relation to the demands of the market structure.

We have now covered sufficient ground to move beyond the logic of social investment to a more pointed discussion of the politics of social investment, and the effects of framing reality in this manner.

CHAPTER 7: THE POLITICS OF SOCIAL INVESTMENT

> The paradigm is shifting. Together we can bring a revolution to improve lives. We can seize the opportunity to tackle social and environmental issues in new and more powerful ways. We can do so by setting measurable outcome objectives for social sector and for-profit organisations alike and by measuring their progress in achieving them. … Regular businesses, large and small, will become increasingly aware of their social impact, setting social, environmental and financial objectives and measuring progress towards achieving them. This is the revolution that impact investment portends. Across the world, we can harness entrepreneurship, innovation, capital and the power of markets to do good. If we achieve our goal, in future the invisible heart of markets will guide the invisible hand to improve the lives of those who would otherwise be left behind.

From the Social Impact Investment Taskforce's main report,
Impact Investment: The Invisible Heart of Markets (2014) p42

In this thesis I set out to develop a critique of social investment. My intention has been neither to dismiss SI as problematic, nor to cheerlead for this new way of doing things, but to bring to the surface the underlying assumptions and taken-for-granteds that make this field of activity possible. In this way, it becomes easier to see both what opportunities are opened up and what possibilities are foreclosed by recent developments.

The past four chapters have set out a detailed exploration of the logic of social investment. Distinguishing between the principled and innovative modes of reasoning helps us to pull apart quite different ways of thinking about social change and the role of finance in bringing it about. This provides us with much-needed clarity in getting to grips with the debate, and for making the argument that the innovative version of SI (in particular) stakes out *neutral* grounds for action. As we have seen, interests are (assumed to be) aligned, facts are gathered, and decisions are made. The vision for social investment is about building the right mechanisms, ensuring that the market is encouraged into life, and that we crack the problem of measuring impact in a standardised, straightforward way. I have suggested that, in navigating the considerable ambiguity present in the debate, the interpretation that makes most sense hands over the question of social problems, as far as possible, to the market, not least by construing social change as fact-based, and accountability as entailing not oversight or regulation but the production of evidence – facts – about impact.

But this neutral, technical domain of activity has been set out in an undeniably *political* space. What do I mean by 'political'? I mean it in the everyday sense of the word – social problems are the domain of politics to sort out. Political systems are set up to try and ensure the needs of everybody in society are met. Democratic processes enable a choice between competing versions of how these systems should work. The epigraph to this chapter is provocative in using the language of politics – talk of "revolution" and "improving the lives of those who would otherwise be left behind" – but attaches this rhetoric to neutral, technical processes of investment.

I also use the term 'political' in the more precise sense that is the inverse of 'neutral'. Where the vision for social investment assumes the alignment of interests, we can ask: on what grounds is such an assumption made? Should we not assume instead that interests, sooner or later, will *not* align? That one person's version of what counts as good and desirable will be different from, and quite possible

incompatible with, the next person's? I want to call out the social investment project – and particularly the 'innovative' version of this project – for what it is: an *intensely political* attempt to change the way we understanding what social problems are and our options for addressing them.

After all, should we not be wary of a group of people who in many ways are accustomed to their interests being served by the way the world is set up – that is, wealthy investors – setting out a vision for solving social problems that happens to leave their position of privilege intact? This is a crucial point, but it needs immediate qualification. I am in no way suggesting that every investor in the SI market, or even the architects of this market, have set out deliberately to create a foil just for their own benefit. I make no charges of disingenuousness. I am not challenging their many heartfelt statements of good intentions. That would be to diminish the power of this analysis. Social investment is not a story of the powerful oppressing the weak. It is a story of those who believe in the power of markets, and of data, to change the way the world works. The point is to accept these good intentions but to continue to ask: what effects are being created by conceiving of possibilities in this way? My approach is to accept the reasoning as it is set out by those advocating this model, and to bring to the surface the implications of this way of viewing the world. As a result, the argument I present gains far more traction on how things are being done, and gives reason to pause and think again.

There are a number of political implications that follow directly from accepting the problematisation on which social investment is based. First among these is the assertion that the state has proven itself ineffective in dealing with social problems, not just because it does not have the resources to do so. Accepting this assertion cuts out whole swathes of possibilities for addressing social problems, and obscures options for replenishing the state's resources by revisiting the rules governing the transfer of wealth from private to public hands. Reform of corporate tax simply does not feature in social investment's vision for solving social problems.

But we can pursue a more detailed and nuanced account of the politics of social investment. As set out in the introduction, the word 'political' is used here to refer to the inverse of 'neutral', where neutrality is found in the assumption of (possibility of) the alignment of interests, and in the (possibility of) generating disinterested knowledge about the market and about impact. The politics of social investment, then, lies in exposing the way in which the 'neutrality' of social investment is *created*. Foucault, Poovey and Hacking together help us to see the mechanisms by which neutrality, or objectivity, is created. This has been a point of discussion throughout the thesis; in this last chapter, the emphasis is on demonstrating that we are thereby engaged in identifying the politics of social investment. As the notion of the political suggests, this is a way of setting out why this (creation of) neutrality *matters* – it matters because it has effects on what is thought of as possible or impossible.

This final chapter identifies these effects by looking to three examples of where the logic internal to SI is under strain. This helps to reveal where actors, having accepted the basic framework provided by SI, end up employing strained reasoning rather than challenging the basic assumptions of the field. The first example is the 'puzzle of low demand' – the confusion caused by low levels of demand for social investment from SSOs in the first few years of the SI market, despite the significant undercapitalisation of the sector. The second is the challenge of doing social impact measurement, and the reaction of those who have attempted to implement the guidance. The third is the risk of 'impact washing', and the attempt to hold oneself accountable.

Chapter 3 explored the way the market for social investment was introduced as a way of understanding the current state of capitalisation of the social sector, and the strategies needed to improve this state of affairs. SSOs came to be understood as the 'demand side' of the market. This framing of reality brought with it a series of expectations, one of the strongest of which was that the creation of the market would lead to a healthy volume of investment transactions taking place. The creation of BSC, in particular, in the words of one of its founding management team, adopted a "very 'build it and they will come' approach to the market."[458]

We are now in a position to see that actors in the market create a puzzle for themselves. They assume that building the market mechanism will enable parties to transact. The questions then start to arise: why are these transactions not occurring in sufficient volumes? Why is the market developing more slowly than expected? What can be done to grow the market? What are the barriers to its development? Given that we have demand for and supply of social investment capital, the question becomes: what is *preventing* them from interacting properly? How can this nascent market be brought to maturity?

It is in this way that the market framework inserts itself into reality, and becomes invisible. While there undoubtedly were examples of organisations that were looking for investment capital, which found their needs met by the new sources of capital made available under the banner of social investment, overall the levels of demand for SI were lower than expected. In the words of an interviewee at BSC:

> **Interviewee**: …you know the SIFIs should be coming to us with lots of proposals and yet, you sort of feel, there's a lack of, we need to have more engagement with the SIFIs. There should be more actively coming to us with deals. We should be holding back the doors, them coming to us, you know, … all these intermediaries should be desperately trying to put together proposals. Instead of which you sort of feel they're holding back and taking their time and not being quite as aggressively trying to get this investment as you thought they were.
>
> **Interviewer**: do you think that's partly because of their own deal flow?
>
> **Interviewee**: Yeah. Or lack of ambition or possibly… I don't know - or maybe the terms on which we are able to lend won't be as attractive as elsewhere.

In this discussion, and in most of the other discussions around the development of the market, the question is not asked: should we reassess how the expected level of demand was arrived at? Instead, actors in the market, committed to seeing matters in terms of supply and demand, end up finding sometimes quite convoluted ways of reasoning through the supposed 'lack of demand'.

One example of this comes from a discussion from the BSC interviews between a senior staff member and the interviewer about the idea that they might have to take social investment to the social sector, rather than waiting for them to come and ask for it. He made the statement: "I think the thing we are going to have to do now more of is a lot more rolling up our sleeves and going to find deals ourselves." The exchange goes on:

[458] Interviewee.

> **Interviewer:** what was interesting [about what you just said] was the "going out and doing deals". It is starting to behave more like a traditional market. So in a traditional venture capital market you have a lot of deals come to you but, generally, good VCs [venture capitalists] go out. The hard part is going out and finding the good deals.
>
> **Interviewee:** Is that right? See, I don't even know.
>
> **Interviewer:** The VCs, even the big ones, even the ones that are doing fund of funds will get tonnes of proposals, but the really good proposals are generally the ones that they go out and find. Because the guys that don't need the capital actually are the ones you need to go negotiate with to actually be able to be put into the fund. Those are the really good funds.
>
> **Interviewee:** That is very interesting. Anything that helps us make that comparison can be very useful for us, because it is beginning to get a bit of traction but it is a different way of working. It is quite a lot more work, quite a lot more shoe leather, it is quite a lot more sitting on trains…
>
> **Interviewer:** And it is also possibly convincing intermediaries that they don't necessarily see all of the value of having to take the money with some of the strings attached. Even going into – this is a bit outside of the conversation – but going into places that are used to getting grant money and trying to convince them to take and/or equity money, because they have been doing a great job and they could actually use the equity money or debt money to expand, but that is not always an easy sell, because grant money comes in with a lot less strings attached. So that is where is will start getting interesting, is when you guys start to push some of these providers to provide more equity and debt-like instruments – and again it goes down to the front line: how do you convince some enterprises, when it is easier to get grant money, why would you get debt or equity?… And I think it is an overall big market problem that needs to be addressed.

In other words, they agree that SSOs need persuading that grant funding should be turned down in favour of loans or equity. It is a "big market problem" that SSOs do not understand the opportunities that are available to them through investment, and the persuasion of SSOs that they do in fact want investment is part of what needs to happen for the market to develop. They do not appear to consider the possibility that the lack of demand is exactly that – a sign that potential investees do not want investment, for whatever reason. They have already accepted the designation 'demand side' applies to the social sector, and so they search for explanations why this demand is not being realised.

A similar logic is at play in this report on investment readiness:

> Culturally, it appears there are still considerable barriers to charities taking on social investment – almost half of our survey respondents were not interested in investment. The majority view of this group believed that charities should not use loans to finance their work.[459]

The survey showed that almost half of the SSOs surveyed "were not interested" in investment. But this fact is framed as a *barrier* to social investment – that is, the SSO that is not interested in social investment is supposedly experiencing their own lack of interest as a barrier to accessing investment that they do not want. This is a nonsensical statement, and it arises because the authors are having to

[459] ClearlySo and New Philanthropy Capital, *Investment Readiness in the UK* (2012). pv

somehow consolidate the fact that (on the one hand) the demand for social investment, by definition, comes from SSOs, and (on the other) that SSOs often say that they do not want social investment.

Something similar is happening in this BSC strategy paper, which lists a lack of investment readiness as one of the reasons for a lack of demand:

> This lack of demand [for social investment] is partly a reflection of lack of supply of capital, but it also reflects the lack of investment readiness in the social sector as well as the lack of relevant services available to help frontline social sector organisations become investment ready.[460]

Does it make sense to claim that lack of demand for SI can be attributed to SSOs not being ready to take on investment? Perhaps, if we think of demand in terms of the number of applications being made for finance – the more SSOs who are *ready* to make applications, the more demand there is. But the claim becomes a good deal murkier when we think of demand as an expression of the interest and motivation of organisations on the demand side. The statement that a lack of investment readiness helps to explain a lack of demand is built on the assumption that SSOs want social investment, and that they want to reach a state where they are deemed 'ready' to take it on. On what grounds are such assumptions made? On the basis that SSOs make up the demand side of the market.

Of course, in itself the slightly awkward reasoning used to understand the social sector in these reports is not a particular cause for concern. It is far more significant that this new way of doing things introduces changes to what is expected of actors in the market. One of the clearest signifiers of such change is the emergence of the notion of 'investment readiness'. It is not just that organisations on the demand side are expected to seek out social investment, it is also expected that they will display certain attributes deemed necessary by investors. As the idea of building the SI market took hold in the UK social sector, investment readiness became something of a conceptual touchstone, and several reports have been published examining the 'state of investment readiness among SSOs', and what needs to be done to improve it.

Tellingly, just like accountability, investment readiness is not closely specified. Even the evaluation of the UK Government's 'Investment and Contract Readiness Fund' (ICRF) does not provide a definition.[461] The meaning of the phrase is assumed, attaching to the intuition that investors need certain assurances in place if they are going to invest their capital. SSOs who cannot convince investors that they are a viable proposition can be thought of as not yet investment ready. The success or otherwise of the fund in improving investment readiness was judged by the success of support recipients in taking on new contracts or investments. That is, you know investment readiness has been achieved when an organisation takes on an investment.

It is worth drawing attention to an aspect of the shift from grant funding to investment that easily gets lost in the self-evidence of what it means to be investment-ready. Repayable finance means introducing the return requirement. Recall that social investment is built on the *problematisation* of a social sector that is dependent on grant funding, a practice deemed best left behind. The presentation of investment as a solution to the problem of undercapitalisation effaces a crucial difference between grants and investment: unlike grants, investment requires a return, or at the very least the repayment

[460] Big Society Capital (2012a). p22
[461] Ecorys et al., *In Pursuit of Readiness: Evaluation of the Investment and Contract Readiness Fund* (2015).

of capital. Except for the minority of SSOs who already operate on a model that generates revenue, many SSOs, in order to realise their demand for SI, would have to fundamentally alter their mode of operation.

The puzzle of low demand, as I have called it, is something of a flash point. It is where the clash between expectations and reality is particularly clear – the volume of transactions is represented by a (relatively unambiguous) number, that can be compared to the projections, and shown to be much lower. But it is in fact a way of bringing into play a whole range of expectations over what it means to be a 'demand side' actor in a market for investment. We will recall from the very beginning of the thesis that Cohen's vision for social investment is one that drew on his experience building the market for venture capital. This parallel is drawn by others, such as the interviewer in the discussion quoted earlier in this chapter. If this is the model for investment on which social investment is based, then we can identify a few further assumptions about the basic functioning of this market.

Venture capital relies on investors being willing to put their capital at risk, taking on ambitious entrepreneurs with untested ideas. Though most of these ideas will fail, every so often an idea is successful, and is rapidly scaled up, generating huge profits. These gains are what makes the risk worth taking. The notion of risk taking is central to the idea of social investment: it enables and encourages innovation of a kind that the state is (supposedly) unable to support. If this is the model, then we begin to see what kind of expectations might be introduced when requiring SSOs to meet unspecified demands for investment readiness. At minimum they need sufficient financial nous to convince the investor they can manage money. They need to be entrepreneurial, with an appetite for risk. They need to have ambitions for scale. They need to have a robust business model, with a solid plan for both financial revenue and impact. Not every social investment will work like this, but the success of the market depends on at least some entrepreneurs delivering (financial and social) returns on a huge scale.

While the language of the market for investment was adopted by a critical mass of actors in the market, these aspects of venture capital, which are even more distant from the culture of the social sector, were certainly not accepted without question. The parallel with high risk, high growth investing certainly raised many eyebrows, and was actively resisted on numerous fronts. "The sector is now driven by new rules of engagement", one particularly critical report comments, "largely dictated by how to find new markets and how to raise the loan capital necessary to reach those markets. … there must now be growth and there must be scale."[462] My argument here is that the introduction of the social investment market as a framework for understanding matters made it possible for these expectations to gain some traction in the space. It became meaningful to ask why SSOs were not meeting these standards. The terms of the debate have been changed.

It is because of these changed expectations that one of the BSC interviewees can talk about an "entrepreneurial deficit" in the social sector. It is because of these changed expectations that ex-finance professionals are moving over to the social sector in droves, confident that their financial skills will be welcomed in the endeavour to improve the investment readiness of the social sector. It is because of these changed expectations that SSOs, even if they were never set up to generate revenue, and even if they have no obvious way of earning revenue without fundamentally altering the nature of their operation, have to justify their choices with reference to standards of 'sustainability' and 'diversity of

[462] Robbie Davison, *Does Social Finance Understand Social Need?* (2013). p5

income streams'. Even where the extremes of the venture capital market are not drawn on, the idea that there can be a functioning financial market in the social sector unavoidably brings with it sets of practices and principles that become 'commonsense' extensions of what it means for the market to be a success. The examples provided here only scratch the surface of the changes that are undoubtedly taking place.

Crucially, I am not intending to insert any value judgements. I am not painting a picture of a social sector beseiged by capitalists. There may be benefits to pushing SSOs to think about the sustainability of their financing, just as these shifts might be damaging to areas of social need that have no clear way to operate on these terms. My intention is to make clearer the nature of the changes we are talking about when we discuss the advancement of social investment, and in this sense to identify the politics of this programme of government.

ASSUMING INTERESTS

We can deepen our understanding of the puzzle of low demand by considering one particular set of assumptions introduced by the market structure, regarding interests. As a reminder from our discussion of liberalism, in terms of interests, the market achieves what can never be achieved through political means. Given that individual subjects are understood to be motivated by their own interests, and that the political sovereign cannot claim knowledge of these interests, the market represents a superior mechanism for dealing with the problem of governing people according to their interests. The effectiveness of this mechanism lies in it operating without any claim to knowledge of individuals' interests. This is one way of understanding why the market is so fervently believed in as a political solution. It allows freedom, and leads to superior results, without clumsy and inadequate intervention from a centralised authority. This vision of the market has been transplanted across to the social sector.

The point here is to demonstrate that in importing the market in this way, recruiting it in this new approach to solving social problems, social investment also imports with it a set of assumptions about the *interests* of the individuals involved. These assumptions encounter problems when they attempt to incorporate the social aspect of social investment.

First and foremost, the political capabilities of the market system rely on individuals being given free reign to pursue their own interests. Markets function because it is in the interests of market players to transact. This is the sense in which I have talked about the market as a neutral or technical mechanism – it coordinates interests that are exogenous to it, without coercion and, if allowed to operate undistorted, arrives at a form of equilibrium. Eventually, everybody's interests will be satisfied. This is the doctrine of self interest, and the idea of the 'spontaneous harmony' of interests. It follows from here that if we are talking about the market for social investment, we are assuming that the parties to each investment deal consider it in their interests to transact. Both sides are drawn to compete in the marketplace because there is something to gain. One side wants to invest capital, the other wants to access this capital, and both want to create social impact.

But in the case of social investment we can bring this most basic of assumptions into question. Indeed, one of the most straightforward explanations for the aspects of market development described in terms of a 'lack of demand' and a 'lack of investment readiness' is that it is not *in the interests* of these parties to transact. Now, it would be simplistic to view the actors in any market as already having fully

formed interests that cannot or should not be influenced by anybody else. Marketing and advertising attempt to persuade consumers that they should buy certain products. There is nothing to say that advocates of social investment should not try to persuade the social sector that it is a good idea. Indeed, this takes us back to the comments from the interviews quoted above; it is commonplace in venture capital markets for investors to go out and find ventures and persuade them to take on investment. Certainly there is ample awareness that *education* for the social sector about social investment will be very important in growing the market.

But there is still something odd. In a conventional market model we would expect that the person trying to do the persuading is the person supplying the good; the company creates adverts to persuade consumers to buy its products, so that it sells more and generates bigger profits. It is in their interests to persuade customers to buy the goods. In the case of social investment it is much hazier whose interests are being pursued by building the market. It is often the case that those doing the persuading are on neither the supply side nor the demand side, but rather take a position *outside* the market. The Government and BSC are two prominent examples here. These players are engaged in encouraging *both sides* of the market that it is in their interests to transact. They are not getting involved on the basis of their own interests. We argued in chapter 3 that the SI market emerged not from the spontaneous growth of parties making and receiving investments, but because a narrow group of actors identified a solution to a problem. We might now begin to suspect that in specifying a market as a solution, they created a dynamic in which those charged with building the market for SI are effectively assuming knowledge of the interests of those parties who are supposed to take part. This is precisely the kind of paternalism objected to by opponents of the state as a centralised political apparatus.

For the social sector, when they are referred to as the demand side for the market, we can therefore see that the assumption is made that it is in their interests to take on social investment. I am not suggesting that SSOs are being coerced into taking on social investment *against* (their own assessment of) their own interests, but that the disjuncture noted above is the product of implicit assumptions about the interests of SSOs coming up against the reality of what the SSOs perceive their own interests to be. In this light, notions such as a 'lack of investment readiness' or 'barriers to investment' start to look like a response to the need to bridge this gap.

There is, of course, another set of individuals involved in any given case of social investment: the 'beneficiaries', 'clients', 'end users', or what we might call the 'impacted parties'. They are part of the market because they experience the impact intentionally created by investors. We therefore have a situation where a specified group of individuals is affected by an investment deal, but they are not party to the investment transaction. There is no clear formulation of the interests of this group within the logic of social investment. They enter the equation through the integration of social impact measurement, and potentially through the need for accountability. As we have established, social impact, in the context of social investment, is a domain of facts. The question of the interests of those impacted is therefore sidelined by the imperative to measure the changes they experience. The politics of this situation is explored below, in relation to accountability.

THE CHALLENGES OF SOCIAL IMPACT MEASUREMENT

Social impact measurement is another area where we can make comparisons between the idea of SIM (described in chapter 6) and what it is like for actors trying to put these ideas into action.

Just like thinking of matters in terms of the market introduces a series of assumptions that have to be consolidated with reality, so does the idea of measurable social impact introduce a series of assumptions about the kind of knowledge that is possible about the social change created through social investment. 'Social impact', remember, has become the way of referring to social change and the solution of social problems. Social change, therefore, is assumed to be measurable. This is a major assumption, and it encounters problems.

At this point we have at our disposal a series of reports that discuss the issue of *doing* social impact measurement. These actors have encountered significant difficulties in generating meaningful insight. We can be quite precise about where these problems lie: this collection of reports demonstrates that impact facts do not always behave in the way suggested above, as deracinated particulars. Despite these difficulties, the need for data and numerical representation is not brought into question, and enormous amounts of energy are being expended on developing the notion of impact so that it is able to fulfil the functions assigned to it. The assumption of the measurability of social change is not under scrutiny.

To open this discussion, a comment from one of the BSC interviewees, made in 2015, provides insight into the difficulty being experienced by actors:

> We've done some substantial work here [at BSC] recently on impact and what our role in impact measurement should be. I'd have to say that it is one of the areas that disappoints me, is the lack of progress that has been made. Not just the UK, globally. If I look back to where we were five years ago, there's been an awful lot of resources spent by an awful lot of people, and we're still [in the same place] … that is a testament to how horrendously difficult it is. And the fact that comparing the value that I get from putting some kid in the East End into a job, vs building a well for clean water for a village in Africa, I mean it's totally a personal judgement. It's not like a dollar is a dollar wherever you look. [Interviewee]

This interviewee points to lack of comparability across outcomes as a source of difficulties. He hints at problems that we can find explored in more depth in published materials.

Oranges and Lemons: The State of Play of Impact Measurement Among UK Social Investment Finance Intermediaries present the analysis of interviews and document reviews with ten UK SIFIs about their impact measurement practice. The aspect that I would like to draw out of this discussion is the authors' formulation of the difference between "less systematised and more systematised" approaches to impact measurement. While more systematised approaches, they write, offer advantages such as producing "more quantitative data, and … more consistency," thus enabling comparison between investments and over time:

> the limits of quantification and consistency remain clear: no SIFI is ready to do away with individual case studies (either for internal or external reports), or with taking a personalised approach to each investment. And at a higher level, the fact that the systems in use are all unique to their SIFIs speaks of how personal these systems really are.[463]

Counterintuitively, the *Oranges and Lemons* report found that the most systematic and quantitative approaches to impact measurement were developed in contexts where the SIFI had a close working relationship with the investee. The system was used not to develop impersonal, numerical data, but to

[463] Investing for Good, Sarah Moreau and Adrian Hornsby, *Oranges & Lemons* (2015). p24

provide "a process" for how "in depth individual knowledge of each investee" is built. The results of these systems "are not expected to stand alone".[464] These comments suggest a drastically different picture of what is made possible by impact measurement to those optimistic examples described above. We know that those examples rely implicitly on the creation of impact facts that display the kind of duality identified by Poovey. They assume that data collected *can* be expected to stand alone, to populate databases and be subject to numerical manipulation. Here, instead, even the most systematic versions of impact measurement found by these researchers do not treat their impact data as manipulable in this way. Impact facts do not behave as observed particulars. The term used in this report to capture this finding is "sticky data":

> very often the understanding is rich, but the underlying information is "sticky". It doesn't transfer easily from that person to other formats, and doesn't slot neatly into spreadsheets, or separate into clear quanta of data. It sticks to the person, to their reports, and to their presence in meetings.[465]

This allows us to start to build a picture of the reasoning employed in doing SIM when it is brought into contact with the reality of 'impact'. At least some of the time, actors encounter difficulties in reasoning through the generation of impact facts that can be extracted from the context in which they are generated.

FROM MEASUREMENT TO MANAGEMENT

A slightly different issue identified by actors in the field is the tendency for organisations doing SIM to collect data, but then to use it simply for reporting to funders or commissioners, rather than to inform service delivery. The need to change emphasis is framed in terms of the need to shift from impact *measurement* to impact *management*. A consortium of SSOs in the UK are involved in running the 'impact management programme', still ongoing in 2018. The Access Foundation, sister organisation to BSC, distributes grant funding through this programme to help build the capacity of SSOs to adopt an impact management approach.[466] "There is a disconnect between measuring impact, and actually using the insight gained to manage performance and make decisions," the launch material explains. "While impact measurement is often initially driven by the needs of funders and commissioners, there is a real missed opportunity if there is no connection between this and how the organisation is managed and how it improves. Access has coined the term impact management (as opposed to measurement) to try to capture this."[467]

The main (publicly visible) output of the programme is a website offering "practical tools and guidance for charities and social enterprises" for managing impact. The website describes five types of data that organisations should be collecting. Three of these types of data should be collected routinely: "user data", "engagement data" and "feedback data". "Outcomes data" ("Information on the short term changes, benefits or assets people have got from the service"), however, should only be collected "occasionally", and "impact data" ("Information on the long-term difference that have resulted from

[464] Ibid. p26
[465] Ibid. p27
[466] http://accessimpact.org/growth/ Accessed 23rd March 2018.
[467] From http://www.thinknpc.org/blog/what-you-need-to-know-about-the-impact-management-programme/ Accessed 14th June 2017.

the service") should only be collected in "exceptional circumstances".[468] When we look at the detail, then, "impact management" departs significantly from SIM best practice as it is described in chapter 6. It de-emphasises understanding outcomes and impact, focusing in on operational data about who is involved in an intervention, their characteristics, the degree and nature of their involvement and their feedback. This suggests that on an ongoing day-to-day basis, impact is knowable (and manageable) simply through direct experience, supported by data about delivery. That is, the management of impact by a frontline organisation does *not* require data about the changes – the outcomes and impact – that this intervention brings about. A more robust evaluation of impact is appropriate in certain circumstances to demonstrate to outside audiences what impact has been created. This represents a significant step away from some of the core claims made on behalf of SIM – on this form of impact management, the data collected is largely not about impact at all.

Confusingly, the term 'impact management' has been used elsewhere in a different sense. We look now to a report produced by an impact investment fund, Skopos, in partnership with Bridges Ventures, a prominent consulting firm in the social investment space. They describe a different problem. Skopos are committed to generating and using impact data, but they have encountered issues in finding meaning in their results:

> There has been a great deal of focus to date within the impact investing field on the challenges of impact measurement (all of it urgently needed). In trying to measure Skopos' effectiveness as an impact investor, however, we encountered another fundamental challenge: measuring impact performance (even if possible) does not in itself allow Skopos to draw any meaningful conclusions about whether their impact investments are a success.[469]

The report has been published to share with the sector how they responded to this challenge. In order to differentiate themselves from ongoing attempts to improve impact measurement, they describe theirs as an "impact management approach". They looked to traditional financial investing for inspiration in finding a way to use data to determine success:

> Traditional investment provided us with a helpful paradigm. Successful financial performance is typically determined according to whether it reflects the underlying goals of the investor – in terms of liquidity, financial risk and financial return. Applying a similar logic to impact performance meant that our starting point was to get a good understanding of Skopos' impact goals.[470]

The solution they arrived at is to redefine the stages of SIM as follows:

> Step one: define what success looks like
>
> Step two: choose strategies most likely to achieve our definition of success
>
> Step three: understand whether success is occurring and respond as necessary[471]

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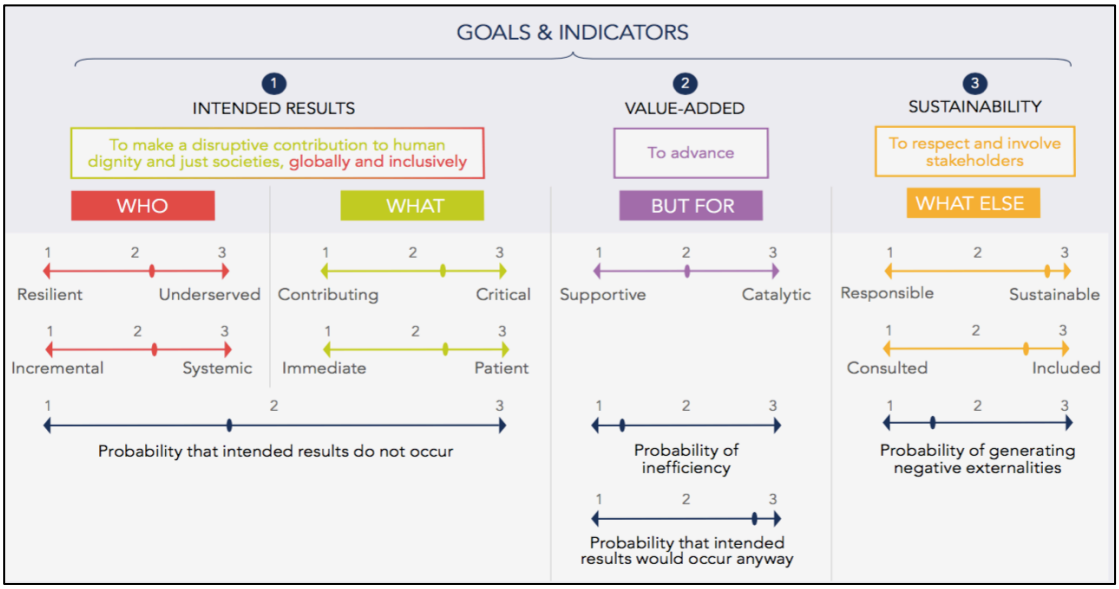
[468] https://impactsupport.org/data/5-types-data/ Accessed 19th April 2018.
[469] Skopos Impact Fund and Bridges Impact (2016). p4
[470] Ibid. p3
[471] Ibid. p4

Step one is then broken down into "establish goals" and "identify indicators". This is the point at which we encounter the familiar concept of 'outcomes' as part of a logic chain. Skopos' goals are framed in terms of outcomes. Their concept of a 'goal' also incorporates both impact return and impact risk. This is part one of step one. Part two of step one, identifying indicators, maps onto the what we referred to in chapter 6 as identifying measurement tools. As we saw there, it is the measurement tools that generate impact facts. In the Skopos report, the authors describe a problem with numbers capturing the volume of outcomes achieved: "these indicators are difficult to make sense of without context." They also needed their figures to allow comparison across multiple investments: "Skopos' success is defined by how well the overall portfolio meets its goals. We needed a set of portfolio indicators to which investment-specific indicators could 'roll up' to convey overall portfolio performance."[472] Once more, we encounter the problem of comparability. Whereas in *Oranges and Lemons* the people involved saw the data as context-bound, reluctant to abstract away, Skopos takes a different tack:

> We found that the solution to both challenges lies in a simple scoring system. We consider investment-specific impact targets (expressed both qualitatively and quantitatively), judge whether they represent higher or lower performance on the relevant ranges of impact return and risk and assign a corresponding score (from 1 to 3), which can be compared to Skopos' goals, also expressed as a score. A scoring guide helps calibrate judgements across (what are very diverse) investment opportunities.[473]

These numerical scores then allow for graphical representations of the progress across a portfolio:



From Skopos Impact Fund and Bridges Impact, *More Than Measurement* (2016) p15

Here we find more reason to think that impact facts might not be meaningfully detached from the context in which they are generated. The scoring approach developed here does prompt the question: could this be what SIM turns into? Could this be a form of impact measurement that allows comparability, and facilitates aggregation and numerical manipulation? For the answer to this question

[472] Ibid. p14
[473] Ibid. p14

to be 'yes', this approach to SIM would also need to fulfil all of the other functions assigned to it. It would encounter difficulties, particularly on the matter of accountability. These scores are generated by the analyst using their judgement to triangulate multiple sources of information. They might be useful for improving impact – for informing decision making – but they are less suited to demonstrating impact to a sceptical outsider.

The Skopos report includes a call for "a shared convention for describing impact goals". We can see continuity between this report and a much more substantial project, managed by the same people at Bridges Ventures, called the Impact Management Project (IMP). Not to be confused with the Impact Management Programme described above, this international effort is probably the most substantial effort to change the conversation around impact measurement. This project is not focused on the difference between proving and improving, or on whether organisations are using their impact data to inform delivery. It is, rather, concerned with establishing the "shared fundamentals" of impact. It is therefore responding to a different problem: impact investors still do not have a way of communicating straightforwardly and unambiguously about impact.

The first stages of the IMP involved extensive consultation with practitioners in order to establish consensus on "how we talk about, measure and manage impact". The aim is to establish common ground that everyone can agree on. They draw a parallel with finance in explaining the need for such "shared fundamentals":

> In finance, we use shared fundamentals about performance – such as return, volatility and liquidity – to describe and manage against our respective financial goals. … Investors also need shared fundamentals for understanding the effects that different underlying enterprises – or portfolios of enterprises – have on people and planet. Without this, we are faced with a growing array of labels that make it hard to understand which investment products offer investors the best chance to achieve their intentions and goals.[474]

The website "publicly shares" this "consensus", claiming that these "shared fundamentals will make it easier to work together to improve our positive impact on people and the planet, and try to prevent negative impact."[475] The IMP has therefore taken on the ambitious task of providing conceptual groundwork that *underpins* (rather than displacing) all of the existing knowledge and practices related to SIM. They explain:

> This convention describes consensus on principles and procedures for sharing our impact expectations with each other, which can act as a foundation for positioning and linking to different frameworks, standards and measurement approaches.[476]

Their starting point is the observation that "All enterprises have effects on people and the planet"; impact management, then, "is a process of figuring out which effects experienced by people and the planet are material, both positive and negative".[477] They suggest a four stage process: "understand the experience of people and planet" [i.e. impact], "define your intentions and constraints", "set impact and financial goals", and "deliver and improve impact". The first of these stages is achieved by

[474] http://www.impactmanagementproject.com Accessed 16th March 2018.
[475] http://www.impactmanagementproject.com/about/ Accessed 16th March 2018.
[476] http://www.impactmanagementproject.com/faq/ Accessed 16th March 2018.
[477] http://www.impactmanagementproject.com Accessed 17th April 2018.

breaking impact down into five dimensions: "what", "how much", "who", "contribution" and "risk".[478]

I personally do not understand how the process described in detail on this website can underpin the SIM process described in chapter 6. It shares many of the same concepts. My suspicion is that despite its claims, it is an alternative way of understanding and collecting data about impact. But it operates at such a level of abstraction that it is very difficult to tell from published material precisely what it is advocating. I would need to engage with the IMP in far more detail to be able to make fully informed statements about how it matches up with the SIM good practice described above, and the nature of the impact facts it advocates. We will use just one brief example, from a report written to share the findings of a pilot programme in which a number of investors used the IMP framework to analyse their own portfolios. This is one of three main implications reported by the investors in trying to collect data to assess performance against goals:

> Impact management demands a shift from measuring only what we expect to happen, to managing the effects that we know are occurring. Impact management recognises that all enterprises have impacts that are positive and negative, intended or unintended - and through different parts of their business model (from products/services to distribution to operations to supply-chain). To make an informed investment decision, an investor needs transparent, consistent and comprehensive reporting of an enterprise's total material effects on people and the planet.[479]

This passage tells us a number of things. First, the IMP is firmly in line with the innovative model. It sees impact as something that is created by "all enterprises", stepping even further away from the idea that there is something distinctive in efforts to address social problems that warrants a conceptual boundary between social investment and non-social investment. They are starting to look the other way, asking not 'what makes an organisation social?' but 'given that all organisations create impact, how can negative impact be reduced and positive impact increased?' Second, it suggests that the "effects we know are occurring" can somehow be separated from "what we expect to happen". This is a version of an investor's engagement with the world that starts with establishing what effects are occurring, invoking the possibility of investors leaving all expectations at the door and approaching the question of impact with an open mind, allowing themselves to perceive these effects *before* deciding which of them are material, and should be measured. It is unclear to me what this process entails. If an investor is to approach complex, messy social reality with the question of what effects their investment will create, surely the only way to avoid a deluge of information is to start with an idea of what she is looking for? Third, this openness suggests to me, at the least, an ongoing process of consultation, of meaningful engagement of those who are affected, and responsiveness to their views and experience. How else could these 'effects' be established? If that is so, the last sentence in this passage, emphasising "transparent, consistent and comprehensive reporting" of these effects suggests tension in the aims and processes of the IMP. It seems to be trying to consolidate impulses that are not obviously compatible, as we established in chapter 6's discussion of the incompatibility of the demands of measurement and accountability for the way things are done.

What the IMP does tell us for sure is that a huge amount of energy is being invested in bottoming out the notion of impact. It is a fascinating attempt to move past the confusion and ambiguity

[478] http://www.impactmanagementproject.com/understand-impact/ Accessed 17th April 2018.
[479] Impact Management Project, *GIIN Investors' Council Pilot: Trends, Findings and Feedback* (2018). p11

characterising SIM, to anchor the concept of impact, once and for all. Though we cannot be sure what kind of data is being advocated through the IMP, we do know that it is unambiguous in its view of impact that can be uncontroversially designated as either positive or negative: "Everything we do affects people and the planet" runs an eye-catching statement on the website home page. "Managing impact means figuring out which effects are material - and then trying to prevent the negative and increase the positive."[480]

Our final example in this section is a report by NPC assessing and reporting the impact of a prominent impact investing firm, the KL Felicitas Foundation. This report differs to the Skopos report because the authors are retrospectively assessing impact, rather than developing a method for ongoing use. But just like Skopos, they comment on the difficulties associated with finding meaning in the impact data they have available:

> When aggregated by theme, the investments are contributing to some impressive outcomes. The question to ask, however, is are those social returns good enough? This is difficult to assess, unless targets are set (itself hard to do), or investments delivering similar services in similar contexts are compared.[481]

In this case, there was an "absence of data that enabled" such comparisons. Furthermore, they observe "there is no single common metric that can be meaningfully applied to the entire Foundation". "The range of activities and support provided are too diverse … In addition, impact is evident at different levels for both the beneficiaries … and directly for investees themselves".[482]

Once more, impact facts are not comparable. They are context-bound. Once more, the actors involved are determined to find some way to generate systematic knowledge about impact. As ever, the quality of the data is a work in progress, and the endeavour to improve the robustness and consistency of data collection practices is an ongoing project. But NPC clearly set themselves the task of finding meaning in the data they had available, rather than suggesting analysis be deferred to a future date. Their response was to develop what they have called an "Impact Assurance Classification". Like Skopos, it uses scoring. The classification demarcates five components of good impact practice (outputs, standardised metrics, clarity of mission, data to show change, and additionality), and suggests a scoring scale from 0 to 3 against each of the components. "This results in an overall impact practice score, which is then used to identify the Impact Assurance Classification of each investment—from stage 1 to 4."[483] An organisation at stage 1 would have relatively underdeveloped and inadequate impact measurement practices, while stage 4 would indicate well developed, high quality impact measurement, including "good use of standardised metrics", "clear theory of change", "up to date quant data showing effect" and "demonstrating additionality using control or comparison group".[484] In other words, their assessment of impact relies on the analyst's judgement not of impact facts, but of the systems used to *generate* impact facts. The report does still look at the impact facts that are available, but they are pushed to develop the IAC by the desire to abstract away from local, particular knowledge to an overall view of impact.

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[480] http://www.impactmanagementproject.com Accessed 16th March 2018.
[481] NPC, *Investing For Impact: Practical Tools, Lessons, and Results* (2015). p4
[482] Ibid. p4
[483] Ibid. p20
[484] Ibid. p21

This discussion helps us to see that the 'analysis' stage of the SIM cycle poses a series of challenges. Actors struggle to derive meaning from the facts they have collected. There is agreement that comparison points are needed, but comparison to what? The emphasis falls on setting targets, defining in advance 'what success looks like'. But these approaches sever the link with the question of what impact is created, which in turn causes problems for claims to accountability. It seems like whichever way they turn, actors encounter problems with the imperative to measure impact.

What is political about this set of affairs? The political nature of SI, I am arguing lies in the way it sets the terms of the debate. It opens up some possibilities for action and forecloses others. In this conversation around the challenges of impact measurement, we never encounter the argument that perhaps measurement is not possible, or appropriate. It is absolutely taken for granted that it *is* possible, and absolutely necessary. This is not up for debate. From our extended discussion of the logic of social investment, we know that to bring the need for measurement into question would be to bring the core, fundamental tenets of this programme of government into question. This option is foreclosed. As a consequence, actors will continue to pursue the vision of a universally accepted, standardised, straightforward, functioning system for measuring impact, just like we have built for financial accounting. Energy and resources will continue to be poured into this project, because the benefits of achieving this goal will be so great.

There are, however, effects created by framing reality in this way. I would like to finish this section with a brief anecdote from my time working as a consultant. I worked on a short project with a small SSO in the north of England. This SSO worked with young people, helping them to navigate the gulf between formal education and work. They had hitherto depended on grant funding, but had been successful in applying to the Government's Investment and Contract Readiness Fund (ICRF). This meant they effectively won a grant that was already committed to paying for the services of agencies that would assist them in improving their 'readiness' for taking on investment or contracts. A basic component of 'readiness' was a system for measuring social impact. By the time I became involved, a colleague of mine had already been to visit this organisation, had run a theory of change workshop and built a 'measurement framework' – that is, a table in a spreadsheet, mirroring the theory of change, setting out which kinds of data they would collect when. My task was to help them move on a stage in analysing their data and beginning to use it in running the organisation. When I arrived, the manager had printed out a series of charts, presenting their newly available data. As I strove to understand precisely what the conversation was going to achieve, I came to realise that this individual simply had no idea what he was supposed to do with this information. He had no training in handling quantitative data, and had risen to a relatively senior level in the organisation because he had worked his way up through the ranks, and had once been in the same position as those young people the organisation existed to serve. There were no colleagues available to help him.

The assumptions of social investment as a programme of government, in that instance, came up short: they rely on actors in the field having the training and ability to think along the right lines, to see what data could be used for. This man had an implicit understanding of the needs of his organisation's beneficiaries, but no ability to handle data. Now, it is possible to argue that this is what is required, that progress means people like this man acquiring necessary new skills and building their understanding of measurement; it is also possible to argue that measurement undermines and destroys an approach based on experience, relationships and sympathy, to the detriment of these young people in need. This is another debate; I seek only to highlight the gulf between the way measurement is presented, and the way it is experienced. The imperative to measure compels an enormous shift in the

way many organisations work, but this shift is not recognised as relevant within the terms of the debate over social investment.

THE RISK OF 'IMPACT WASHING'

Unlike the puzzle of low demand and the challenge of SIM, the risk of 'impact washing' is not very well specified. Actors point it out as something that needs to be avoided, in an unspecified manner that has something to do with a commitment to measurement and something to do with being held accountable, or holding oneself to account. As far as I have seen, 'impact washing' is perceived mainly as a future risk, rather than something that is already a significant problem.

It will be fascinating to see, as the sector develops, how organisations find a way to pin down a well-reasoned-through, internally consistent approach to the myriad and poorly defined imperatives regularly repeated in reports and at conferences around the importance of measurement and accountability. I do not believe it will be possible to properly satisfy all of these imperatives at once, and so actors are going to have to make choices about the approaches they take.

At this stage, we can look to one particular example of the attempt by a fund to hold itself to account for its claims to impact: the NPC/KLF report that we have already discussed.

We have already set out the method that this report used, which relies on the Impact Assurance Framework. NPC face the challenges of SIM set out in the previous section, and their response is to focus not on the impact data itself, but on the tools and processes used by KLF to generate impact data, which NPC scores against a set of newly created criteria. This is significant because it means KLF are being held accountable for the processes they have for measuring impact, not for the impact they are creating.

Thinking back to the different forms of accountability described in chapter 6, this means KLF are not being held to account for the results they have achieved, because NPC are assessing their efforts to measure impact, not the results of that measurement. Nor is there any sign that KLF are being held to account for the kind of impact they decided to create. In fact, I would suggest the approach taken by NPC demonstrates that the question of whether impact is *good* or *desirable* was some distance from the minds of the authors. Their starting point was to assume that any impact created by "the Kleissners", the married couple who founded KL Felicitas, was positive, and that they should be given the benefit of the doubt in relation to the considerable degree of uncertainty over the volume and attribution of data. Based on this starting assumption, they then set out on their task of devising a structured representation of the information they had available.

Of course, it may be that the report was not intended to hold them accountable, or not in the ways we describe, and so we are holding them up against standards that they do not recognise. But if that is the case, the question is raised: if the report of an independent, specialist impact measurement consultancy about the impact of one of the most prominent impact investing funds is not the forum for holding the fund to account, then what *is* the forum?

This is a political matter because it exposes how, as things stand, claims to accountability, and to evidencing and proof of impact, have no teeth, and no direct implications for the way things are being done. The main threat is not from renegade impact investors who are not 'really' motivated by impact.

It is, rather, from investors who are truly motivated by impact, who think they are holding themselves to account, when in reality the mechanisms they are using to generate knowledge about impact are inadequate for providing anything but the most superficial understanding. To compound the issue, NPC present their analysis as a method suitable for replication by others:

> This review for the KL Foundation, and the parallel development of a suitable measurement framework to assess impact, has provided a model of transparency and methodology that, we hope, others will follow. We have shown not only that it is possible to measure impact, but we provide some guidance on how to go about it.[485]

I make no claims to insight into the relationships that the Kleissners have with the people impacted by their work. They might have close relationships and feedback mechanisms that are not described here. But as far as this report goes, they could well be simultaneously entirely ignorant *and* consider themselves particularly well-informed. 'Impacted parties', often some of the most disadvantaged people, could easily find themselves on the receiving end of well-intentioned 'impact' that has already been assumed to be positive, their opinions gathered only through measurement systems that have already decided what questions to ask, and what kind of information is important. Based on the current debate within impact investing, a future like this is entirely possible.

CONCLUSION

Social investment is a programme of government that puts forward a new way of thinking about and acting on social problems. Most of this thesis was devoted to exploring how this programme of government sets out neutral grounds for action, insodoing ensuring that certain forms of action, and modes of reasoning, are validated and celebrated, while others are undermined and dismissed. In this chapter, the focus has been on emphasising that the creation of this neutrality is itself a political act, because it sets the terms of the debate. It changes the kinds of conversations it is possible to have about what financing for SSOs should look like, what should be expected of investors, what is feasible for measuring social change, and so on. These changes have been explored in relation to three areas of discussion in which the logic of social investment is strained, because these areas of strain make it easier to see where the assumptions required by this programme of government are precluding other, more straightforward forms of reasoning. Given that the framework of the market has been accepted, actors struggle to explain why the different components of the market fail to behave as they are expected to. Similarly, given the importance and meaningfulness of measuring and managing impact has been assumed, actors are driven to continually develop the techniques and frameworks they have for handling and giving meaning to the information they collect. There have not yet been any flashpoint cases of accountability that pushes actors in the market to more clearly articulate what is meant by these claims, but the stage is set for investors to generate knowledge of impact in a way that could easily fail to ensure any form of accountabilty to those affected.

This chapter has not provided a definitive account of the politics of social investment. Far from it. This would not be possible even in another hundred thousand words, because it is a dispersed, contingent matter, specific to every locale where things are being done differently because of this programme of government. In any case, to attempt to catalogue all the effects of social investment would miss the point, because the intention of this study is to develop the tools for analysis. The

[485] Ibid. p64

argument set out here puts us on a stronger footing for the ongoing critique of social investment as it unfolds into the future.

CONCLUSION

In the weeks before submitting this thesis I attended an event. A report was being launched by NPC and the KL Felicitas Foundation, a follow up to the report discussed in chapter 7. The same Impact Assurance Framework was being used, this time combined with KLF's financial data. The tone of the event was triumphant. We were told the Kleissners' portfolio *proves* that impact investing can *outperform* mainstream capital markets on financial return. "This is the end of the tradeoff debate", a speaker stated firmly at one point. The report also *proves* that it is possible to measure the impact of a portfolio. By "applying" the three impact tools – the UN's SDGs, the IAC, and the IMP's five dimensions of impact (which is apparently becoming "standard terminology" for talking about impact), the analysts at NPC were able to produce a "complete picture of impact".

The Chair of the event also asked the panel about the Bolis and West argument discussed in chapter 4. Charly Kleissner thinks they "didn't do a service to the industry" in putting forward this argument, suggesting they are "caught up in the old terminology". Liisa Kleissner chipped in to tell the audience that she had debated the authors at a conference – the debate is in fact available to watch online[486] – and that she had *won* the debate, because "they use the old dichotomy. *We* don't look at capital that way." In person, the Kleissners radiate a striking moral certitude. They are absolutely convinced that they are making the world a better place, and setting an example for others to follow. Liisa, in her closing statements, describes her and her husband's endeavour to "right this ship called mother earth", before exclaiming: "don't people see why this is a moral imperative?"

I am recounting these details in order to illustrate what kinds of discourse and reasoning have now become possible. The Kleissners can present themselves as moral guardians, working tirelessly to bring impact investing to mainstream capital markets, setting a shining example by investing 100% of their personal wealth in impact investments. Their moral certitude comes from contrasting their own strategies with a "broken" financial system that pursues only personal profit. Meanwhile, NPC can make claims to a "complete picture of impact", to have developed a "light touch and practical" way of assessing impact across a portfolio, *even though* this assessment does not in fact assess impact at all – it assesses the quality of the systems used to measure impact, which NPC knows "from experience" tends to be associated with strong impact performance. I am not appointing myself judge over the systems people create to understand impact. NPC and associates are free to develop whatever frameworks they deem useful. The problem I am identifying is that these are the systems, it appears to me, that are looked to for ensuring accountability. Efforts to create impact, the report states, "need to be transparently measured and widely reported. Without such transparency, the risk is that impact falls short of expectations, investors are disappointed, and the field fails to grow, loses momentum, or worse."[487] These risks are telling: they are all related to the success of impact investing, firmly grounded in the perspective of the investor. They are not alert to the risk that their interventions in the world might not be welcome. This report is not an enquiry into whether the impacted parties, whoever they are, are as radiantly positive about the impact as the Kleissners are.

These comments would probably come across as slightly strange or off target to the report authors. After all, investors do not tend to have direct relationships with the people all the way at the other end

[486] https://www.youtube.com/watch?v=kf8lGMyU0O0 Accessed 3rd May 2018.
[487] Plum Lomax et al., *In Pursuit of Deep Impact and Market-Rate Returns: KL Felicitas Foundation's Journey* (2018). p4

of the chain, the beneficiaries of the work undertaken by the investee organisation. There are very good practical reasons why this form of data collection is not feasible. My comments are not about the method they used in their research, but about the way that they conceptualise 'impact'. Aside perhaps from identifying a degree of hubris, I do not in fact want to single out KLF and NPC as doing anything objectionable. I am not contradicting their claims or casting doubt on their motivations. Rather, I am pointing out that it has become entirely thinkable that investors can make a profit while addressing the world's social problems. It has also become entirely thinkable that the solution to social problems, in the form of 'impact', can be meaningfully engaged with through frameworks like the IAC.

Indeed, the Kleissners are not alone in their fervour and optimism over the potential for social investment. It is visible in the SIIT reports, and plenty of the other documents I have quoted throughout the thesis. To use another example from my own experience, it was also visible at the meeting of a research council set up to support a project within the UN, designed to encourage the use of impact investing for meeting the SDGs. Some attendees at this meeting were wedded to the idea that investment could be the solution to meeting the SDGs, if only we could work out how to measure impact properly. They piqued the interest of the assembled academics – they appeared to think – by suggesting that the person to hit on this solution could win the next Nobel Prize in Economics, an idea proposed by Ronald Cohen himself. A space has been created in which impact is being conceptualised in terms of data of a kind that sits in parallel to the data fuelling the financial markets. Combined with the volumes of capital that could be opened up if 'the argument is won' and mainstream investors come on board – volumes far greater than the paltry resources from philanthropic and public sources – the growth in impact investing places us on the brink of a "revolution".

And yet, this is a peculiarly painless revolution. Social problems are solved, while investors can continue to make the same financial returns as they do with conventional investing. My argument offers an explanation for how this win-win solution has come to gain such traction: this (appearance of) painlessness is achieved by introducing a certain mode of reasoning through the nature of social change and the possibilities for action. Social investment has provided a way of reasoning about social change that simply requires us to accept that impact and the market are matters of fact, and that social investment represents a logical, rational response to these facts.

LIBERALISM

From the vantage point we have now reached, we can reflect back on the version of liberal governmentality present in social investment. The emergence of the subject of interest several centuries ago transformed the nature of governmental power. Liberal governmentality accommodates the subject of interest. The social is configured around this figure, finding a way to recognise the subject of interest on the terrain of government without asking her to compromise her interests. So what version of the social, and what version of interest, is brought about through social investment?

Starting with some of the most abstract and general observations, Poovey described the social as transmitting an assumption of social order. This assumption is markedly clear in the attempt to measure and manage social impact. What is the attempt to discover the 'fundamentals of impact', as the IMP puts it, if not an attempt to uncover the shared foundations underpinning all our societies? It

would not make sense to use the same scale-based measures in different settings, then to aggregate and compare the results, if it were not assumed that some kind of social order underpins the results. The attempt to generate data about impact that can then be abstracted away is based on the assumption that meaningful comparisons can be made. These assumptions are particularly clear within the innovative mode of reasoning, where the focus is on scaling up and replicating activity, and generating an overview of impact from the investor perspective. But they are visible wherever there is an attempt to systematise and measure impact.

Most of our reflections on liberalism need to take into account the difference between the two modes of reasoning. They support two different versions of interest and the social. On the innovative mode, the investor (and possibly also the entrepreneur) looks remarkably like Foucault's subject of interest. She does not have to sacrifice her interests – market-rate financial returns are available for those who want them. Lower financial returns might be expected in some cases, but it is the investor's choice whether she makes such investments. She is left to act according to her preferences. But this means that the motivation to create social impact is somehow *internal* to the investor's interests. We can all have confidence in the future of social investment, the argument goes, because we are increasingly seeing signs that investors are in fact oriented to creating social impact with their money. This argument sidesteps the need to compel investors to make their capital available, which would be incompatible with inviolability of the pursuit of interest. The moral argument might be made for investors to invest for impact – Liisa Kleissner's moral imperative – but the moral argument is never made for investors to invest for lower financial returns than they would be happy with. Furthermore, once the moral decision has been made to invest for impact, impact is not a moral matter. Creating impact is a domain of economic activity, undertaken by the subject of interest. Indeed, the promise of social investment lies in bringing the techniques and behaviours of the subject of interest to bear on solving social problems. In this way, impact as a fact-based version of social change sits comfortably with governing according to interests.

The picture of interests within the principled mode of reasoning is less clear. If the starting point is the needs of SSOs, and recognition that the pursuit of social mission has direct implications for the levels of financial return that can be expected, then investors are conceived of as sympathetic to these needs, and willing to treat investees differently. They are motivated by something other than self-interest, or rather, they are willing to put their self-interest into second place behind the desire to support social good. This version of the subject appears to be an amalgam of the subject of interest and the subject of right. They pursue their interest, but recognise another kind of responsibility too.

I think the elaboration of social investment shows that Foucault was right when he talked about the incommensurability of the subject of interest and the subject of right. They are governed differently. They are both governed through their reason, but they respond to different forms of reason. We have already seen the contrast between the forms of reason employed: the innovative mode of reasoning is end-focused, and the principled mode is means-focused. This opposition plays out in relation to these two forms of subjectivity. The subject of interest is characterised not just by consideration of her own interests but by economically rational behaviour. She calculates how best to use the resources she has to maximise her interests. The subject of right, in contrast, reasons as a political subject who has rights and responsibilities. It seems to me that the innovative mode attempts to make social problems amenable to the kind of rational calculation characteristic of the subject of interest. The principled mode, meanwhile, attempts to combine both forms of subjectivity. Neither of them offer a new form of subjectivity. It is still about interests. I do not think that social investment moves us past the

political terrain that we have inhabited for some time. And I think the intransigence of impact as an object of knowledge could occupy collective attention for some time before it is realised that social investment is not the revolution it claims to be.

Foucault described two forms of neoliberalism in the course of his lectures. I have deliberately avoided referring to social investment in terms of neoliberalism, because it is a loaded term that attracts controversy, and becomes a topic of discussion in its own right. I do not want to spend time discussing whether social investment is or is not neoliberal. But three brief points of connection can be made between what we have seen in social investment and the observations Foucault made.

The first concerns the transition that Foucault identified within the model of *homo oeconomicus*. As we explained in chapter 2, in his early incarnation as the man of exchange, he represented an "intangible element with regard to the exercise of power".[488] Later, with the intellectual innovations of neoliberal economists, this figure turns out to be "eminently governable",[489] because he acts rationally and therefore predictably. I think we can see this model at play in the excitement around impact. There is a sense in which investing for impact is a rational thing to do, a logical engagement with a data-driven set of practices.

The second point of the connection is with Foucault's observations about the version of the social elaborated by the neoliberals. We described in chapter 2 how the American neoliberals formulated a version of the social that is amenable to analysis in economic terms. The Chicago School theorists flexed their muscles by extending the model of self-interested rational behaviour to all areas of social life. Social investment, and more specifically 'impact' as a way of understanding social change, is doing something similar. Impact has no boundaries. As the IMP states, front and centre, "Everything we do affects people and planet".[490] Impact, on the innovative mode of reasoning, is a web cast over all human activity. It is a version of social change that is programmable, and amenable to management within the structure created by the investment of financial capital.

The version of impact formulated within the principled mode of reasoning does not quite operate in the same way. This version of the social needs protecting from the incursion of self-interest, profit-extracting behaviour. It suggests a model of human interaction unaffected by the profit motive, a social space in which individuals think not about their own gain but about the needs of others. The social is a space where individuals work together to bring about a better society. These activities need financing, and it might be that repayable finance is a good option. But this version of the social is not amenable to coordination and improvement by the 'unleashing' of market forces. As we have pointed out, however, the imperative to measure has vitality beyond the borders of investment practice, and this version of the social is not conceived in isolation from such attitudes to knowledge production.

The third point of connection relates to attitudes to the state. Foucault recognised in American neoliberalism the constant testing of the need for government according to the logic of the market. The economic grid "anchor[s] and justif[ies] a permanent political criticism of political and governmental action."[491] By 2010, it was possible for Ronald Cohen to simply dismiss the state's abilities to 'solve social problems'. This is a starting assumption, part of the problem that social

[488] Foucault (2008). p271
[489] Ibid. p270
[490] http://www.impactmanagementproject.com Accessed 5th May 2018.
[491] Foucault (2008). p246

investment is aiming to solve. Given the state's failure, social investment represents a new, innovative response. The innovative mode of reasoning formulates a version of the social that hands the solution of social problems over to the market, advocating the conceptual opening up of what it means to be 'social' or 'impact driven', attracting as much capital as possible into the market, and leaving it to the drive and innovation of investors and entrepreneurs to identify solutions and bring them to scale. The state is assigned the role of creating an 'enabling environment' through creating a friendly regulative environment. The state may also become a market actor, by assuming the role of an investor alongside private investors. The principled mode of reasoning is more open to the exercise of political sovereignty, whether it is the regulation of what it means to be a social enterprise, or third party oversight of claims to be creating impact.

By making a point of the ineffectiveness of the state in solving social problems, the vision for social investment is establishing a version of liberal governmentality that has entirely moved beyond welfarism, which is characterised by the direct provision of social services by the state. Dean talked about the 'post-welfarist regime of the social', but his account envisages ongoing involvement by the state, which plays a role as commissioner of services. His analysis might have some traction with the ongoing development of SIBs. But social investment, according to the innovative mode of reasoning in particular, goes a step further, relegating the state to a supporting role in solving social problems.

Relaxing momentarily the critical distance I have created with my topic, I would like to point out a certain irony. The matter of state ineffectiveness has direct implications for a matter close to the heart of any free market advocate: taxation. Taxation is never talked about in the context of social investment. It has been assumed out of the picture. If states have proven themselves incapable of solving social problems, then we have no reason to examine policies regarding the resources available to them. It simply is not relevant, and their impoverished nature, *especially* when compared to the wealth held in private hands, is a background feature. We discover irony in the views of social investment advocates when we find reference to wealth inequality as one of the worst social problems we face. A basic tool for addressing wealth inequality is taxation. Tax redistributes wealth. And yet, somehow, social investment offers a way to solve social problems, including wealth inequalities, that paints taxation out of the picture. An actively redistributive mechanism, taxation, is instead replaced by a mechanism that *returns* financial capital to those who already hold the most wealth, *with interest*. The fact that this argument is simply not made is a sign of how successful social investment has been in marking out new political terrain, where certain options are simply not even considered.

CONTRIBUTION TO SCHOLARSHIP

With the account of social investment behind us, we can highlight the contribution this thesis makes to existing scholarship.

In the introduction we looked at a number of studies offering a critique of social investment that framed it in entirely negative terms. It should now be clear what I meant by describing this thesis as a critique that is not a criticism. I consider it to be a substantial contribution to the critical literature on social investment that I hope might be of use to other scholars working on this topic. In particular, I provide an account of why there continues to be such confusion over the terminology and concepts used to understand and frame SI for analysis. Instead of trying to offer solutions to the problem of ongoing confusion, this work offers a way to understand why this confusion persists. This may help to

clarify the terms of the debate. As an example of scholarship that fails to overcome the confusion present in the debate, we can take the work of Emma Dowling, who states:

> Some investors accept below-market returns because they have explicit social or ethical commitments, yet overall, social investment markets are supposed to operate in the same way, that is with the same kinds of characteristics of risk and return, as any other kind of financial market, including an orientation towards competitive rates[492]

Following the discussion of the tradeoff debate in chapter 4, we can see that Dowling here skates over an immensely contentious set of issues, and a core site of ambiguity in the social investment project, without any acknowledgement that this might not be a representation that everyone would agree with. This thesis provides a comprehensive account of the development of social investment that should be helpful to other scholars wanting to enter this area, alerting them to the faultlines in the debate, the areas of contention, and allowing a more nuanced account of how their research fits into the wider whole. My work is a platform for engaging with other scholars working on the border between academic research and industry. For example, my arguments around SIM and accountability would support Kate Ruff's work at the intersection of SIM and evaluation, where she is advocating a "solution" that entails evaluators "accepting some new relationships with data and new roles in the field".[493]

The thesis also lays the groundwork for more fruitful conversation between social investment research and research into closely related areas of practice. Philanthrocapitalism is one such area. McGoey and Thiel, for example, explore the notion that "individual mega-wealth is collectively beneficial":

> we explore the mechanisms that enable wealthy donors to position themselves as apparent benefactors of humanity, including a reliance on metrics that appear to justify the claim that targeted philanthropic expenditures can and are reducing global wealth and health inequalities, but which raise unanswered questions surrounding the actual effects of the outcomes claimed[494]

There are several points of contact here. The authors root their analysis in some of the same material – the 'spontaneous harmony of interests' doctrine – and show how it is used to justify a set of affairs that might otherwise be viewed, as social investment might, as simply benefitting one group of privileged actors at the expense of anothers (though, as chapter 7 explained, this is not in fact the argument that I am making). Similarly, McGoey and Thiel point to the role of metrics in cementing this position, arguing that "a new, muscular reliance on metrics that appears to confirm that large-scale philanthropy 'works' … but which upon close inspection reveals the opposite"[495]. Metrics, of course play a central role in social investment. It may be possible, in time, to advance a similar critique of social investment as McGoey and Thiel have of philanthrocapitalism, in which the narrative is compared to some other source of information that tells a different story. For the period in which I was studying social investment, however, there was so much instability just in the terms being used to communicate on the topic that this warranted attention first. As the field consolidates, there may be more scope for

[492] Emma Dowling, 'Incorporate or Mobilise?', *Working Paper* (2017b).
[493] Ruff and Olsen (2018). p402
[494] Linsey McGoey and Darren Thiel, 'Charismatic Violence and the Sanctification of the Super-Rich', *Economy and Society*, 47/1 (2018). p111
[495] Ibid. p123

establishing points of comparison between the dominant narrative and the 'reality' of social investment.

The work of Emily Barman has already been discussed at length in the introduction, but there may additionally be links helpfully drawn with STS and the 'pragmatic turn' in sociology more broadly. Millo and MacKenzie, for example, published an article titled 'The usefulness of inaccurate models: Towards an understanding of the emergence of financial risk management', which seeks to differentiate between the accuracy of the models underpinning risk management and the usefulness of these models.[496] The authors of this article, and those who were interested in its findings, may be interested to see the parallels with the way SIM is developing in the context of social investment. In particular, they mark a shift from merely calculating risk to managing risk – "nowadays risk is regarded as a man- ageable factor rather than merely a measurable, quantifiable and calculable entity" (p639) – which appears to foreshadow the shift we have noted from impact measurement to impact management. This thesis provides grounds for comparison across disparate areas of practice. The comparison also carries the potential for extension of this research in future. That is, I have emphasised how the approach taken in this thesis is particularly suited to the stage of maturity of social investment. As the field consolidates, different forms of research will become possible. The analysis of risk found in the work of Millo and MacKenzie, as well as Michael Power,[497] could provide a fruitful point of conversation and contrast in tracking the development of 'impact'. As a final comment, though I have been clear that I do not consider this work to advance scholarship on Foucault's writings, my assessment of the work of Miller and Rose on governmentality and the social, found in chapter 2, is a contribution to these attempts to come to grips with the changing nature of governmental power.

These are just a few possible examples. The thesis might also be considered a contribution by those studying the changing morals of markets, by providing insight into how the market offers a framework for acting on social problems. While my argument makes no direct comment on the moral implications of these changes, the analysis could help other scholars to penetrate the layers of obfuscation and confusion to take account of the difference between (for example) the innovative and principled modes of reasoning.

RECENT DEVELOPMENTS

Since I determined the main focus and scope of the thesis there have been developments in the field. In some ways, the vision of the market for social investment now feels out of date. A brief account of these developments will help us draw the argument to a close.

It appears to me that the double problematisation of this programme of government is no longer so firmly held together by a single solution. That is, there are strong signals that activity in the UK is no longer so closely attached to building a market for social investment. BSC, despite being yoked to the market building project by its status as capital wholesaler, published a strategy paper in 2015 setting out policy priorities regarding social investment for the 2015 general election. In contrast to earlier papers of this kind, it barely mentions the market for social investment. In 2016, shortly after a new CEO assumed control, BSC published a "note" that invited views and comments from the sector on

[496] Millo and MacKenzie (2009).
[497] Power (2007).

BSC's "view of the social investment landscape". It explains that BSC "was established in 2012 to help accelerate the development of social investment in the UK" – the 'market' that usually followed the word 'investment' has been quietly dropped.[498]

A more conclusive sign of change afoot is the report published in March 2018 by Social Investment Business (SIB), a prominent SIFI. The report reviews the publicly funded investment and contract readiness programmes delivered over the preceding six years. The press release accompanying the report includes these comments from the new CEO:

> we now think it's time for a change of focus and to put to bed the phrase 'investment readiness'. Helping organisations get ready to raise investment is a good thing but it shouldn't be the primary goal. The characteristics of 'investment ready' organisations such as resilience, flexibility and sustainability are valuable regardless of whether investment is raised or not. Encouraging these traits will help more organisations be in the best position to do what matters most - improving the lives of the people they work with.[499]

Unlike the numerous ex-finance CEOs of prominent social investment institutions, this person comes from years of work in the social enterprise sector. It appears that the problem of the undercapitalisation of the social sector is starting to be thought about in ways detached from market building.

At the same time, the problematisation of traditional finance markets is alive and well. The NPC/KLF event is a prime example of this programme of work, and demonstrates, along with the IMP, that there is substantial activity taking place that is focused on making social problems amenable to direct intervention by those with private wealth. Impact, according to the IMP, is created by *every* organisation. The remit gets broader and broader. We can be sure that even if the language and the details of the problematisation change, the attempt to grasp social problems from within the frameworks and assumptions of markets and the pursuit of profit will continue for some time to come.

[498] Big Society Capital, *UK Social Investment - Opportunities, Challenges and the 'Critical Questions'* (2016).
[499] https://www.sibgroup.org.uk/news/"let's-scrap-phrase-investment-readiness"-says-new-report Accessed 3rd May 2018.

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