

# **Social innovation and social business — Latent needs of society uncovered by social businesses and the creation of an affluent society**

## **Recommendations**

### **1. Funding strategies of social businesses**

#### **(1) Capacity-building for financial leaders**

It has been pointed out that social businesses are characterized not just by their hybrid business goals, but also by their multiple sources of financial resources. An overreliance on specific sources of funding can cause actions to be adapted to suit the preferences of the fund providers rather than the service recipients, leading to changes of mission and a decline in independence. Social businesses should therefore adopt a strategy of dispersing and diversifying their funding sources as much as possible to boost their independence and sustainability.

When examining the combination of diverse funding sources (resources mix), the funding strategy should be drawn up only after fully understanding the financial benefits of and problems with each of the sources. The capability to formulate and implement such a strategy is also essential. However, it is difficult for small social businesses to train personnel with such capabilities, and even the larger social businesses may struggle to secure the personnel who can accurately comprehend the diverse and changing financial environment.

Training personnel within an organization by itself has its limitations, so building a platform or hub-like framework for promoting capacity building across organizations is desirable.

#### **(2) Reform of public subsidy policy and public procurement**

While social business tend to procure funding for their activities from multiple financial sources, the ratio of government funding is quite high.

There is, however, a need for reform of national and local government subsidy policies. Government subsidies are a very effective source of funding when starting up a project, but there is tight control and therefore little flexibility for projects that receive government subsidies. Controls are necessary, but there is a need for reform so that projects are assessed on the final impact and subsidies are as easy to use as possible.

The government public procurement structure or cycle is also in need of reform. At times, the government will purchase (procure) the services of social businesses through outsourcing contracts and other frameworks. The government may also bear all or part of the costs for services provided by social businesses through quasi-market contracts such as nursing-care insurance. There are currently various issues in outsourcing to social businesses, including cases where adequate costs have not been allocated, and the limited opportunities for the social value (social impact) of these services to be considered. The approach to public procurement and public contracting needs to be changed to an impact-oriented approach.

### **(3) Use of impact assessments**

Impact assessments must be used in funding procurement. This is also effective in terms of accountability to fund providers and service recipients, and also for promoting funding procurement based on improved reliability.

Impact assessments are also important in social business activities by major companies or activities tackled by major companies in cooperation with social businesses. For example, RobecoSAM, which functions as a DJSI series brand rating agency for the world's leading financial index development company S&P Dow Jones Indices mentioned earlier, included questions about impact assessments in the sustainability assessment questionnaire for companies for the first time in 2017. That is, companies are questioned on whether they monetize profit and loss on economic and social aspects using SROI (social return on investment). The assessment on social impact is set as an important element in investment decisions. In Japan, Microsoft Japan and Sompo Japan Nipponkoa Insurance are just two of the still very limited number of companies using SROI for monetizing the outcomes of collaborative programs between companies and NPOs.

### **(4) Use of private-sector investments**

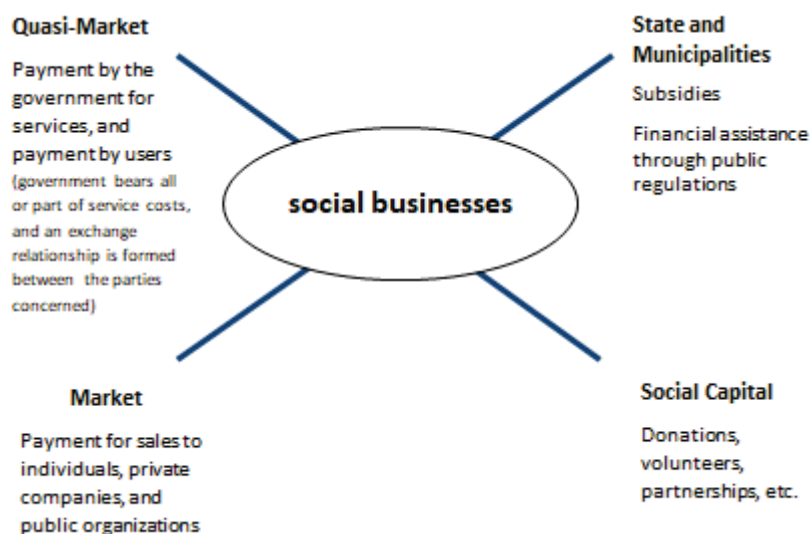
The impact investment framework, such as social impact bonds, appears to show promise as a new funding procurement route for the future. For this, though, social businesses themselves need to build up their program management capabilities or their capabilities to gather, analyze and report on social impact data.

### **(5) Use of private-sector donations**

The characteristics of funding procurement by social businesses are in the resources mix structure shown in Figure 1. While social businesses place importance on profit-making projects,

they also emphasize social capital types of financial sources. Donations are a typical example of this. Although donations are a much less efficient means of funding procurement compared to revenue from commissioned projects, they are a good gauge for measuring the level of empathy and degree of trust toward the organization and its activities.

**Figure 1: Social businesses’ multidimensional resources dependence (resources mix structure)**



Source: Prepared by Ichiro Tsukamoto

However, even though information concerning output (the scale of the project to be implemented and the like) may be provided to the donor, there are not many cases where information about the actual social impact is provided. In addition to information on methods of raising donations, such as crowdfunding, effort must also be made to proactively disclose evidence relating to impact.

The August 2017 issue of *Forbes Japan* compiled a special feature on “New ways of using money”, and introduced 30 NPOs and social businesses as “suitable donation recipients” in a catalog of 30 next-generation donation recipients<sup>1</sup>. The criteria for selecting the 30 organizations were “assessment awareness”, “sustainable management”, and “wide-ranging activities in cooperation with other organizations”.

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<sup>1</sup> *Forbes Japan*, August 2017 No.37

## **2. Training for social business personnel and labor market strategies**

### **(1) Reform of the labor market: Development of job placement routes for social business personnel**

Work, essentially, has a sense of sociality, and through work, people can participate in and create value for society. This is also the case for social businesses. However, altruism is clearly the basic motive for working in social businesses, and the desire to contribute to social innovation is the source of this drive. In this sense, social businesses can become a reservoir of social innovation-oriented human resources. In the actual labor market, though, avenues for matching the supply side and demand side regarding social business personnel are extremely limited. Since work needs in social businesses are not socially recognized, existing job placement routes are rarely used.

However, in the U.K., the major newspaper The Guardian is known for carrying job advertisements for the social sector in its Society Guardian section. The Guardian has also set up in its website a job information site aimed at the social sector called Society Job<sup>2</sup>. Most of the organizations that provide job information are large charities, and the information covers not just job type, but salary and other work conditions, so it is evident that working in the social sector is a career choice.

In Japan as well, there will be a need to develop job placement routes for social businesses through the existing media, job information magazines and websites, and other media, or through public and private job placement systems.

### **(2) Personnel training and mediation functions of intermediary support organizations**

The need for personnel in social businesses is indeed broad-ranging, such as personnel with welfare expertise, those suited for managerial positions, or those with leadership skills. There is currently no functional personnel placement system that matches personnel to specific needs. The use of the existing personnel placement system mentioned earlier can be considered, but a more finely tuned matching system is required to prevent mismatching. In such cases, one approach considered is that intermediary support organizations which understand the mission of the social businesses and their characteristics take on personnel placement functions.

### **(3) Personnel exchanges with companies**

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<sup>2</sup> Society Job page at <https://jobs.theguardian.com/landingpage/2868461/jobs-society-html/>

As well as forming employment relationships between individuals and corporations, personnel exchanges between social businesses and company/government sectors are also considered effective for human resources development for both sides. Pro bono work is one example of this. However, if the significance and effect of the personnel exchanges are not shared by both sides, these exchanges are nothing more than unilateral philanthropy. Both sides need to understand the purpose and significance of the personnel exchanges, and build a more strategic personnel exchange system. There is also a need to strengthen the functions of intermediary organizations that match such personnel with different sectors.

#### **(4) Social businesses as a new work choice**

In addition to sideline work, which has been gaining considerable exposure, there is a growing need among people who would like to take part in activities outside of their normal work during their free time, and, if possible, engage in work that is directly linked to social issues to extend their own careers or broaden their outlook. Social businesses have the potential to provide attractive employment opportunities to such socially oriented people. That is, a desire for work that is of social value and provides a sense of social meaning, and not just in the context of work-life balance, appears to be the prime motive for wanting to work in social businesses.

In the midst of today's rapidly changing society and diversifying consumer needs, companies require personnel who are highly attuned to social change and diversity. These days corporate social and externality assessments are incorporated into global investment principles, and while it is the organization that responds to such environmental changes, the company executives are the ones responsible for decision-making. To enable them to respond to environmental change and also to raise the capabilities of their personnel, having employees with work experience in social businesses is an effective human resources management tool for companies, provided there is no disruption to work.

For social businesses, having company personnel with high levels of management or marketing skills take part in their operations, even on a temporary or short-term basis, would be effective for reviewing or improving services and management.

Social businesses need to devise new ways of informing the community about the attractiveness of their operations as a new form of work. They must, however, provide more reasoned explanations about the incentives and social rewards of working in social businesses based on evidence.

### **(5) Improving working conditions in social businesses**

The difficulty social businesses have in keeping personnel revolves around low pay and working conditions. While there is need to take steps to improve working conditions, social business managers have to raise their own awareness of the legal aspects of labor management relations, and policies and strategies concerning human resources development. Social business sociality should also include respect for labor standards.

At the same time, government agencies, which are customers of social businesses, must set prices in the outsourcing contracts based on appropriate estimates of labor costs and other expenditures. The legal structures that can be applied include public contract regulations.

### **3. Compatibility between the sociality and business feasibility of social businesses: Positive consideration of profit**

Social businesses must not limit themselves to the quest for sociality, but must pursue that sociality in conjunction with business feasibility. The reality is, though, that most social businesses do not have a high level of business feasibility. While social value must be taken into consideration in the objectives and evaluations concerning the business feasibility of social businesses, a business feasibility perspective that gives consideration to sound management and profitability is important for lifting business sustainability and independence. Debate on social businesses, though, tends to lack a profitability perspective. To view profit as an end in itself is a problem, but there is no problem in acquiring an appropriate profit provided the profit distribution rules give consideration to sociality. To maximize social impact, business expansion and enhancing continuity is essential, and to this end, profit has to be secured. This requires a business model that views profit in a positive light.

### **4. Alliance between social businesses and companies — Concurrent pursuit of social return and economic return**

Some major companies these days are gaining long-term economic return while lifting their social return. The global expansion of ESG investments is underpinning CSV management at companies.

If concurrently pursuing social return and economic return can be a management strategy for major companies, then social businesses have to be more positive in explaining the benefits of forming alliances with major companies, and expand the opportunities for such alliances. Within major companies as well, social businesses have to be seen as strategic partners. Companies must

be serious about moving beyond their own self-interest and contributing to the creation of social benefit through business, and not just by PR.

These alliances between major companies and social businesses require an assessment mechanism that shares common values and a common language.

#### **5. Strengthening the foundations of the social business sector, and intermediary organizations**

Fostering intermediary organizations is essential for strengthening the foundations of social businesses. Intermediary organizations have diverse support functions, ranging from general support, to function-based support such as support for business establishment and management, and personnel training. In Japan, the support service market for intermediary organizations is poorly formed. Healthy competition among intermediary organizations and their diverse development is preferable, rather than a very limited number of intermediary organizations dominating the provision of support services. That is, it is necessary to promote the diverse development that facilitates the division of roles between organizations providing general support and those providing function-based support, and foster intermediary organizations with personnel who have higher levels of expertise.

#### **6. Social businesses and communities**

Social businesses play a major role in revitalizing regional communities. Various operational organizations and councils have been set up in regional areas, but generally these have met only very limited success. Social businesses are central to regional management, so there is a need to establish a structure under which these businesses are supported for the initial few years by public and private-sector funds, then later become independent though profitable business operations. Regardless of whether social business personnel are locals or people from outside the region, the emotional attachment to the local community is the driving force for working, so there is a need to move in the direction in which social businesses bring about regional revitalization, with such personnel taking the lead.

#### **7. Social businesses and impact assessment / EBP (Evidence Based Policy)**

Social businesses are organizations whose purpose is to maximize social impact. Impact assessments are therefore essential for evaluating those business achievements, and are also effective for improving accountability to fund providers and service recipients, enhancing trust and branding, and improving business. At the same time, financial assessments are important for sustainability, and the fact that a suitable profit is being achieved also has to be disclosed.

If the impact assessment is seen as an end in itself, there is no incentive. Assessments must be carried out in combination with something. For example, there is a need for a mechanism through which the fund providers require all recipients to provide third-party assessments.

Impact assessments will lead to the promotion of evidence based policy (EBP). EBP is based on the policy approach in which policy makers should make decisions derived from evidence rather than ideology or special interests (DFID 2012:9). The Japanese government is said to be lagging behind Western countries with respect to EBP, so there is a need for social businesses and governments to work together to promote EBP.

Impact assessment methods should be standardized to a certain degree to ensure the reliability of the assessments. Standardization here does not mean that assessment methods should be unified into a single method; rather, it means that guidance on methods of setting indicators for quantifying or monetizing outcomes, and guidance or guidelines on methods of collecting data relating to the indicators will be necessary. There is also a need to look into establishing a database for indicator groups.

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