

Social impact investing

By Dr Richard Yap

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When Larry Fink, CEO of leading asset manager BlackRock wrote in his 2018 letter to CEOs: "Society is demanding that companies, both public and private, serve a social purpose", it was a clear message to business leaders that we are entering a new era. Fink went on to flag issues such as climate change, human capital management, diversity and executive pay, and this is part of a wider trend. Globally, business leaders and opinion leaders are embracing the socially marginalised – a clear departure from the past focus on profit maximisation. And such concerns are reflected in the findings of supra-national organisations.

The World Bank reports that 3.4 billion people, that is almost half of the world's population, still struggle to meet basic needs, while 10% of people survive under extreme poverty with just US\$2 a day. The United Nations has put together 17 Sustainable Development Goals (SDGs) which aim to end poverty and hunger everywhere by 2030. The initiative

lays out a blueprint to achieve a better and more sustainable future for all. The SDGs may also serve as a guideline for all public and private stakeholders to work together for the betterment of humanity. The goals cover a broad spectrum other than poverty alleviation, also dealing with inclusivity in relationship at work and in community, equal accessibility of medical care, and achieving a sustainable food supply with a responsible attitude towards land, air and sea.

Many large corporates such as Danone, Unilever, and Patagonia, already have a mindset to create social and environmental impact.

And such thinking is not restricted to big companies. "Doing well in your business and doing good for society" is a mindset that truly connects with the younger generation. I have witnessed first-hand Hong Kong millennial-inspired startups taking up social and environmental initiatives in their business strategy, and would like to share a few stories with you.



Photo courtesy of GreenPrice



Photo courtesy of GreenPrice

GreenPrice

Terence Hon, Allison Chan, Ben So and Cherissa Hung started GreenPrice Supermarket whilst they were still at college. Inspired by Approved Food, a successful online grocery in the UK, they launched GreenPrice with the idea of selling postdated "best before" products.

There is often a misunderstanding about "best before" dates which are in fact merely "advisory" in nature. "best before" is the last day that a manufacturer vouches for their product's quality. But goods past that date are still edible and may be legally sold. GreenPrice exploits this opportunity, and aims to reduce food wastage as well as provide people with affordable food. The company mission is therefore at once environmental and social.

But GreenPrice also has a for-profit commercial concern that requires business administration skills to source and sell products, manage costs, and achieve financial sustainability. Terence and his friends combined their skill sets and knowledge acquired from school to negotiate pricing with merchandisers and service providers, to plan and allocate logistics and staffing efficiently, and to manage costs down in order to ensure that the business grows profitably. In fact,

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companies such as GreenPrice have a "double bottom-line" goal – a social impact creation bottom-line and a financial bottom-line.

Light Be

Light Be is a social business that provides co-living environments for Hong Kong's single-parent families, many of whom live in subdivided houses known as "cage homes". Light Be acts as a real estate service provider between landlord and tenant, soliciting apartments from landlords and renting them to single-parent families at concession rates. The company charges landlords a fee for renting, administering and managing the apartments. Hence, landlords become impact investors.

Light Be matches suitable families to live as co-tenants in apartments, sharing kitchen and living room, but each family having their own bedroom. A clean, well-lit and, above all, safe home adds up to a big improvement over a “caged home” environment which does not offer adequate protection for single mothers or their children. The shared area offers the opportunity to build community activities.

The idea is that tenants will bond, hopefully carrying forward precious relationships into later life. Light Be also offers tenants skill upgrades and vocational training, with the idea of finding higher paid, stable jobs. Landlords also feel uplifted in spirit as they witness how providing a safer environment for single-parent families can transform lives. Though they may earn a lower than market rental, they feel a sense of achievement in contributing to the social good. It is a win-win situation.

U-Fire

U-Fire is an education service provider, offering after-class tuition services at band 2 and 3 high schools with college students serving as tutors. Initially, I thought this was no different to Hong Kong’s ubiquitous tuition service business, aimed at academically motivated students with the ambition to ace the final standardised examinations. However, the situation is very different in these schools, where many students have low motivation, perhaps feeling they have been rejected from the high-pressured education system. Their hopes after high school graduation are usually diminished with limited options available to them.

By contrast, the students I met from U-Fire tuition were positive in attitude and full of hope. U-Fire tuition offers more than educational improvement. College-age tutors are only a few years older than their students and as mentors build bonds, and can talk frankly about life-challenging questions. I believe the greatest trait is the hope and encouragement these high school students receive. They become more confident in themselves, and are willing to set goals to challenge themselves in life. The tutors are also in good



Photo courtesy of U-Fire

spirits, seeing fellow students’ improvement in their grades and attitude towards life.

Impact creation

The challenge for the impact investing industry is measuring impact creation. It is a topic both academics and practitioners have struggled with for some years. Most social organisations are able to produce *output* statistics, but reporting *outcome* is more problematic.

Output typically deals with the number of people who benefit from a service, and is typically quantitative in nature. GreenPrice reports its sales, Light Be the number of single-families it serves, and U-Fire the number of high school students it teaches. However, measuring *outcome* typically takes time and the factors to measure are more qualitative in nature, sometimes verging on the intangible. In the case of GreenPrice the immediate outcome is affordable food but in the longer term, how cheaper food price improves quality of life is more difficult to measure. Light Be’s immediate outcome is to provide safe shelter, but in the longer term, improvement in quality of life among the families in a protected environment is hard to quantify. U-Fire’s immediate outcome is academic improvement, while the long term will look for a continuous academic improvement, positive attitude, hope and self-confidence. As you can see, many of the factors are hardly quantifiable.

Still, in order for the impact investing sector to grow, it is important to provide measurable impact creation,

and show how it can be achieved through revenue-generating social organisations. The public needs to be aware that social organisations are not just charities. To-date, impact investing projects or companies account for only 2% of investment worldwide, so fit-for-purpose impact creation measurement reports are crucial to convince more institutional investors to open their wallets.

Roll up your sleeves

I personally feel the concept of impact investing should be broadened to include not only monetary investment but also commitment of resources to social businesses. What do I mean by that? Not many of us are in the league to fund a social business that we are passionate about. But we can offer our time to serve, to teach business, or to work with management teams and stakeholders. This is also the most direct way to learn about the social issues at hand. And it offers great insights into the organisation you are serving.

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Nancy Yang of Asian Charity Services, a philanthropy consultant, once commented that there is no shortage of people offering money to fund good causes, and offering wisdom to advise and strategise execution, but we are always in need of people who can roll up their sleeves to come down and help serve. Even Jesus experienced this problem two thousand years ago when he said that “the harvest is plentiful, but the workers are few”. So, whether you are offering money, advice or volunteering, you are participating in impact investing.

Getting started

I would strongly encourage all who are keen to learn more about impact investing to get involved. You can

start by visiting the website of some of the incubator and accelerator such as Social Venture Hong Kong and Sow Asia. You can also visit the Social Innovation and Entrepreneurship Development Fund (SIE Fund) website to learn more about Hong Kong government support. If there is a social cause that you feel called to, find out if the need is already served. The SIE Fund maintains a comprehensive database of social enterprises in Hong Kong.

For brave souls

For those brave souls who want to take up the challenge to start a social business, I would suggest doing due business diligence and gaining a firm understanding of where your limitations and challenges lie. You should identify the social gap, think about how to engage your social target stakeholders and how your business will benefit them. Ultimately, running a business so that it is financially sustainable is the key to long-term survival of your company. Only a financially sustainable social company is able to carry out its mission and care for its stakeholders in the long run.



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Read more

World Bank	https://www.worldbank.org/en/topic/poverty
United Nations SDGs	https://sustainabledevelopment.un.org
SVHK	http://sv-hk.org
Sow Asia	http://www.sowasia.org
SIE Fund	https://www.sie.gov.hk/en
GreenPrice	https://www.greenprice.hk
Light Be	https://www.lightbe.hk
U-Fire	https://ufire.org

CityU resources

<https://www6.cityu.edu.hk/sds/sca/wcsw/oncamp.html>
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