Elite networks and the rise of social impact reporting in the UK social sector

1. Introduction.

This paper analyses the structural factors that led to the emergence of the dominant aspirational norm of social impact reporting in the UK social sector.[1] Although the results of this analysis are consistent with the existing literature on professionalisation and governmentality, they offer further insights into the specific social structures that have underpinned this shift in norms of best practice (Granovetter, 1974; Padgett and Ansell, 1993; Watts and Strogatz, 1998, Strang and Soule, 1998; Padgett and Powell, 2013). Such social structures have not been identified as important in the accounting literature to date. This paper uses these structures to explain *how*, rather than *why*, it was possible for this new style of performance reporting to take hold in the social sector. It finds that a community of closely linked social investment professionals was an important driver of this change in perceived best practice (see DiMaggio and Powell, 1983; Abbott, 1988; Hwang and Powell, 2009; Suddaby and Viale, 2011). Furthermore, it finds that the norm spread to the broader community of social purpose organisations via investment relationships.

Over the last decade, the use of business language has emerged in UK social purpose organisations, and with it, the use of social impact reporting (Nicholls, 2009; New Philanthropy Capital, 2012). The emergence of this new

[1] Social impact reporting has become best practice in the social sector internationally, particularly in Australia, US and Canada. See for example, http://www.socialimpactinvestment.org/ and Oelberger et al. (2012).

practice is noteworthy, because previously, reporting by charities and social enterprises (social purpose organisations)[2] was relatively limited. Historically, most social purpose organisations have pushed back against commercial styles of performance reporting, advocating instead the effectiveness of belief systems and other sector-specific characteristics (Chenhall et al., 2010) while relying on their moral legitimacy (Nicholls, 2009). Now, many social purpose organisations use the language of investment, reporting their performance in quantitative terms using measures of social impact, social return on investment or even in cost savings they offer to the public sector.

Much of the practitioner literature (Ogain, 2015; Moreau and Hornsby, 2015; SIB, 2014) explains the rise of this performance measurement style in terms of the functional benefits it confers for contracting. However, from a sociological perspective, such norms might be described as reflective of some underlying "institutional logic" (Young, 1994) or "calculative idealism" (Power, 2010). Moreover, viewed as a tool for programmatic change, or as "mediating instruments", they appear to reflect the influence on practice of a neoliberal programme (Miller and O'Leary, 1987; Rose and Miller, 1992). Some scholars have identified professionalisation within the social sector as a driver of change in the attitude to the use of business language by social purpose organisations (for example, Hwang and Powell, 2009).

This study focuses on the underlying structures that made this shift to social impact reporting possible. The findings are consistent with theories of professionalism as drivers of change in the performance reporting of the social sector over the last decade. However, in contrast to observed cases of professionalisation in the charity sector which have been the subject of much academic attention, I find that the shift in best practice does not stem from professionalisation *within* the social purpose organisations themselves, but rather that it is the influence of professionals who populate a new niche community of 'social investors' and 'social investment intermediaries' that has led to the view of social impact reporting as a general norm of best practice. This group of investment professionals use the language of investment and

[2] In this paper, the terms social purpose organisation refers to social enterprises and charities.

advocate the use of economic-style social impact reporting, in part because of their prior professional and educational experience, which I analyse in Section 5. Although this group is motivated to increase the use of social impact measurement and reporting, it is not their intention that this study seeks to explain. Rather it addresses the structural characteristics of the community that enabled the emergence of the norm of social impact reporting.

The findings are also consistent with the view that the government played an important role in the introduction of social impact reporting, but rather than focusing on the *intentions* of government, it identifies the underlying structures that enabled government influence to percolate through the social investment community and ultimately to affect norms within the mainstream social sector. Furthermore, drawing on the work of Padgett and Powell (2013) and Owen-Smith and Powell (2004), I identify a new category of social connection in the UK third sector. These are 'leaky' investment ties which allow spillover of knowledge by leaking news of investment activity to charities and social enteprises. These funding ties 'leak' information to other actors in the field, thereby serving the purpose of disseminating further the message of 'investment logic', and with it the notion of 'impact measurement' as best practice.

The rest of the paper is structured as follows. Section 2 contextualises the rise of social impact reporting by charting the development of the market for social investment. Section 3 considers existing research into the evolution of new practices as a result of the professionalisation and structural characteristics of the social investment community. Section 4 then describes the research methods used in investigating this shift in reporting. Section 5 presents findings about the shift in discourse and analyses the factors which enabled this change, specifically structural properties of the social network of investors and advisors. Finally, in Section 6, I provide concluding remarks and suggest possible avenues for future research.

2. The shifting discourse of social impact reporting.

The increased discourse of social impact is observable within the social sector and the measurement of social impact is increasingly viewed as best practice. Survey data of UK charities with incomes over £10,000 formed the basis of a report published in October 2012, *Making an Impact*, which found that 75 per cent of all charities responded that they had increased the amount of investment in measuring results over the last five years. According to the same source, 52 per cent of charities surveyed stated that they had increased their measurement efforts in order to meet funders' requirements (New Philanthropy Capital, 2012, pg. 2). Many social sector organisations hoping to raise funding, especially from sophisticated sources such as 'impact philanthropists' or 'social investment funds', feel obliged to provide calculations of social returns on interventions. For those organisations involved in contractual relationships with the public sector, the provision of impact measurements is often required.

The focus on social impact measurement is part of an overall shift towards the use of more business-like language by social purpose organisations. Measuring impact is a growing area for funders: 73 per cent say their focus on impact measurement has increased over the past five years and 72 per cent say they expect to be doing more in the next three years (Kail et al., 2013). Informal publications such as weblogs also reveal the emergence of a new discourse on impact and investment readiness. The linguistic shift associated with the rise of social impact measurement has been noted by scholars. Nicholls (2009) argues that the term 'social entrepreneurship' has "emerged as an important set of actions and discourses for social activists, policy makers, academics and the media" (pg. 755).

Further evidence of the growing interest in social investment is provided by the fact that Pope Francis has lent his support, stating:

> "It is urgent that governments throughout the world commit themselves to developing an international framework capable of promoting a market of high impact investments..."[3]

[3] This was quoted in the G8 Social Impact Task Force.

The Pontiff's words reflect a shift in the discourse of social purpose organisations. Many such organisations, which describe themselves as having social purpose at their core, now embrace the language of investing.

Impact measurement can take a variety of forms, but focuses on the long term social benefit resulting from particular social interventions. One such form of social impact reporting is Social Return on Investment ('SROI'). SROI aims to quantify social outcomes through a calculation which mimics elements of decision-theoretic models designed for for-profit organisations. This metric was initially developed in the US (see Roberts, 2001) but was introduced swiftly in the UK by groups such as New Economics Foundation and later promoted by New Philanthropy Capital and Social Finance. Examples of an SROI calculation and a social impact report are set out in Appendix A. Alternative performance metrics employ statistical analyses of long term social benefits which may require testing of populations using cohort studies.

The UK government has demonstrated a keen interest in the development of a market for social investment, introducing a number of initiatives which are set out in Appendix B. The Minister for Civil Society, Nick Hurd, stated that the governmnent's aim is to engage in "movement-building activities to raise awareness of the field."(HM Government, 2014) Such government action is consistent with theories of 'governmentality', which state that entities are rendered "governable" by use of particular strategies, programmes and techniques. Activities that appear to the community to have evolved because of their functional benefits may in fact be the product of government, or other, influence aimed at controlling the activities of these organisations. The use of political programmes such as the promotion of the market for social investment may serve to operationalise neo-liberal modes of thought. Similarly, techniques such as social impact reporting translate political strategies into practical realities, through their construction of the governable social purpose organisation (Rose and Miller, 1992). If the influence of government and of private interests is at work, what is the mechanism by which the promotion of new techniques of performance reporting can be achieved? This paper attempts to answer this question by investigating the structural characteristics of the market for social investment that have enabled the swift adoption of social impact reporting as 'best practice'. It should be noted that by 'best practice', I refer to practitioner-based norms, and this analysis makes no normative evaluation of the benefits or otherwise of such a norm.

The history of social investment in the UK can be traced through several key episodes that can be divided broadly into developments that have taken place in the public and private sector respectively. In the public sector, the era of New Public Management of the 1980s (Hood, 2012; Propper et al., 2010; Kurunmäki, 2006; Barzelay, 2001; Gray and Jenkins, 1993; Humphrey et al., 1993) gave way to a neo-liberal policy imperative by the mid-to-late 1990s. Concern about public spending levels had led to the questioning of the appropriateness of the public sector to carry out all social interventions resulting in attempts to render the public sector more efficient, not only in terms of cost efficiencies, but also in terms of allocative efficiency. An increasing focus on the role of charities and voluntary organisations as a potential supplier of such interventions formed part of a political debate about the role of the "Big Society" (Norman, 2010). In particular, interventions by community organisations were seen as potential substitutes for public sector activity in an attempt to revisit the nineteenth century system of the 'friendly societies'. Furthermore, we have seen the emergence of new vehicles such as social impact bonds, and the attempt to create a market for social finance via the social-financial institution, Big Society Capital (BSC), whose remit is to achieve growth in the social investment sector.

As part of this overall trend towards social impact reporting, 'investment-readiness' is now advocated by many social investment finance intermediaries (SIFIs) and think tanks as an aspirational term for social enterprises seeking financing. As part of achieving 'investment-readiness', social purpose organisations would be expected to be capable of providing social impact measurement and reporting. Many social investment intermediaries argue that social enterprises that do not adapt to the new environment of social investment, by becoming investment-ready, will fail to attract funding, whereas those which embrace the new regime will prosper.

Demands for social impact reporting by social investors have been further influenced by the recent development of the social impact bond (or "SIB"). A

SIB is a contract between private, but often socially motivated, investors and a public sector commissioner in which the latter commits to pay returns to the former for particular social outcomes.[4] SIBs are a way of structuring social interventions on a pay-by-results basis. They are generally commissioned by government departments with the intention of outsourcing risk to the private sector. The first SIB launched in 2010 was commissioned by the Ministry of Justice and The Big Lottery Fund and aimed to reduce recidivism in a Peterborough prison for a particular cohort of young, short-term prisoners. Administrated by Social Finance, it raised £5 million from 17 investor groups. It aimed to fund social interventions to reduce the rate of recidivism among a population of 3,000 short-sentence, male prisoners coming up for release from Peterborough Prison. It has been estimated that 60 per cent of this population of recently released prisoners will re-offend within one year of their release (Social Finance, 2011). Reliable measures of social impact are necessary for a contract of this sort in order that all parties can agree on distributions of funds. In the case of the first SIB, which focused on recidivism, the key metric was re-offending rates which were easily obtainable from the Police national computer records (Social Finance, 2011).[5] Although pioneered in the UK, social impact bonds are also emerging in Australia and the US. In the US, Goldman Sachs have invested $9.6 million in a social impact bond intended to reduce recidivism (see New York Times, August 2nd, 2012). Further bonds have been issued and eleven UK social impact bonds had been launched by mid-2014. .

In summary, social impact reporting has come to dominate best practice in the social sector over the last ten years. This new performance reporting style forms part of an overall discourse of investment logic that has emerged in social purpose organisations, most of which previously had little interest or knowledge of concepts such as social return on investment or other social impact statistics. A driving force behind the perceived need for this form of

[4] Although described as a 'bond', the characteristics of an SIB are in fact not bond-like at all as the investors' capital is at risk.

[5] In fact, the Peterborough SIB was terminated early for a number of reasons.

performance reporting has been the significant structural and institutional change that has taken place in the social sector since the 1990s. Many practitioners, particularly those involved in social investment, argue that the use of social impact reporting argue that it offers economic benefits and is useful for contracting for certain investment structures (such as SIBs). By contrast, others have advanced arguments concerning the role of ideological influences in the evolution of economic measurement approaches, while highlighting institutional structures that have been associated with the shift in perceptions of best practice (Nicholls, 2009, 2010).

However, little attention has been paid to examining the mechanisms of norm emergence that underpin the potential for the success of programmes by government, social investors or other interest groups intent on increasing social investment. This paper examines the *structural* characteristics of the social sector, in particular that of the social investment community, as a means of explaining the the emergence of social impact reporting. This paper asks how social impact reporting has come to be viewed as best practice by the social investment community? A secondary question, is how social impact reporting emerged in the social purpose sector that had traditionally been resistant to economic styles of reporting? I argue that the answers to these questions hinge on the structural features of the community of social investment professionals and their ties to the social sector more broadly. In the following section, I consider existing research that may offer an approach to answering these questions.

3. Ways of explaining shifting discourse.

In order to investigate the mechanism by which the norm of social impact reporting emerged within the community of social investment professionals and how this norm was transmitted to social purpose organisations, I draw on two areas of research. The first is the literature on the influence of professionals on practice and the second is the analysis of social structures which make possible the the diffusion of knowledge within and across communities.

3.1. Agents of change: social investment professionals.

Funders and government agencies have advanced functional arguments to explain the increased use of social impact reporting. They claim that the use of such measures increases the accountability of third sector organisations as well as providing them with useful information for internal decision-making. In particular, supporters of such performance measures argue that they provide information to management for the purposes of resource allocation and strategy development while enhancing the accountability of civil society organisations.

Social investment funds generally require investees to report in terms which are comparable with those used in investment firms. Intermediaries have argued that the adoption of social impact reporting is important for potential investees as it enables them to "speak the same language that funders understand" (The Big Society Finance Fund, 2011). It is the case that, associated with the adoption of a more "business-based" approach, a subtle shift in the language used by third sector organisations can be observed. Whereas previously, these organisations tended to recount stories about individuals on whom they made interventions as a means of demonstrating a theory of change, now they tend to report using increasingly use investment-style terms such as "impact", "scalable", and "social return on investment". Accounting scholars have identified growing managerialism as a driver of new discourses in the public sector. In particular, studies in public sector management have identified the rise of the business manager and the managerial turn in public sector discourse as corporatist trends (O'Reilly and Reed, 2011; Kreutzer and Jâger, 2011; Diefenbach, 2009). The 'new public management' style of the 1980s and 1990s has been associated with the application of a business approach to the organisation of public sector activities with particular practices operating as mediating instruments (Kurunmäki and Miller, 2011). As such, the rise of the perception of social impact reporting as best practice might be seen as a mediating instrument that could be seen as part of an overall agenda and reform programme . Thus, the increased use of language concerning social impact could be seen as an application of the of core elements of new public management to the social sector.

The UK government, specifically the Cabinet Office, has supported the shifting structure of the social sector. Scholars have identified policy decisions by government as a factor driving changes in performance measurement and the use of particular accounting techniques within the public sector (Humphrey et al., 1993). More recently, top-down influence from government in supporting social enterprise reporting has been noted as a factor influencing the adoption of particular forms of performance measurement and reporting (Hazenberg et al., 2014; Nicholls, 2009). The top-down apparatus of social investment included government-led initiatives such as the 'Investment and Contract Readiness Fund' created by the Cabinet Office whose remit was to help social ventures "to access new forms of investment and compete for public service contracts".[6] In addition, the government also created a new financial institution, Big Society Capital, charged with growing the market for social finance by providing regulation and enhanced liquidity. Furthermore, new intermediaries, in particular, social investment funds, are structured along the lines of traditional private equity or venture capital funds. In fact, calls for a venture capital approach to the funding of social interventions have been forthcoming in management journals such as the Harvard Business Review (Letts et al., 1997) for some time. These funds are led by managers (or in some cases trustees), who have significant experience in private equity or investment banking. The rise of the social purpose organisations who combined doing good works with an economic motivation was one factor that can be linked to the increasing perception that social impact reporting was necessary.

Other scholars within organisational studies have focused less on managerialism and government influence than on professionalisation as drivers of change (DiMaggio and Powell, 1983), identifying coercion and mimicry as playing a role in driving homgeneity in a community, whether in professional jurisdictions (Abbott, 1988) or institutional structure (Scott, 2008). Strang and Soule (1998) label "the spread of something within a social system" which occurs "via communication and influence" as "diffusion". They

[6] http://www.beinvestmentready.org.uk

argue that diffusion comprises “contagion, mimicry, social learning, organized dissemination” among other activities (pg. 266). Suddaby and Viale (2011) argue that professionals provide an endogenous mechanism for institutional transformations using a number of different dynamics. These include the use of inherent social capital to “populate” the new field with new actors and new identities. Such mechanisms may be relevant when investigating the increasing use of ‘investment’ style language in the social sector.

Thus far, the literature on the professionalisation of commercial organisations and fields has been discussed. What of the social sector in particular? With specific reference to the field of social enterprise, Hwang and Powell (2009) investigate the dynamics of professionalisation, finding evidence of increased professionalism in charitable organisations in the US. They note that,

> “[k]ey stakeholders, notably government and philanthropic funders and associations, have led the charge for a greater efficiency and accountability in the nonprofit sector” (pg. 271). They highlight “sweeping moves toward importing business models and practices, which may transform charitable groups into more instrumental, purposive organizations” (Hwang and Powell, 2009, pg. 271).

Furthermore, they argue that managers within charitable organisations view these reporting practices as “essential to growth and survival” and identify a key role for the “external proselytizers who urge the diffusion of these business tools” (pg. 271). The experience of the emergence of an investment logic in the UK third sector supports the dominant influence of a particular group of professionals. Ebrahim and Rangan (2010) also identify an influx of professionals from banking and strategy consulting in US social enterprises. Emerging best practice in social enterprises, with its focus on investment-style reporting, appears to be consistent with the account of Ebrahim and Rangan (2010) in that the norms of best practice were developed by social investment professionals, but these professionals operate outside the social enterprise community and are connected primarily via their investment activities.

Others have focused their work on linguistic shifts. In this regard, Oelberger et al. (2012) analyse the websites of 419 entities (ranging from social enterprises to weblogs) to identify to what extent investment language used by finance professionals has colonised the "associational" language traditionally used by civil society organisations within the non-profit sector in the San Francisco Bay area of the US. This network structure observed in the San Francisco Bay case suggests that social structure might play a role in the dissemination of new notions of best practice to the community of social investment actors. Morley (2016) also analyses the language use on websites of UK social purpose organisations, finding a positive correlation between the use of 'impact language' and the receipt of social investment financing.

Such research leads me to ask how professionalism can influence practice within the social sector? With this is mind, I now turn my attention to the structure of the social investment market.

3.2. The role of social structure.

How might social structure affect the emergence of a norm of performance reporting in the social sector? If, as Hwang and Powell (2009) argue, the recent professionalisation in the social sector arose predominantly *outside* the community of social purpose organisations, then an investigation of the structural characteristics of these external professional communities and their relationship to the community of SPOs may help explain the emergence of social impact reporting. Why, for instance, was the community of SIFIs receptive to the idea of social impact reporting (in contrast to social purpose organisations that have traditionally not been receptive)? And how was this norm of best practice able to take hold within that SIFI community before being efficiently disseminated to social purpose organisations?

Classic work in sociology has highlighted the role of imitation within communities of organisations Fligstein (2000); DiMaggio and Powell (1983). Within the field of evolutionary game theory, scholars have argued that social structure is crucially important in explaining the emergence and persistence of particular social norms (Alexander and Skyrms, 1999; Vanderschraaf and Alexander, 2005; Alexander, 2007). Furthermore, empirical work in sociology has highlighted the role of social structure in explaining shifts in norms or power by addressing the process by which ideas flow either within a community or from one community to another (Coleman et al., 1966; Padgett and Ansell, 1993; Rogers, 1995; Strang and Soule, 1998). In their seminal work, Padgett and Ansell (1993) point to network centrality as a key factor in explaining the power of the Medici family in the fifteenth century. However, network analysis cannot be taken as a full representation of a social system, because of what is not shown. As Padgett and Ansell (1993) argue:

> "one needs to penetrate beneath the veneer of formal institutions and apparently clear goals, down to the relational substratum of people's actual lives. Studying 'social embeddedness,' we claim, means not the denial of agency or even groups, but rather an appreciation for the localized, ambiguous and contradictory character of these lives." (pg. 1310).

Perhaps, in order to explain the emergent reporting norms in the social sector, we need to expose the structure of social, employment and educational relations within the social sector and in particular, the position of social investment intermediaries. Certainly, we might expect to find that a closely connected group of former investment professionals have fixed on a norm of best practice for social enterprises, largely drawn from their own experience in investment and private equity activity.

Having established how a norm was able to emerge, the next step is to explain how ideas can be transmitted from one community to another through some brokerage function (Burt, 2004). In this regard, organisational theorists and sociologists have found that structural features of groups or societies affect the process by which information, ideas or norms are adopted and disseminated (Granovetter, 1973, 1974; Watts and Strogatz, 1998). Diffusion can occur through a number of different mechanisms. These include the category of rational decisions by individuals, known as social learning. The other category does not rely on a notion of rationality and includes social influence, contagion, mimicry, and organised dissemination (Young, 2009; Strang and Soule, 1998).

An important factor identified as driving the emergence and extent of the dissemination of an idea, norm, technology or knowledge is community structure. Within the community, individuals may be connected to each other via a variety of affiliations such as board interlocks, past affiliations with employers or with educational institutions. Strang and Soule (1998) argue that board interlocks can be seen as being analogous to weak ties, for example learning to adopt practices such as poison pill defences against hostile takeovers. According to them:

> "Diffusion refers to the spread of something within a social system. The key term here is 'spread', and it should be taken viscerally (as far as one's constructionism permits) to denote flow or movement from a source to an adopter, paradigmatically via communication and influence." (Strang and Soule, 1998, pg. 266)

Thus conversations during meetings, and requirements of investment decisions can be seen as flows of information that diffuse the language of social impact reporting. Similarly, Westphal et al. (2006) have argued that board interlocks may be seen as equivalent to social ties.

What other factors affect the ability of new ideas to emerge in an area? According to Padgett and Powell (2013), organisational novelty "often emerges through spillover across multiple, intertwined social networks" (pg. 3). The past experience of individuals is important for understanding what they consider to be an appropriate method of performance reporting for social investment activities. Norms might thus be transported from communities of professional investment to the social sector. Knowledge learnt in one context may be imported into a new context, in this case, by individuals with experience as professional investors who have moved to social investment, bringing with them ideas about what could constitute best practice in performance reporting.

A shared prior educational experience is associated with an increased likelihood that two individuals will develop a social tie (Marsden, 1988). Furthermore, organisational homiphily may result from the fact that staff responsible for hiring decisions in organisations tend to recruit and promote individuals who have with similar educational and professional experience (Barton, 1985; Useem and Karabel, 1986; Yakubovich, 2006). Not only do these affiliations develop as a result of beneficial opportunites for information-sharing (Audia and Rider, 2005), but also because these individuals are likely to form social bonds (Burt, 2001) and demonstrate shared beliefs as a result of attending the same institution (Mael and Ashforth, 1992; Massa and Simonov, 2011). Furthermore, firms will tend to use techniques and practices learn by employees through their prior professional experience (Gompers and Lerner, 2001).

One way to model flows of ideas and the dissemination of practices within a community is to employ social network analysis. However, data about direct social interactions between individuals is generally hard to obtain. It is often easier to model social interactions using a social affiliation network, in which individuals are connected to each other *indirectly.* Members of one set (which we may think of as individuals), represented as nodes, are related to each other only indirectly through their association with particular foci in another set that represents workplaces or other types of social nexus (Feld, 1981; Knoke and Yang, 2008). In this kind of network graph, an edge represents the participation of a particular individual in a specific event or focus, such as sitting on a board or attending a particular educational institution. Such experiences need not be current, but could have occurred at any point in the lifetime of the individual. Although two individuals may not be 'friends' or communicate with each other frequently, sociologists have argued that an indirect relationship exists between them as a result of their common experience of an event, workplace or educational institution (Wasserman and Faust, 1994).

In this way, affiliation networks can be used to capture structured relations which arise as a result of individuals' overlapping participation in particular activities and may reveal potential avenues for a flow of information (Easley and Kleinberg, 2010). Affiliation networks have been employed as a means of representing the relations between individuals who sit on boards of multiple companies (Mizruchi, 1996). Network analyses of such board interlocks have also been the subject of study in the accounting literature (Horton et al., 2012). In particular, Horton et al. (2012) focus on the social capital associated with specific positioning in the social network using closeness centrality and brokerage position as proxies for such social capital. Another study has attempted to analyse the members of a powerful elite in the Netherlands (Dekker and van Raaij, 2006) Effectively, the implicit relationships between individuals who participate in certain foci can be treated as weak connections.

Other mechanisms such as 'herd behaviour' or 'cascade effects' have been invoked to explain the emergence of a number of different social phenomena, often using formal models (Banerjee, 1992; Bikchandani et al., 1992), while other scholars have focused on the effect of heterogeneity within communities on patterns of diffusion (Young, 2009). Leroux et al. (2011) address the diffusion of enterprise resource planning systems using cascade effects, highlighting, in particular, the role of mimetic behaviour. Many studies have addressed other non-accounting phenomena subject to her behaviour or cascade effects, such as the emergence of norms of intellectual property protection for stand up comedians (Oliar and Sprigman, 2008) academic or "fads" in academic research (Sunstein, 2001). Schelling (1969) introduced the notion of 'tipping points', such that individual preferences for being surrounded by others sharing one of the two same characteristics (he uses the example of race) can lead to geographical segregation according to this characteristics. This yields "collective results that bear no close relation to individual intent" (pg. 488). While Schelling (1969) is concerned with racial distribution, the characteristics can interpreted differently for the purposes of this analysis. The characteristic of interest here is the preference for social impact reporting or the preference for some different type of performance reporting. Those who not use social impact reporting might use a host of alternatives, including no reporting at all, or narrative accounts. The variables in the Schelling model are open to different interpretations and may represent a target system in which individuals do not interact with geographically proximate neighbours, but instead connect with others through their affiliations to particular organisations. By interpreting the variables in this way, the model can be applied to a case of emergence and diffusion of a social norm.

Threshold models of influence show why particular individuals may rationally adopt particular norms of language or behaviour, effectively as a result of peer pressure or because it is the most effective way to communicate. In this sense, we can think of best practice in performance reporting, and the associated linguistic tropes, as social norms. Social norms arise when an individuals comply with their beliefs about how their epistemic community expects them to behave (in this case, how they should report performance). A preponderance of former investment professionals around a board table, for example, may be associated with the increased use of the language of investment, as individuals feel comfortable using such language when surrounded by a sufficient number of individuals who conform to the norms of investment and understand the associated terminology. To some extent, this is related to the notion of a threshold in terms of the proportion of individuals having particular characteristics that participate in events or contribute to discourse in organisations within the social sector. Simulation studies suggest that a mass of easily influenced individuals are more likely to form public opinion than a few influential individuals (Watts and Dodds, 2007). One study, for example, analyses the conditions under which a standing ovation will occur (Muldoon et al., 2013).

Consider the following example: an individual uses the language of charities and is in daily contact with others who also use this language. But if a high enough proportion of the individual's contacts (neighbours in the Schelling case) are replaced with individuals who use the language of social impact reporting and who advocate this practice, the individual may feel uncomfortable sticking with the 'charity norm' and may begin to adopt the new reporting practices, in word at least, even if not in deed.

To summarise, in this paper I attempt to expose the *process* by which the norm of social impact reporting emerged in the social sector, using an analysis of social structure. The contribution of the paper is in providing a more granular account of the shift in best practice which complements the existing literature. The analysis in this paper does not focus on higher level units of analysis, such as the actions of specific political or professional groups. Instead, its contribution is to show *how* these norms emerged, at the level of the interrelationships of individual actors.

4. Research Methods.

This study attempts to demonstrate the key elements that throw light on the emergence of impact measurement. In order to identify the emergence of social impact reporting within the community of social enterprises, I draw on a number of different sources of evidence and use multiple analytical tools. I analysed practitioner documents produced by foundations, charities, venture philanthropists, social venture funds, think tanks, advisers, consulting firms, audit firms and government departments for the use of 'impact' related terms, and also for evidence of the source of best practice. Although it would have been possible to conduct an analysis of the observed shift in accounting practice using just one source of evidence, and just one analytical approach, this would not have provided a full and rich account of the whole process of change. As I was investigating particular elements contributing to the rise of social impact reporting, the answer to one question would raise further related questions which were not amenable to the analytical techniques used for previous stages of the study. As a result, I combine in this study extensive interview evidence with social network analysis. The use of both methods enhances the robustness of the findings and offers a rich account of the process of change under investigation.

First, in order to identify the drivers of change in reporting practice, thirty-five semi-structured interviews were carried out with individuals who were involved with social purpose activities between January 2012 and February 2015. Of these, 19 worked at social purpose organisations and 16 worked in senior positions, or advised, social investment funders, intermediaries, consultants or impact consultancies. The interviews lasted between 20 and 120 minutes, with interviewees being guaranteed anonymity. Most of the interviews were recorded and transcribed.[7] The list of interviewees is included as Appendix C. The first four interviewees were selected based on their affiliation with particular organisations that appeared on many lists of key organisations involved with social impact reporting (Big Society Capital,

[7]Interview with interviewees 21 – 27 were phone interviews that were transcribed in real time and were not recorded.

Impetus-PEF and New Philanthropy Capital). Interviewees for subsequent interviews that took place between September 2012 and July 2014 had been named in earlier interviews or were selected as representatives of organisations identified in earlier interviews. Interviews 21–35 were follow-up calls to social enterprises and charities selected as part of a sample of websites of charities that had received funding from social investors. Taken together, these interviews offer an insight into the perceptions and beliefs of actors in key organisations during the period. The interviews are supplemented by an extensive review of the practitioner literature, including weblogs. These interviews highlight the existence of an elite group of investment professionals.

Second, to analyse the emergence and persistence of the norm of social impact within elite group, I obtain data concerning the connections between individuals and organisations in the market for social investment. The analysis uses data from publicly available sources (such as websites and practitioner publications) as well as from private research interviews. The purpose of this analysis is to establish the source of the norm that social impact reporting is beneficial, within the community of social investment professionals. Affiliation data is analysed for 219 individuals participating in the field of social investment. Participation is normally through employment by one of 14 social investment organisations that included in the sample. Affiliations recorded included current and past employers, membership of trade associations and think tanks and educational associations. Using this data, I generated an affiliation network. This network (for which a visualisation is included in Section 5) helps to explain the emergence of social impact measurements as best practice within a close-knit community of investment professionals.

In order to visualise this set of social relations, I generate a graph representing the professional and educational connections between the individuals. The graph in fact demonstrates individuals' affiliations rather than direct social connections between individuals. The nodes on the graph represent either individuals affiliated with social investment organisations or the organisations with which they an affiliation, professionally or educationally. This results in a bipartite graph structure as illustrated in Figure 1 below.

[INSERT FIGURE 1 ABOUT HERE]

Nodes belong to one of two categories. The first (shown as U in Figure 1) contains professional or educational organisations with which individuals are associated. The second category (represented by V) contains individuals currently working at social investment organisations. These individuals are connected to professional or educational organisations (nodes within U) where the connections represent some kind of affiliation, such as employment by, or a course of study, at those organisations. Note that no connections exist between nodes within a category (so, in the figure, node 1 is not connected to 2,3,4 or 5 but it *is* connected to 6). This is not to say that the individuals are not connected to each other socially, but this affiliation graph represents only connections *via* organisations.

An edge in the graph represents the possibility of information transfer; an individual might have learnt about investment appraisal techniques at Harvard Business School, but the individual might also influence the experience others had when studying there. Similarly, an individual might be influenced by the experience of working at a particular investment organisation, but will similarly influence the environment at that organisation by their association with it. Since I assume that influence is mutual and that ideas can travel in either direction between two nodes, the graph is undirected.

The network model is subject to a number of empirical limitations, however. First, the sample of organisations analysed may be unrepresentative of the overall population of social enterprises. If the relationships portrayed are unrepresentative, complex interactions and additional causal factors have been omitted from the explanation. However, the risk of these biases is mitigated to some extent by the interviews undertaken which provide support for the arguments made. Future work could extend the analysis to include more organisations selected by different means to minimise the risk of sample selection bias. All nodes included in the network were selected because of their prominence in documents and interview texts, rather than through an exhaustive snow-balling exercise.[8] If the actors and organisations included in

[8]Snowballing is a selection method by which current study subjects propose future subjects.

the network are unrepresentative of the population, the representation will be skewed. This problem is mitigated, however, because all of the key social investment intermediaries are included (based on lists of funders provided on intermediary websites). These include, a report by NPC, (Rickey, 2011) and a list contained on the Big Society Capital website.[9] More importantly, I include in the network the intermediaries and funds named by interviewees. Further comfort about the sample being representative is provided by the fact that all the social impact intermediaries involved in existing UK social impact bonds in place at January 2013 are included in the sample.

A further, conceptual difficulty relates to the demarcation of the field of social investment (Teasdale, 2011). Issues of categorisation proved to be challenging. In fact ,Kendall and Knapp (1995) have described the non-profit sector as "a loose and baggy monster". A broad concern in addressing the question of change in best practice, was that of defining the scope of the field of research. The population I select extends to organisations which make social interventions (charities and social enterprises), firms which advise them (social venture advisory organisations, think tanks and consulting firms), organisations which provide the infrastructure and monitoring (social banks and government) and those which provide and direct funding (foundations primarily) and social investors). To mitigate the problem of subjectivity in categorisation, I categorised enterprises according to their own descriptions of their primary activities and functions in the social sector.

5. Findings and Analysis.

Interview evidence and information from publicly available sources support the claim that professionalism was an important factor affecting the emergence of social impact reporting as best practice in the social sector. However the professionals — those individuals experienced in investment, accounting or general business practice — were located within a small community within the social sector that focused on social investment activity. In order to identify the factors that influenced the emergence of the reporting norm, I analyse

[9] http://bigsocietycapital.com/open-funds.

the social structure of this community.

The first clue to what is different about the social investment community compared with traditional communities within the social sector, is that the typical social investment fund is structured using a venture capital format. This organisational structure is different from the structure of most charities and social enterprises. Another clue is that many SIFIs were founded by, and are now managed by, former investment professionals with limited, if any, prior experience in the charitable sector. Many senior executives and trustees of social investment organisations have worked for a clutch of high profile firms in finance, such JP Morgan, Goldman Sachs.[10]

Furthermore, many have MBAs or have participated in executive programmes at a handful of elite business schools, such as Harvard Business School. Elite universities are discussed further in Section **??**.

The importance of suggests that an analysis that takes into account the prior experience of individuals within the social investment community may provide a potentially fruitful way of explaining the emergence and persistence of a strong advocacy of social impact reporting.

5.1. Affiliations in the social investment community.

One way of explaining the emergence of a new idea is to investigate its provenance and the social structures which enabled its emergence in one community and then its dissemination from one community to another. Given that social impact reporting incorporates elements of the language of investment and commercial performance evaluation (for example, 'social return on investment'), it would not be surprising to find that this norm has been imported from commercial investment communities, consistent with the notion of 'spillover effects' (Padgett and Powell, 2013). What needs to be explained is the acceptance of this notion of best practice in performance reporting, which may have been dependent on the perceived legitimacy of the new approach. This in turn may have been driven by the past experience

[10] Other founders of social investment organisations had backgrounds in strategy consulting.

and professional affiliations of individuals in the social investment community and the existence of threshold effects.

The similarities in the educational and professional experience of individuals within the community of social investment professionals may go some way to explaining the common understanding that social impact measurement and the language of investment is appropriate for analysing social purpose activities. Preliminary interview evidence suggested that many of the members of the community of social investment professionals had previous work experience in investment or strategy consulting and many had attended business school. This common experience may have resulted from preferential attachment or homiphily as organisations sought out potential employees who shared characteristics with existing employees and managers (McPherson et al., 2005). At the same time, individuals with prior experience in investment banking may have been more likely to apply to social investment organisations such as Social Finance or Bridges Ventures.

The route through which these norms of impact reporting arrived in the social investment community can be explained in part by the fact that many individuals import their ideas from communities where they previously operated. A similar mechanism is described by Padgett and Powell (2013), who emphasise the importance of structure in translating practices and knowledge from one domain to another. They argue that it is not enough that a conduit for knowledge transfer exists between the source community and the recipient community, but that the structure of the recipient community must be conducive to the transfer of ideas. In this case, we see that the concentration of individuals with investment and finance experience is such that the norm would be likely to be adopted throughout the community. A few key organisations act as brokers of such norms and enable their diffusion (and re-diffusion) through the network, increasing the likelihood of consistency and persistence over time.

The network structure for this enlarged sample is consistent with the acceptance, rapid diffusion and persistence within the community of an investment- or finance-based reporting norm. In particular, the community structure includes a number of SIFIs, think tanks and consulting firms which have many, highly-connected employees. These dominant employer-foci include 'Bridges Ventures", "Social Finance", "New Philanthropy Capital", "Big Society Capital" and "Acumen Fund". We would expect that the norms that come to dominate in these organisations would percolate quickly through the community. As we have seen, the experience of many of the employees of these organisations is grounded in finance and investment, with the result that they would be likely to accept and advocate such investment-based practice norms.

Many of these new professionals populate the new community of social investment and are members of an elite group with links to commercial investment activities such as private equity. One such social investment professional at Impetus-PEF stated at the start of an interview,

> "I think by way of background you should know that when a bunch of us who were at Harvard [Business School]... started off – we thought we'll be applying private equity principles to charities. And one of those is metrics." (Interviewee-2)

This interviewee claimed that his firm aims to carry out the same due diligence for a social investment as for a private equity deal, with the result that potential recipients of funding would be required to demonstrate their social impact to potential funders. This impact-focused approach, according the same interviewee was "part of our DNA and purpose".

Furthermore, the actors within this network demonstrate a strong sense of the value of an 'investment logic'. According to Interviewee-16,

> "Quite a lot of what we do isn't really just about raising finance, it's about the whole process of bringing rigour to understanding social issues, the financial issue and the delivery of these things. It can be incredibly powerful." (Interviewee-16)

This reveals the extent to which professionals operating in the space attribute successful social enterprises with an ability to analyse impact and employ "rigour". A senior executive at BSC, who moved into this position on retiring from a management role at J.P.Morgan in 2010, argued that,

> "If you're in the business of social investment, you obviously need to be able to measure not just your financial return. Also, you need, at least, to have a view on how you measure your social impact." (Interviewee-1)

Improvements to social impact metrics and their use by social care providers is a significant concern for institutions like BSC which have an interest in the development of a vibrant social investment market. In order to get further information about the existence of an elite group of social investment professionals, I analyse affiliation data for individuals working at social investment organisations collected from websites, practitioner publications and websites.

Interview evidence suggests that perceived best practice by members of the social investment community concerning the evaluation of investments may be related to some sense of what is concerned legitimate and acceptable to the individuals operating in this community. This echoes the notions of a 'logic of appropriateness' utilised by Young (1994) to explain the behaviour of accounting standard setters in the US.

If the emergence of a norm of best practice reflects some kind of 'spillover effect', what is special about the recipient community that made possible the transfer of practice from investment to social investment, whereas historically social purpose organisations have been resistant to commercial styles of management and a discourse of investment? Is it possible that the high degree of homegeneity of experience within the social investment community and prior professional and educational experiences of its members might help to explain why the members of this community were willing to accept social impact measurement as an appropriate way of managing and communicating with social purpose organisations?

We might expect an idea about social investment to be more easily accepted by individuals whose belief systems incorporate investment analysis as a legitimate and socially accepted approach to communication of salient facts and to decision-making. By comparison, those who view social purpose activity as being outside the scope of investment or business styles of measurement, would be expected to respond less positively. To ascertain the extent to which the social structure of the community of social investors might have been conducive to the emergence of social impact reporting, I analysed publicly available information about the past educational and professional experience of 219 individuals currently affiliated with 14 social investment organisations.

The analysis reveals that the most common prior or current affiliation of individuals within the community of social investment is indeed investment, accounting or business related activities. While this may seem unsurprising, given that the title of the community contains the word 'investment', the level of concentration of 'investment professionals' may explain why the notion of measuring social impact was able to spillover from fields that use investment analysis into a community with an explicit social mission.

Figure 2 represents the affiliations of the sample of individuals participating in the 14 social investment organisations selected. The graph contains 249 nodes and 652 edges. Of the nodes, 14 are social investment organisations, 219 are individuals and 16 are professional affiliation categories (such as 'investment' and 'charity'). The social investment organisations and categories are listed in Appendix D.

[INSERT FIGURE 2 ABOUT HERE]

The individual nodes represent either individuals participating in the market for social investment or organisations (intermediaries, banks or educational establishments) that connect them. In this network diagram, the sizing of the nodes reflects number of connections each has to other nodes, known as 'outdegree'. The largest nodes, 'Investment', 'Elite education' and 'Charity', have the most connections to individuals participating in the community. Other influential nodes include social investment organisations such as 'Impetus-PEF' and 'Bridges Ventures'. This suggests that a high proportion of individuals have prior experience with these organisations.

One way of describing the social structure is by reference to the influence of specific individuals or organisations. In order to measure this influence, I employ 'betweenness centrality'. Betweenness centrality is a measure that, for a vertex, u, shows the number of times that u falls on the shortest path between any two vertices in the network. Betweenness centrality defined as follows:

$$c_B(u) = \sum_{x \neq y} \frac{|S(x,u,y)|}{|S(x,y)|}$$

Where $S(x, u, y)$ includes all shortest (x, y) which pass through u as well as the shortest paths linking x and y, known as $S(x, y)$. The importance of a node, as characterised by a centrality measure, may refer to a number of different attributes. What is probably more useful for this study is the is the flow of information within the community and to other communities. The centrality measure should reflect the maximal positioning of a node for disseminating ideas and leading particular nodes to adopt the norm of social impact reporting as best practice. As such, a measure such as *betweenness centrality* is more appropriate than one of Bonacich (1987) that measures power to influence others.

Figure 3 shows the affiliation graph with nodes resized to reflect betweenness centrality.

[INSERT FIGURE 3 ABOUT HERE]

In this graph, we see that influence, measured by betweenness centrality, is very similar to that measured by outdegree for this community. Figure 4 sets out the measures of outdegree and betweenness centrality for different categories of affiliation, showing that the ranking of influence is identical, whichever measure is employed. 'Investment' (with outdegree of 107) and 'Elite education' (with outdegree of 85) are by far the most common affiliations of participants in the market. 'Charity' (with outdegree of 65) is also influential, and other affiliations ('Social investment', 'Consulting' , 'Policy', 'Business', 'Accounting' and 'Public sector') are all less influential with outdegrees ranging from 37 to 13.

[INSERT FIGURE 4 ABOUT HERE]

What we want to know, is how influential one particular category of prior experience was on individuals within the community. One way of measuring that is by constructing an ego-network for the category of 'investment', as a means of seeing how many individuals have prior investment experience. Figure 5 shows the network of 107 nodes which are connected directly (within one step) of the category 'Investment'.

[INSERT FIGURE 5 ABOUT HERE]

This figure demonstrates the large reach of direct investment experience within the community. Yet, most individuals are likely to be influenced by the practice and attitudes of others with whom they interact as part of their participation in the community. By extending the ego-network of investment to nodes that are two degrees or less from this category, shown in Figure 6 below, we can see how many people either have direct investment experience or are connected directly to others who do.

[INSERT FIGURE 6 ABOUT HERE]

As a result of including this additional degree of separation, or indirect influence, the reach of 'investment' experience is extended to cover 130 nodes (52.2% of the total sample of the social investment community). This suggests that investment experience is influential, even if not directly as a result of an individual's prior professional experience. This result supports the argument that the community represented fertile ground into which the seeds of 'investment-style' performance measurement were sewn. This helps to explain how it was possible for the norm to emerge in this community rather than in the lower level social purpose organisations themselves. As such, it shows that the niche community of social investors was instrumental in the emergence of the norm.

5.2. Elite education.

The norm of impact reporting is likely to have been further enhanced by the elite nature of the network. A significant proportion of individuals in the population studied at elite academic institutions, at undergraduate or postgraduate level — or both. Hence another potentially important influence on the likelihood of norm emergence is education.

Social psychology theories of group effects show that such affiliations and common experiences can lead to strong group identification and the slavish following of group prototypes or norms (Sherif et al., 1961; Tajfel, 1978; Hogg et al., 1986). The educational history of individuals from the social investment network demonstrated the elite nature of the group. Of the individuals for whom an educational history was available on the website of their affiliate organisation, 37% of the population (including those for whom no educational information is made available online) had attended an elite educational institution. The category, "elite universities" refers to those universities included either in the top 10 as ranked for their production of billionaires (Bil, 2014) or for their overall academic ranking according to the The Times Higher Education World University Rankings. This category includes for example the universities of Harvard, Cambridge, California, Princeton, Oxford, Stanford, Mumbai and the London School of Economics. Any business schools attended by an individual in the sample is included in the list of business schools, which include for example Harvard Business School, London Business School and Stanford Business School. For the full list, see Appendix E.

The shared experience of attending elite academic institutions would not be expected to provide a mere technical education. It would also provide a common experience and lead to the strengthening of social networks for this group through alumni events. This would be expected to increase cohesion within the group and increase the ideological commitment of the community to particular norms such as that of viewing social impact reporting as best practice. Although a bias might result from selective disclosure of high educational attainment, there are many cases where no disclosure was made although the individual's title showed that he or she possessed a doctorate.

So far, the analysis has focused on the influence of particular individuals , with particular professional and educational experience, due to their network position. One potential problem with this evidence is that it does not fully take into account the importance of structure within the community. By looking at overall influence at the *community level*, it fails to examine the specific organisation-level influences on individuals and thus does not fully explain the importance of the structure of the community.

5.3. Threshold effects.

One way of explaining the emergence of the SIR norm that takes into account the lower-level structure of the social investment community is by employing 'threshold effect'. Individuals in the network may hear ideas about social impact from influential individuals, but the decision to describe it as best practice may depend on the proportion of their neighbours in the network who endorse the practice. Such threshold effects have been used to explain the emergence of norms (Schelling, 1969; Sunstein, 2001; Oliar and Sprigman, 2008; Young, 2009; Leroux et al., 2011). This enriches the arguments concerning the receptiveness of the community of social investors to investment-style performance reporting norms.

In order to establish the likely threshold effects within the community of social investors, I constructed an illustrative ego-network for an individual participating in the social investment community, who did not have any prior affiliation. The ego network, Figure 7, shows the one-step ego network for an individual, A, who works for Impetus-PEF. Nodes are sized according to outdegree. It can be seen that the only affiliation other than Impetus-PEF is with the category 'Charity'.

[INSERT FIGURE 7 ABOUT HERE]

However, if the ego network is extended to include not only direct connections of individual A, but also direct connections of A's direct connections (i.e. a two-step ego network for A) a different pattern of influence can be seen. Figure 8 shows the affiliations (categories, organisations and individuals) that are two connections from A.

[INSERT FIGURE 8 ABOUT HERE]

By extending the ego network to include nodes at 2 degrees of separation from Node A, 98 nodes (out of the total nodes in the network of 249) are included, such that 39% of the total sample are two steps removed from Node A. Many of the individuals to which Node A is connected via its one-step connections ('Charity' and 'Impetus-PEF') have investment experience. It is likely that many meetings attended by Node A would involve individuals who are experienced in investment and likely to apply the language of investment appraisal to the social sector and be advocates of social impact measurement and reporting.

To demonstrate the connectedness of the social investment community, the the ego network for Node A is extended to include nodes at three degrees of separation. This results in the entire sample of 459 nodes being included in Node A's 3-step network and is represented in Figure 9 below, in which nodes are sized according to their outdegree.

[INSERT FIGURE 9 ABOUT HERE]

Given the structure of the network, it is not surprising that even an individual who has had no investment experience, such as Node A, would be more likely to adopt the norm of social impact reporting, than someone without investment experience who was unconnected to investment professionals. This is particularly the case, given that the 'investment people' in the community are often affiliated with each other via prior employment, board interlocks and common experiences studying at elite universities, with the result that they are likely to feel a group affiliation and greater confidence in expressing their advocacy for the investment style of performance reporting.

Given this illustrative example, I analysed the existence of potential threshold effects within different organisations. I selected all individuals within the social investment community who had no prior affiliation with organisations falling within the categories of 'Investment' , 'Accounting', 'Business' and 'Social Investment' and who had no MBA qualification. By restricting the affiliations of this sub-sample, I can examine the current influences on these individuals through their participation in the organisation to which they have a primary, current affiliation. This primary affiliation is generally an employment relationship, but in some cases reflects participation as an advisor at the organisation. Figure 10 shows the numbers of individuals at each organisation who have prior affiliations to these investment-related categories that the non-investment individuals do not have.

[INSERT FIGURE 10 ABOUT HERE]

It can be seen that most of the organisations have a predominance of participating individuals who have investment-related experience, with only two (New Philanthropy Capital and Unltd) having 50 per cent or less of such individuals. Given that New Philanthropy Capital is publicly committed to promoting social impact reporting, the fact that only 50 per cent of the individuals (excluding the individual) have investment-related experience, is not as significant a barrier to the uptake of the new performance reporting norm.

5.4. Diffusion to the broader social sector.

The key focus of this paper has been to demonstrate the importance of structure within the new niche of social investment for the emergence of a norm of social impact reporting that influenced the social sector more broadly. We have seen that structural characteristics are important for the emergence of norms. However, they affect the process by which knowledge diffuses (Granovetter, 1973, 1974; Watts and Strogatz, 1998). The community structure of the social investment community has been shown to be conducive to the emergence of a new investment-style reporting norm as a result of spillover effects from investment and business communities with whom individuals have prior affiliations, or because of threshold effects within social investment organisations.

However, it is worth spending some time considering the diffusion of this norm to the broader social sector, including social enterprises and charities. Other work in sociology has examined the role of particular types of relationship for the diffusion of knowledge or the effectiveness of spillover (Owen-Smith and Powell, 2004). Developing this work within the context of the UK social sector, Morley (2016) uses interview evidence and statistical analysis of 128 websites of social purpose organisation to identify a statistically significant connection between investment by social investors and the use of the language of social impact reporting by recipients of such investment.

The level of active encouragement of impact measurement by investees varies between funders. Bridges Ventures states on its website that:

> "Our style is to be a very hands-on investor, working in partnership with the management teams we back to support their growth strategies. Many of us have run businesses ourselves and we use these operational skills, combined with our proven investment expertise, to engage with our investees to enhance value and maximise the positive impacts of their businesses, in ways that also improve their bottom line." (http://www.bridgesventures.com/our-approach/)

Thus an effective means of channelling business norms and impact language to social enterprises may be through such "hands on" management by investors. Similarly Impetus-PEF states on its website that,

> "Our approach at Impetus-PEF is to work with organisations in depth and typically over a number of years. We work closely and collaboratively with the leaders of each of our portfolio charities, supporting them to build high-impact organisations." (http://www.impetus-pef.org.uk/how-we-work/investing-in-charities/)

Again, this quotation suggests that one possible means of influence is through the active intervention by funders who advocate a business logic and impact focus. Both types of influence (eligibility for funding and operational influence of investors) imply a causal relationship between investors and investees.

This finding is consistent with the view that the group of social investors are not only able to spread best practice because of their elite nature and their connections, but also because of their investment activity. By acting as intermediary between foundations or 'high net worth' individuals, they assume a position of power in terms of the diffusion of knowledge about best practice.

Other sources of influence include advisory work by social investment advisory organisations with social purpose organisations, for example through the provision of senior advisors, training on social impact reporting or the production and publication of reports on best practice.

Included within the sample of organisations from the social investment community, New Philanthropy Capital stands out as actively attempting to spread the norm of social impact reporting. They published 44 reports focusing on social impact reporting between 2008 and 2014 (see Appendix F for a list of these reports). These publications advocate social impact measurement and recommend social investment as an beneficial option for sourcing funding for many social organisations. In one report they state:

> "This is an exciting time for social investment. Government, grant-makers and philanthropists are investing in the market, keen to generate social as well as financial returns ... Demand from charities is increasing as government cuts and dwindling voluntary donations hit them hard. Social investment could be a way out of this funding fix."

They are also actively involved many events and conferences aimed at social enterprise and charities, such as the conference, *Third Sector*. At such events they present their views on the benefits of social impact measurement. From the same report, NPC informs argues that charities are potential recipients of social invesment:

> "Some charities believe that social investment has nothing to do with them, and is the preserve of social enterprise. ... [M]any charities are well placed to take investment on. Hundreds of charities, including Barnardo's, Scope and Turning Point, have done so already. What is more, many, if not most, social investment intermediaries lend to charities, offering a wide range of appropriate products."

Thus, NPC advocates social investment for charities and through its publications, intends to inform charities that they can benefit from this new funding approach, that brings with it the need for social impact measurement.

NPC identifies social impact measurement as an important part of the process of receiving social:

> "It is important that charities try to capture the social benefit of the social investment they receive, partly so that they can understand the impact of their work, and partly so that they can report back to investors, who are increasingly interested in measuring the social return of their investments . . . Charities can help themselves by being on the front foot with their own impact measurement."

Here we see that NPC urges charities to consider social impact measurement, not only because it is beneficial but because it often forms part of the overall demands of social investors.

NPC is one of many organisations promoting the use of social impact measurement and reporting. Big Society Capital advocates the use of social impact measurement, offering an "outcomes matrix" tool on its website as well as videos explaining the importance of social impact reporting (http://www.bigsocietycapital.com/social-impact-resources). Effectively these publicised reports of social investment deals serve as leaky knowledge conduits, enabling the diffusion of the norm of social impact reporting beyond the community of social investment and to the broader social sector.

In addition, the provision of investment funding is often widely and strongly publicised, generating what (Owen-Smith and Powell, 2004, ,pg. 6) describe as: "channels that diffusely and imperfectly direct transfers between nodes, facilitating information spillovers (and other externalities) that benefit both loosely connected and centrally positioned organizations." All the main social investors advertise their deals. For example, Bridges Ventures publicises its new investments on its homepage (www.bridgesventures.com). On February 21st 2016, a banner informed visitors to the page that Bridges had just invested in a Spanish gym chain (see Appendix G). Such 'leaking' of information about current deals to the charity sector is likely to lead to the dissemination of ideas concerning social investment and social impact measurement to the broader social sector. Other organisations, such as Big Society Capital, also publicise their social investment activities and have a strong online presence. In addition to listing investments made, Big Society Capital has also published a number of research reports (http://www.bigsocietycapital.com/social-investment-research-library) as well as case studies on social impact evaluation (http://www.bigsocietycapital.com/case-studies).

6. Discussion and conclusion.

My findings are consistent with the view that professional groups and government programmes were influential in the emergence and dissemination of the norm of social impact reporting. However, by focusing on the underlying *social structures*, I provide a lower level explanation of the emergence and spread of social impact reporting that abstracts from the intentions of the actors involved. Instead this analysis focuses on the infrastructural conditions necessary for the emergence of the norm and its widespread adoption, which might be consistent with a number of different intentional or political economy explanations, such as professionalisation, governmentality or functionalism.

This study reveals that the growth of professionalism played an important role in driving change in the performance reporting practice of UK social enterprises. Yet, these new professional groups did not emerge within social enterprises, but in other communities and effected change from a distance. Interview evidence and data concerning the background and affiliations of individuals who are active within the social investment community points to an elite and highly connected affiliation network of SIFIs and think tanks.

The analysis provided above suggests that structural features help in explaining the dominant norm of social impact reporting within the community of social investment professionals. No actor in the social investment population is separated by more than one degree from a former investment professional and the network is composed of individuals many of whom share common professional and elite educational experience. The similar backgrounds, both professional and educational, of many of the members of the social investment community suggest a common approach to reporting practice by social purpose organisations, particularly those receiving investment funding. However, the analysis produced up to this point does not help us to understand how the social investment community's advocacy of social impact measurement was able to drive change in organisations within the community of social enterprises.

One concern with this analysis, and much academic work on the subject of the emergence and dissemination of norms, is that no specific information is available about the specific process of imitation or learning. As Strang and Soule have noted,

> “We typically know that potential adopters are brought into contact with the diffusing practice but do not know quite what they see, particularly whether they observe results. This inability to specify what is observed produces some theoretical fuzziness about the microprocesses involved in diffusion.” (Strang and Soule, 1998)

Yet interview evidence provided in this study mitigates this problem by providing some sense of how individuals, and hence organisations, adopt norms and take actions that enable the diffusion of these norms. In particular, the desire to please potential funders through using social impact reporting (or at least using the language of social impact) or responding to the specific demands of social investors.

Other possible conduits for the the idea that the use of impact measurement and reporting is best practice may be training provision and conferences. These facilitate a one-to-many relationship between the elite group of investment professionals and social enterprises. A plethora of opportunities for learning the language and techniques of impact-measurement or investment-readiness are on offer to third sector organisations. These include, conferences, courses, webinars and workshops organised by social impact consulting firms and thinktanks such as Clearly So, Unltd, Third Sector, New Philanthropy Capital and others. The overarching motivation for discourse-shifting activities by social investment intermediaries is the creation of market growth.[11] Although this paper does not focus on funder-interventions in the operations of an investee, nor on the influence of training offerings, such factors could be investigated in future work.

[11] Such market-building activity has been described elsewhere, for example in the development of derivatives exchanges in the US (Millo and Mackenzie, 2003).

However, the analysis of network structures cannot be taken to be a full representation of social connections, as it abstracts from true social activities and may obscure the meanings of connections between individuals or the beliefs and intentions of individuals within the network, because:

> "...nodes and ties in social networks are not reified dots and lines; they are the congealed residues of history — in particular, the history of iterated production rules and communication protocols in interaction" (pg 3).

How might these "congealed residues", in this case what we might call *ideological traces*, construct the individuals within a community and lead to the emergence of common understandings of good practice?

The emergence of the language of social impact in UK social purpose organisations over the last decade is striking. Before the turn of the millennium, this style of reporting was virtually unknown and business styles of reporting were not viewed positively by social purpose organisations. Yet today, the language of the social sector is peppered with terms related to social impact and it is generally accepted as an aspirational norm. My motivation in this study is to look beyond functional explanations which cite the benefits in enabling contracting and achieving allocative efficiency of this new form of performance reporting. Instead, I explore the process of emergence and key drivers of this new norm.

In this paper, I have identified the influence of the community of social investors on the use of social impact language by UK charities and social enterprises. The study demonstrates two key findings. First, professionalisation has played an important role in the emergence of this new social impact reporting practice (DiMaggio and Powell, 1983; Abbott, 1988; Hwang and Powell, 2009; Suddaby and Viale, 2011). However, this professionalisation did not take place within the social purpose organisations themselves, but operated at a distance from a distinct community of social investment professionals. Second, social structure of this group made possible the dominant view of social impact reporting as best practice (Granovetter, 1974; Padgett and Ansell, 1993; Watts and Strogatz, 1998; Strang and Soule, 1998; Padgett and Powell, 2013).

An analysis of the social network of a sample of 219 individuals in the community of social investors demonstrated close affiliations through board and advisory interlocks — and also through common educational or professional experiences. I have argued that these close connections and shared background enabled the emergence and persistence of a strong norm within the community with respect to issues of best practice. Many individuals had worked in commercIal investment and many had MBAs which furnished them with knowledge about appropriate methods of performance evaluation for investees. These former investment professionals brought their knowledge of investment with them when they took positions in the social investment sector, where they would apply it to portfolio analysis and reporting for social investees. Even those individuals who had not worked in the field of investment were subject to the influence of others who had because of the connected community structure.

This study has addressed the structural factors that enabled the emergence and dissemination of the aspirational norm of social impact reporting within the social sector. One important finding, which has not been recognised in the accounting literature to date, is how social networks influence norm emergence. This raises a host of interesting questions for future research. For example, it is unclear to what extent the practice of social impact reporting is internalised by social purpose organisations. Work examining the existence of symbolic adoption and decoupling could therefore prove fruitful. Future work could also usefully investigate the specific mechanisms of influence that operate between the social investment community and the broader social sector. Anecdotal evidence suggests that social investors' demands for the reporting of social impact is not the only source of influence. Others may include the provision of practitioner training courses, internships by investment professionals at social purpose organisations and the 'leaky' nature of investment channels (Owen-Smith and Powell, 2004) that publicise successful strategies for obtaining inward investment.

Figures from main text.

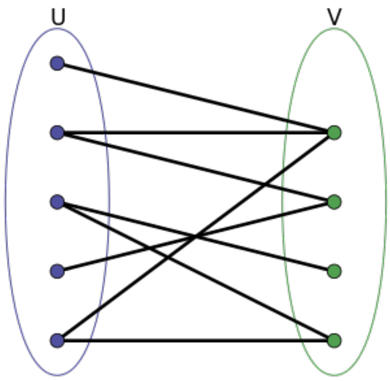


Figure 1: The bipartite structure of an affiliation network

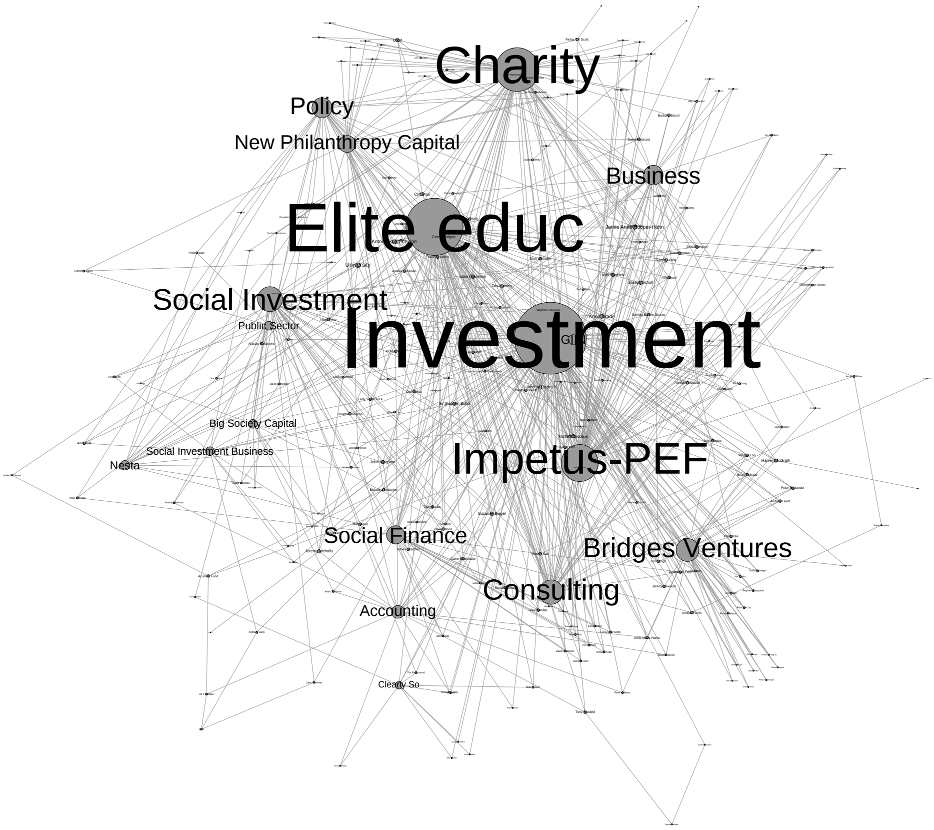


Figure 2: Affiliation network with nodes sized by outdegree

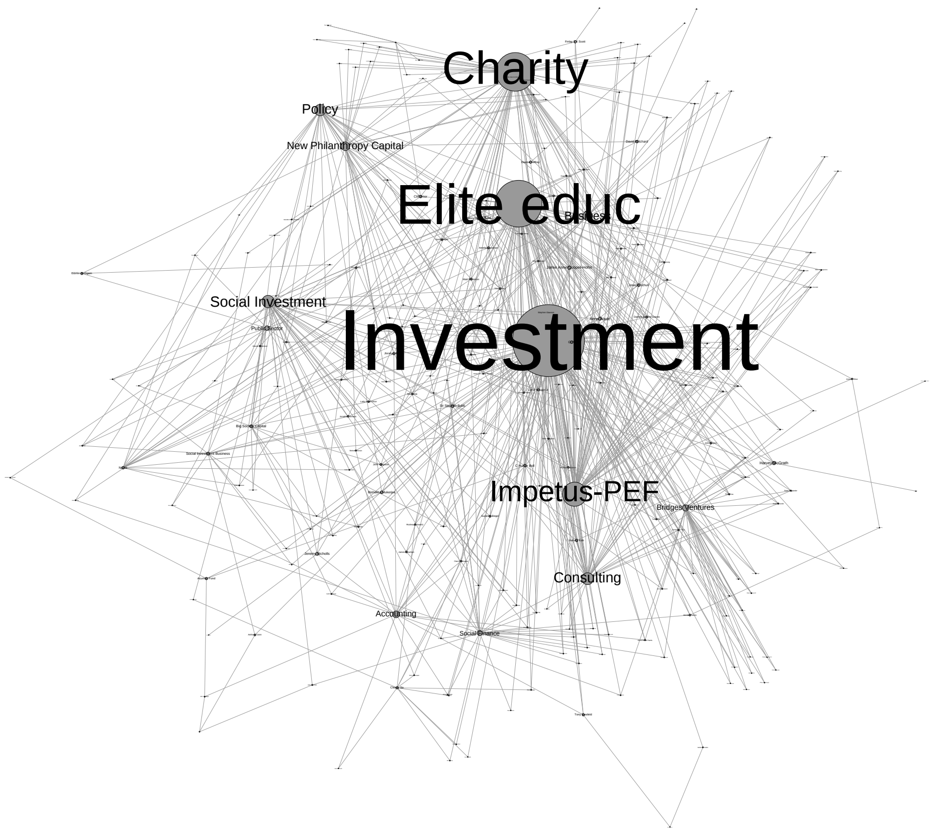


Figure 3: Affiliation graph with nodes sized for betweenness centrality

Category	Out-degree	Betweenness Centrality
Investment	107	11,527.23
Elite educ	85	7,442.88
Charity	65	6,134.23
Social Investment	37	1,887.72
Consulting	36	1,807.52
Policy	30	1,720.21
Business	29	1,423.88
Accounting	19	983.03
Public Sector	13	624.01

Figure 4: Meaures of centrality for the categories of affiliation present in the network

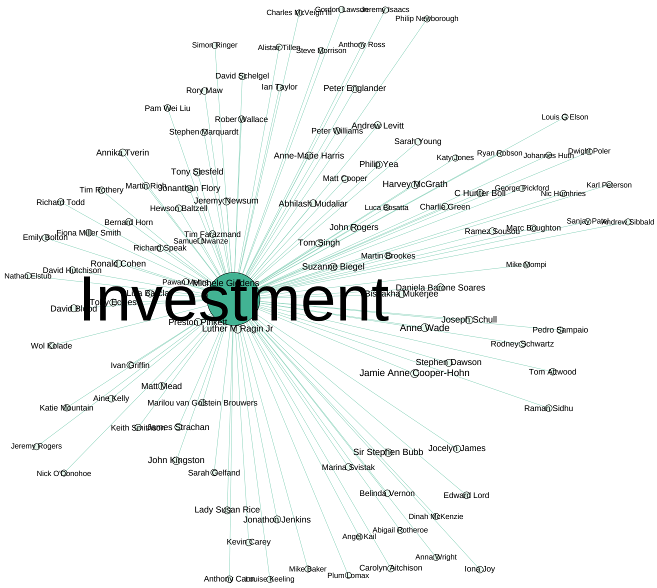


Figure 5: One-step network of the category 'Investment' with nodes sized by outdegree

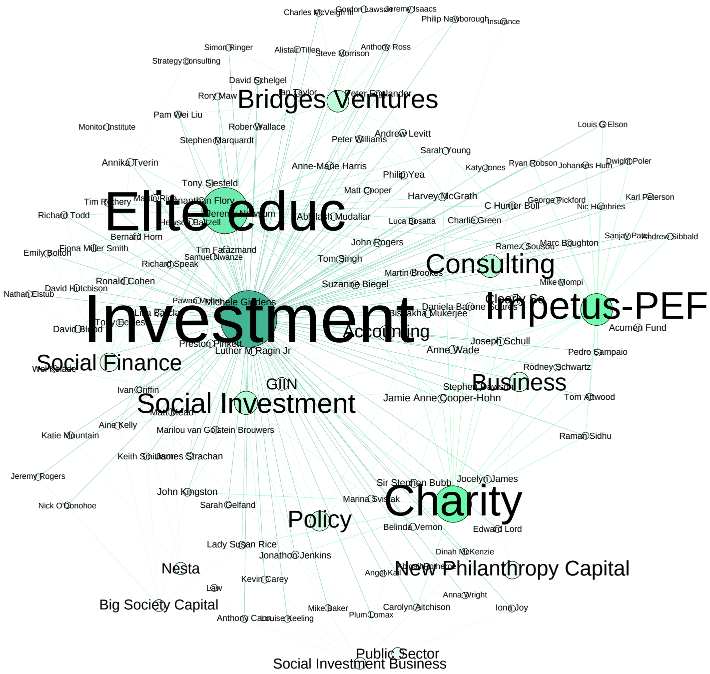


Figure 6: Two-step network of the category 'Investment' with nodes sized by outdegree

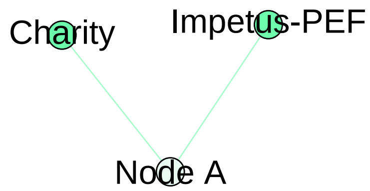


Figure 7: One-step ego network for Node A

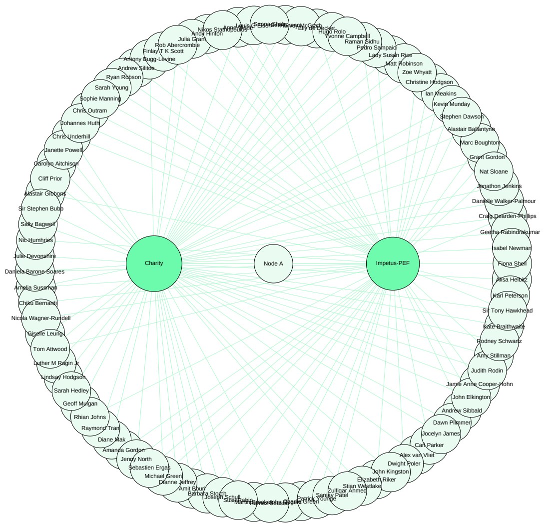


Figure 8: Two-step ego network for Node A

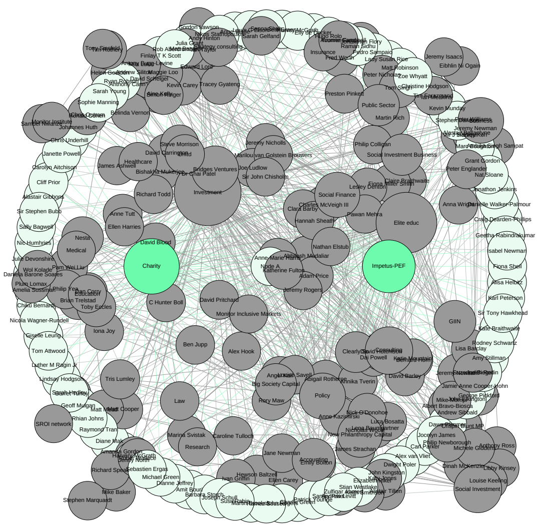


Figure 9: Three-step ego network for Node A

Organisation	`Investment people'* at the organisation	Total number of people at the organisation (excluding self)	%` investment people'* at the organisation (excluding self)
Acumen Fund	3	3	100%
Big Society Capital	9	12	75%
Bridges Ventures	31	33	94%
Clearly So	10	10	100%
GIIN	14	14	100%
Impetus-PEF	36	54	67%
Monitor Institute	2	2	100%
Nesta	9	13	69%
New Philanthropy Capital	12	24	50%
Social Finance	21	26	81%
Social Investment Business	10	12	83%
Unltd	1	4	25%

* `Investment people' are those people with no background in investment, accounting or business and without an MBA

Figure 10: Threshold effects via organisational participation

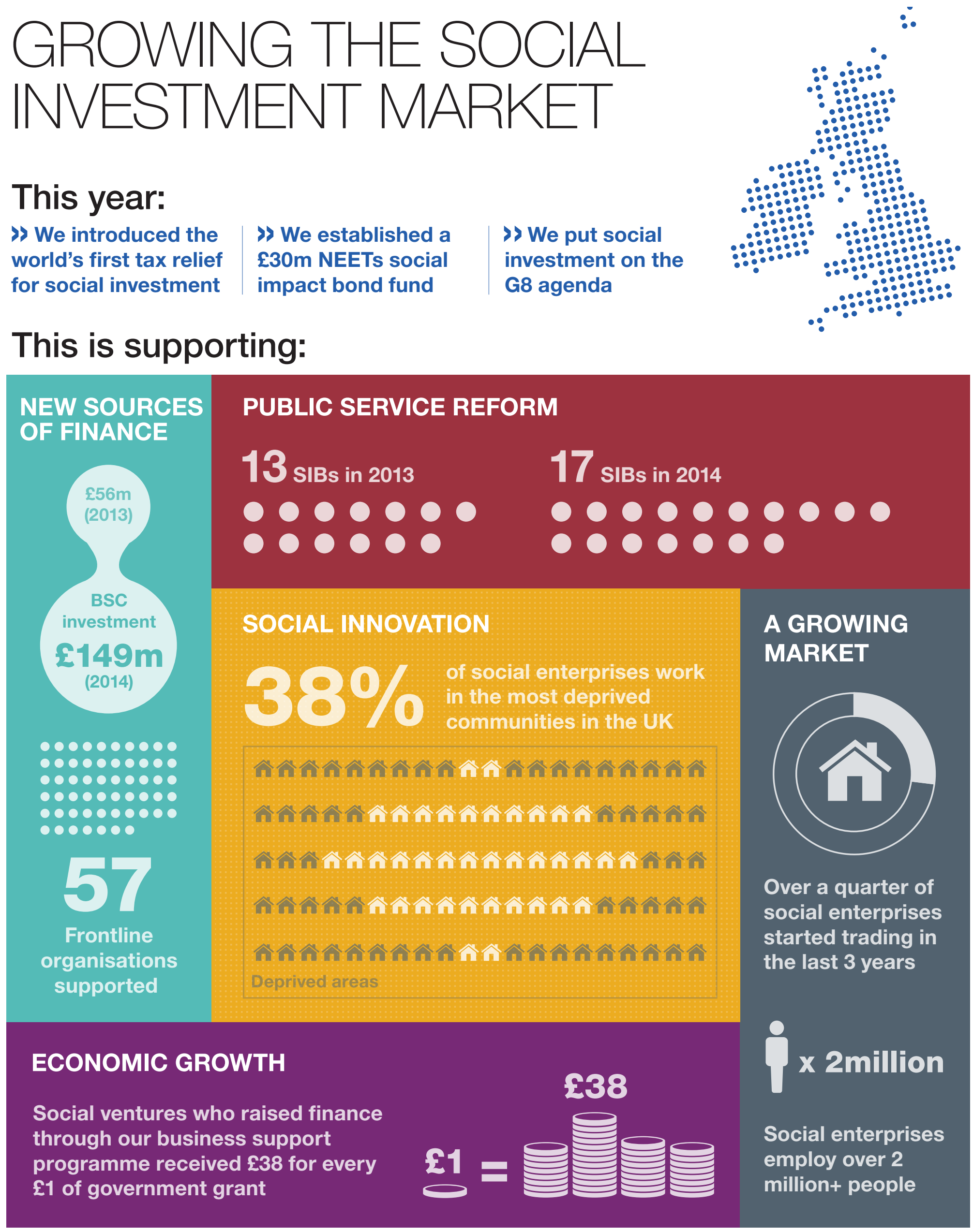
A. Examples of impact and economics-based performance measures.

Excerpt from the Impetus-PEF Impact Report 2012

RETURN ON A £1 INVESTMENT

	CALCULATIONS (FINANCIAL SAVINGS DIVIDED BY INVESTMENT)	RETURN
THE METROPOLITAN POLICE	£261,802 ÷ £427,908	£0.61
THE CRIMINAL JUSTICE SYSTEM (EXCLUDING POLICE)	£369,987 ÷ £427,908	£0.87
VICTIMS AND LOCAL COMMUNITY	£2,508,256 ÷ £427,908	£5.87
TOTAL	**£3,140,045 ÷ £427,908**	**£7.35**

Impact measure using SROI. Source: New Philanthropy Capital (2011)



Source: HM Government (2014)

B. Government Initiatives.

2012	Creation of Big Society Capital
2012	Social Outcomes Fund
2012	DWP Innovation Fund
2012	Investment Contract Readiness Fund
2013	Social Value Act
2014	Social Investment Tax Relief
2014	Social Investment Trade Association
2014	Social Impact Bond Funding of £30m*
2014	Social Investment Tax Relief

* Includes Youth Engagement Fund,and Fair Chance Fund.

C. Interviews conducted.

Interviewee (anonymised)	Organization	Interview date
Interviewee-1	Big Society Capital	January 2012
Interviewee-2	Impetus-PEF	March 2012
Interviewee-3	Impetus-PEF	March 2012
Interviewee-4	New Philanthropy Capital	March 2012
Interviewee-5	Monitor Inclusive Markets	September 2012
Interviewee-6	J.P. Morgan	October 2012
Interviewee-7	Pro bono economics	October 2012
Interviewee-9	New Philanthropy Capital	October 2012
Interviewee-8	IRIS Project	November 2012
Interviewee-10	Deloitte Partner (Charities)	November 2012
Interviewee-11	Charity	January 2013
Interviewee-13	Audit Commission	January 2013
Interviewee-12	SROI Network	January 2013
Interviewee-14	IRIS Project (on impact metrics)	February 2013
Interviewee-15	Adviser on SIBs	March 2013
Interviewee-16	Social Finance	March 2013
Interviewee-17	Social enterprise	June 2014
Interviewee-18	Social enterprise	July 2014
Inteviewee-21	Social enterprise	November 2014
Interviewee-20	Social enterprise	November 2014
Interviewee-19	Social enterprise	November 2014
Interviewee-22	Social enterprise	November 2014
Interviewee-23	Social enterprise	November 2014
Interviewee-25	Charity	November 2014
Interviewee-24	Charity	November 2014
Interviewee-26	Charity	January 2015
Interviewee-27	Charity	January 2015
Interviewee-28	Charity	February 2015
Interviewee-29	Charity	February 2015
Interviewee-30	Charity	February 2015
Interviewee-31	Charity	February 2015
Interviewee-32	Charity	February 2015
Interviewee-33	Charity	February 2015
Interviewee-34	Charity	February 2015
Interviewee-35	Charity	February 2015

D. Nodes included in the affiliation categories.

Affiliation categories:	Accounting Business Charity Consulting Education Elite Education Healthcare Insurance Investment Law Medical Policy Public Sector Research Social Investment Strategy consulting
Social investment organisations:	Acumen Fund Big Society Capital Bridges Ventures Clearly So GIIN Impetus-PEF Monitor Inclusive Markets Monitor Institute Nesta New Philanthropy Capital Social Finance Social Investment Business SROI network Unltd

Number of Nodes:	
Affiliation categories (e.g `Investment')	16
Social investment organisations (e.g. Bridges Ventures)	14
Individual participants in the community of social investment	219
Total nodes - affiliation graph	**249**
Number of organisations summarised within the 16 categories	**341**
Total number of nodes (individuals and organisations) in the sample	**574**

E. Elite Universities.

E.1. Wealth-X and UBS Billionaire Census: education.

This shows the top 10 universities at which billionaires studied.

1. University of Pennsylvania (incl Wharton)
2. Harvard University (incl HBS)
3. Yale University
4. University of Southern California
5. Princeton University
6. Cornell University
7. Stanford University
8. University of California, Berkeley
9. University of Mumbai
10. London School of Economics

E.2. Times Higher Education World University Rankings 2015-16.

This shows the top 10 universities ranked according to a number of criteria, including academic excellence.*

1. California Institute of Technology
2. University of Oxford
3. Stanford University
4. University of Cambridge
5. Massachusetts Institute of Technology
6. Harvard University
7. Princeton University
8. Imperial College, London
9. ETH Zurich - Swiss Federal Institute of Technology

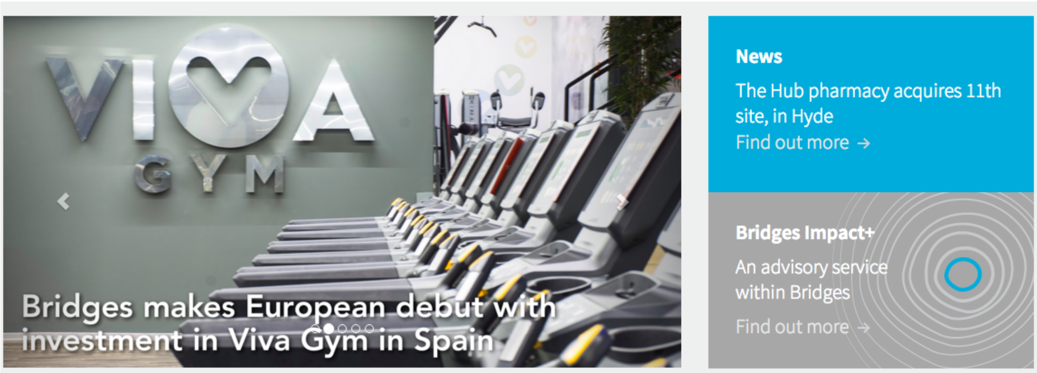
10. University of Chicago

*In addition, London Business School, is included.

F. Impact-related publications by New Philanthropy Capital, 2008–2014.

Year	Title
2008	Valuing Potential
2008	Fairbridge (charity evaluation)
2008	St Basils (charity evaluation)
2008	The Brandon Centre (charity evaluation)
2009	Feelings Count (measuring soft outcomes)
2009	How are you getting on?
2009	Breaking the cycle
2010	Talking about results
2010	SROI for Funders
2010	Proving your Worth to Whitehall
2010	Scaling up for the Big Society
2010	SROI Position Paper
2010	Manifesto for Social Impact
2010	The Business of Philanthropy
2010	The Little Blue Book (practical guide to analysing charities)
2010	Trial and Error (impact for young offenders)
2011	Inspiring Impact
2011	The Principles of Good Impact Reporting
2011	The Value of Charity Analysis
2011	Are Social Enterprises More Resilient in Times of Limited Resources?
2011	SSE Evaluation
2011	Philanthropic Lives (importance of impact measurement)
2011	Impact Measurement in Youth Justice
2011	Understanding the Demand and Supply of social finance
2011	Teenage Kicks
2011	Helping Grantees Focus on Impact
2011	Foundations for knowledge
2011	Impact Networks
2012	Unlocking Offending Data
2012	Making an Impact
2012	Social Investment
2012	Investment Readiness in the UK
2012	Impact Measurement in the NEETs sector
2013	Funding Impact
2013	The Sector at its Best (Keynote on improving impact)
2013	Impact, Power and Social Change
2013	Creating a Data Lab
2013	Through the Gate (impact and criminal justice)
2013	Best to Invest? A Funders' Guide to Social Investment
2013	Allia's Future for Children Bond: Lessons Learned
2013	Blueprint for Shared Measurement
2013	Outcomes Map: Crime and Public Safety
2013	Mapping Outcomes for Social Investment
2014	Economic Analysis - What is it good for?

G. Leaky channels: Publicising Social Investment Deals.



Bridges Ventures homepage, 21st February 2016

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