Risk and Investment in Social Enterprises

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Abstract
This study examines the relationship between risk and returns of social investors in assessing the association between risk and investment in social enterprises. A simplified mathematical methodological tool determined a coefficient of variation (CV) of almost 2 between risk and expected returns of investing in social enterprise thus establishing a functional relationship equation (Risk = 2 Returns + Net Investment) for examining the relationship between risk and investment in social enterprises. The study found out that other factors other than just risk and return level attract social investors to invest in non-governmental organization. These factors are; social interest, investor interest, government interest, foreign bodies, diplomatic mission interest, availability of funds and the prevailing circumstances in a particular region. Expected returns from social investments would likely fluctuate around 5% depending on the place of operation of the social enterprise, the nature and size of social interment projects of the social enterprise.

Keywords: Risk, Social Investment, Social Investor, Social Enterprises, Nonprofit Making Organization, NGO.

Introduction

Pepin[3] asserts that there is no absolute consensus concerning the definition of social enterprise or social investment. According to Social Enterprise UK, there are at least 70,000 social enterprises in the UK employing around a million people, the sector's contribution to the economy is valued at over £24 billion. This amount of economic value-added contribution is sensible in addressing the social and community needs of the underprivileged people in any nation.

Pepin[3] categorized social investments into; appetite for risk and the risk inherent in the use of funds, financial instrument, pricing – financing and social, engagement and non-financial support. Thus, it is evident that risk is associated with investment(s) in social enterprises. This is obvious since social investment does not represent any form of a risk-free assets or investment such as a Treasury bill or bond.

There are pro arguments if investment in social enterprises is worthwhile to be considered an investment since it is not geared towards profit making but to promote the welfare of individuals, communities, societies and it is mostly done or carried out through the voluntary efforts of the social entrepreneur(s). The important question to ask here is if social enterprises do not generate returns? If they do, then they are worthwhile investment options for entrepreneurs and besides social returns or business returns are all returns and they fall under the criteria for choosing investment characteristically.

In Cameroon there have been growing numbers in the number of created and existing social enterprises, though many too are without substantial activities or operations and consequently ceased to exist unnoticed. Another problem – which is beyond the scope of this study, is the actual statistics as concerned, the actual numbers of social enterprises are not readily accessible if the numbers exist as in nonsocial enterprises - where one can hint on the accurate number of formal nonsocial enterprises, or is it that the social enterprises are joined with nonsocial in reporting the total portfolio of small and medium size enterprises in the country?

Social enterprises without hesitation based on the number of maximum employees they can employ, they all fall under the category of small and medium size enterprises in Cameroon as stipulated in Law No 2010/001 of April 13, 2010. To Promote Small and Medium Size Enterprises in Cameroon[5]. Further, social enterprises just as other businesses do, offer employment to the youths and the qualified population of the country thus promoting social welfare, living standards and economic growth. This study assesses the risk associated with social investment as social enterprises are not without risk.

Review of Literature

Social Enterprise Investment and Risk Attitudes: The characteristics of investments are; risk, return or profit, liquidity, time to maturity, size and net worth value either tangible or intangible. All these primary features of investments are feasible in social investments or enterprises. The auxiliary features too like sustainability such as long-term growth and expansion initiatives are also seen in some group of or few social enterprises. The degree of their feasibility depends on; the nature, mission, vision of the social enterprise, the desired (risk appetite and attitude etc.) of the social investors and the available investment options to the enterprise and the entrepreneurs. Investment options available to social enterprises are generally social in kind seeking to promote; social, community, economic environmental and societal welfare.

Social enterprises refer to nonprofit making organizations or NGO as they are mostly called. The objectives of their existence are closely tied to social and promoting social welfare and societal wellbeing. They are social environmental and community watch dog and mouthpiece. They advocate for minorities and majorities and handle abandoned public and government policy window areas. PricewaterhouseCoopers B.V.[4] conceded that investors differ in their approaches on topics such as social return, financial return and risk. They likewise stated that social entrepreneurs differ in how they balance and align social and financial factors.

Social enterprises do combine both social impact and profitability. Discussions on as to the exact definition of social enterprise vary and Pepin[3] affirmed that there is no absolute consensus concerning the definition of social enterprise or social investment. The European Union uses an extensively putative definition. European Union defines a social enterprise as a company and its primary objective is to achieve social impact rather than generating profit for owners and shareholder, using its surpluses mainly to achieve social goals managed by social entrepreneurs in an accountable, transparent and innovative way, in particular by involving customers and stakeholders affected by the enterprise business activity. Temple[7] asserted that social enterprises are real business, but they do business differently.

Risk is anything that its occurrence would alter the realization of an expected and accepted normal result. Investors are classified based on their risk attitudes as: risk seekers, risk avoidance and risk neutralist or indifferent. Although exiting literature does not deliberate on social investors risk attitudes, one thing is obvious that social enterprise investors are likened to risk neutralists where they show indifference in either a high or low return from their investment. Their interest is on social, societal and community welfare as such these are not attracted by high risk, high returns or low risk, low returns.

Objectives

This study examines the following:

1) The relationship between risk and return of social investors.

2) The commensurability of the risk and investment in social enterprises.

Methodology

Questionnaires were administered at random to help obtain information to examine the connection between risk and return of social investors and determine the level of variation of risk and investment in social enterprises in Cameroon. The use of questionnaires permitted the used of both qualitative and quantitative research approaches in this research paper to systematically obtain, analyze and interpret the results. The sample type was kept simple, hoping the happenings in the country have flogged the visibility of non-governmental organizations in recent times and years in the minds and eyes of most adulthood population.

The adoption of a quantitative research approach permitted the use of representation in presenting the analyzed results, this is in line with views of Bryman[1]. Policy formulation and recommended research works emphasize on percentage representation of respondents rather than respondents' headcount; for this reason, the number of respondents were ignored in the analysis of the data collected. This helps to place importance on the macroeconomic relevance of the work while admitting a low response rate.

To establish the relationship between risk and return of social enterprise, the coefficient of variation was computed and this measures the relative variability between standard deviation (risk) and expected mean (average returns).

Analysis

Familiarity with the types of Social Enterprises: Table 1 presented the results of investigation of the respondents' familiarity with the broad categories of social enterprises operating in Cameroon. By analyzing the data collected, it was found that 54% of the respondents are familiar with international NGO and 46% respondents' respondents are familiar with local social enterprises or local nonprofit making organizations respectively. The results of the analysis are presented in table 1.

Table 1
Respondents Familiarity with the types of Social Enterprises

Type	Local	International	None	Total
% of Respondents	46%	54%	0%	100%

Source: Researcher Survey Data 2019

Projections of the Annual Returns of Social Enterprise: The respondents attempted to provide an estimate of annual returns of social enterprises operating in Cameroon. Based on their annual returns projections, average annual returns were deduced. Having waved the task of obtaining estimates for the annual investments invested or likely to be invested by nonprofit making organizations from the respondents, for fear of inaccurate projections and perhaps with a high tendency of mass variation from the reality, the researchers assumed an average annual social investment of 20,000,000FCFA. The annual rate of returns for investment in social from the fields data is thus computed and presented in table 2. From the obtained annualized rates of returns, the expected return (average return) for a social enterprise investment was found to be around 23%.

Observing the results of the data presented, it is evident that before the year 2016, social enterprises were investment heavens generating higher annual returns. This utopia situation has changed after 2016 with annual returns falling far below the expected social enterprises industry annual rate of returns of 23% expected from social investments.

Risk Level and Investment Interest in Social Enterprise: The opinions of the respondents' perception of the risk level in relation to investment interest in social enterprises were sorted out and the analyzed results are presented in table 3. The popular opinion is that the risk level to interest in investing in social enterprises is half or average with 37% of surveyed population attesting to the fact. 23% of the respondents attested that the risk level to investment interest in social enterprises is far below average. At the contrast end, 9% of the respondents affirmed that risk level is far above average to investment interest in social enterprises. An indifferent situation occurred with 15% of the respondents acknowledging that risk level is below average or above average to interest in investing in social enterprises.

Factors attracting Investors into Social Enterprise: On the dynamics on what attracts investors to social enterprises, the popular opinion shifted from social interest with respondents' percentage score of 31% to investor interest with respondents' percentage score of 38%. Returns level with 14% of the surveyed population and 12% of the respondents corroborated risk level attract investors to investment in social enterprises. A less than illuminating respondents of 5% of the tested population indicated that other factors contribute in attracting investors to social enterprises and these include the government interest, foreign donors / governments interest and the prevailing situation of the concerned country. Table 4 shows the analysis of the surveyed results.

Results

Relationship between Risk and Return of Social Investors: To scrutinize the relationship between and return of social investors, a procedural computation was used as shown in table 5. The coefficient of variation (CV) between the two variables (risks and returns) was ascertained to be 1.920. To one decimal place the CV would be 2 between the risk and the associated returns on social enterprise investment thus implying the existence of a linear relationship between risk and returns and this in in conformity with finance and risk principles, theories and concepts on already existing literature from the greats in the field.

Mathematically expressed,

$$\frac{SD}{ER} = 2 \qquad (1)$$

where SD is the risk associated with social investment and ER is the expected returned on social investment.

Looking at the mathematical equation 1, it looks like a reduced (differentiated) function or simply a differentiation (differential) function of risk and returns which is seemingly true as the objective of most firms is to minimize (reduce) the risk associated with returns of investments.

Table 2
Adjusted Respondents Projections of the annual returns of Social Enterprises

Years	2014	2015	2016	2017	2018	Total
Average Annual Returns	10,500,000	8,500,000	1,820,000	1,505,0008	1,005,000	23,330,000
Average Annual Investments	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	100,000,000
Annual Rates of Returns	0.53	0.43	0.09	0.08	0.05	0.23

Source: Adapted from the Researcher Survey Data 2019

Table 3
Respondents Opinions of Risk Level to Investment Interest in Social Enterprises

Opinions	Far below average	Below average	Average	Above average	Far above average	Total
Grades	1	2	3	4	5	
% of Respondents	23%	15%	37%	15%	9%	100%

Source: Researcher Survey Data 2019

Table 4
Factors attracting investors into Social Enterprises

Factors	Risk level	Returns level	Social Interest	Investor Interest	Other	Total
% of Respondents	12%	14%	31%	38%	5%	100%

Source: Researcher Survey Data 2019

However, as firms look to minimize risk of operations, investors look for maximum returns which peradventure is another justifiably self-imposed objective of firms to be sure of sustainability and achieve long term goals or objectives.

Thus, applying an integral function by integration process on equation 1, we obtain the equation:

$$SD = 2ER + IN \qquad (2)$$

where SD is risk, ER is expected return and IN is a constant digit or figure which is the initial investment required for investment in assets or firms.

Equation 2 highlights the presence of a linear functional relationship between risk and returns on social investment and necessarily requirement of basic initial investment capital to be deployed by social investors. Thus equation 2 preludes the existence of a linear relationship between risk and returns of social enterprise investments.

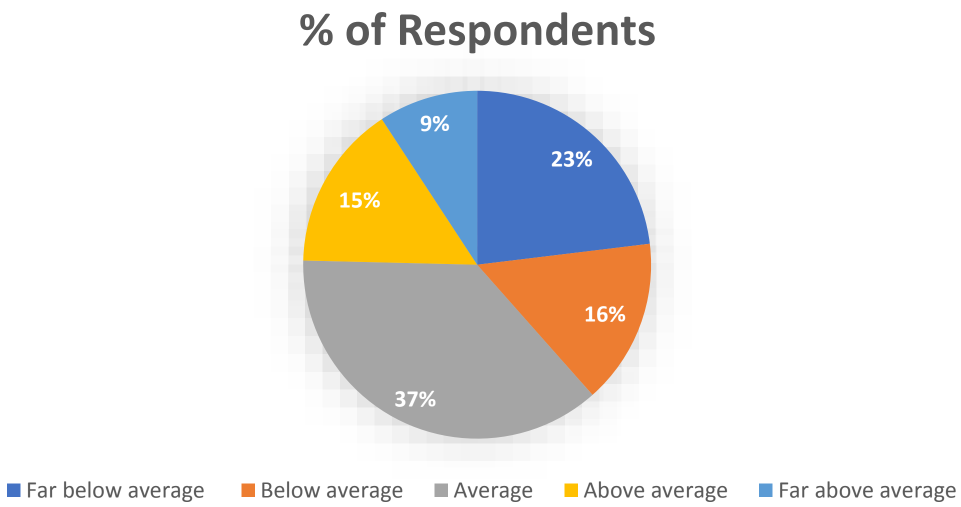
The relationship equation could be stated as Risk = 2 Returns + Initial Investments: Thus, the risk in social enterprise is two times its returns and initial investment. From table 5, the expected return is 0.23 (or 23%) and the sum of the individual annual variations is zero (0), thus fulfilling the prophecy of the property of a sample mean which states that sum of variation above the mean must be equal to the sum of the variation below the mean.

Commensurability of the Risk and Investment in Social Enterprises: In matching the risk to investment required in social enterprises, the popular opinion as shown in pie chart (figure 1) is that risk level to required investment in social enterprise is average scoring 37%. The opposing proponents with a 23% score stated that the risk level in social investment is far below average.

A good number show indifferent attitude in assessing the risk level. These categories of advocates think that risk level is either below or above average amounting to 31% score. Extremist with 9% thinks the risk associated with social enterprise investments is far above average. The percentage (%) of variations on the Commensurability of the Risk and Investment in Social Enterprises is shown in figure 1.

Table 5
Computation of Risk and Return of Social Investors Coefficient of Variation

Computation of the Coefficient of Variation						
Years	2014	2015	2016	2017	2018	End Product
Annual Rate of Return (AR)	0.53	0.43	0.09	0.08	0.05	1
Expected Return (ER = ∑AR / 5)	0.23	0.23	0.23	0.23	0.23	0.23
Variation (Var = AR - ER)	0.292	0.192	-0.142	-0.158	-0.183	0.000
Squared variation. (Var^2)	0.085	0.037	0.020	0.025	0.034	0.201
Standard Deviation (SD or Risk = √∑(Var)						0.448
Coefficient of Variation (CV = SD/ER)						1.920



Source: Compiled from extracted Researcher Survey Data 2019
Figure 1: Percentage (%) of variations on the Commensurability of the Risk and Investment in Social Enterprises

Discussion

Primarily, majority of people in Cameroon are familiar with the existence of social enterprises. This is a sure situation as none of the respondents reached out to veto of knowing either local or international non-governmental organization. Evidence of this assertion could be seen in table 1 where 54% of the respondents acknowledged the existence of international NGOs and 46 % were admitted to the coexistence of local NGOs. This tallies with the researcher`s expectation of the sample population exposure on the role and existence of social enterprises in recent times in the nation. There is broad visibility of international NGOs as opposed to the locals perhaps due to their large; annual investment budgets, public awareness and marketability, associations with corporate sponsorship, diplomatic tights and ownership etc.

However, that broadness might have narrowed if respondents were unlimitedly given the options of admitting whether both local and international NGOs coexist in a niche. The limitation was imposed to enable and evaluate respondents level of awareness on the existence of local social enterprises which is true as local NGOs somehow understand and master the market and social needs of the people and are accustomed to working in the far rural areas, minority groups and unpopular policy areas without boasting of a comparatively large annual investment budget, public awareness and the scalability of their projects could mostly be at micro level social welfare need although of relatively very high significance to the general public and nation economic, social and political welfare.

Secondly, the expected return on investment in social enterprises in Cameroon could be around 23% per annum. This is comparatively low when compared with that of non-social enterprise firms in the country whose objective is solely profit based with little or no feeling for the social needs of the community, society and environment. The expected return is itself good because it is untaxed. However over the years following the sociopolitical happenings in the country that expected return has gradually reduced to 8% or 5% or nothing for some organizations and if care is not taking a good number of social enterprises could be recording losses admitting a huge desire and need to meet basic social welfare needs of the prevailing situation in the society and community as expressed in their projects.

Thirdly, there is considerable varied opinions in the level of risk associated with investment in social enterprises. This is possible because social enterprises deal with society welfare and as such there could be considerable social and environmental factors that could affect the risk level of the capital invested in social projects. Such factors include: social violence, natural and civil hazard, environmental concerns as bad roads, warehousing conditions for food stuff storage, available specialists' services volunteers and experts for appropriate work task delivery for example in the medical fields like doctors and nurses. These factors can cause the risk level to rise far below or above average investment fund in social projects.

Despite of the risk level, there are good number of factors that attract investors to invest in social enterprises. There is a possibility that including risk level, other factors could attract investors to invest in social enterprises. The factors include: the level of return, social interest, investor interest, government interest, foreign bodies, diplomatic mission interest, availability of funds and the prevailing circumstances in the nation e.g. disaster-prone nations.

The risk of investing in social enterprise is almost twice its returns. This could be possible as social investment themselves are not risk-free investments like treasury bills. So, for the risk of not saving cash and personal labour force, investors expect returns for their investment in social enterprises. Ironically the expected return could just be half of the risk involved in social investments. This could be possible because social enterprises accrued both financial benefits and social benefits thus making the risk of investment twice of expected returns. It is nevertheless not easy to quantify the social benefits (profits) of a social investment project.

Finally, there is the presence of a linear relationship between risk and returns of social enterprises. This relationship could be stated mathematically as; Risk = 2 Returns + Initial Investments. This means that the risk of a social investment project depends on the level of expected return and initial investment. If return is zero, social investment risk equals social initial investment. And if return is expected to increase, social investors won`t mind risking more investment capital and vice versa.

Conclusion

Despite the fact that social enterprises investors could be viewed as risk indifferent when it comes to the profit (expected return) from their investments, a high expected return of 23% could attract social investors that viewed social enterprises investment as a gainful investment option. In general circumstances, returns could be between 5% and 8% and in adverse situation returns could be zero or negative. However, return and risk are not the sole and only factors that attract investors into social businesses. Factors such as social, government, diplomatic mission and investors' personal interests, availability of funds and desiring societal, community and economic needs etc. attract investors into social enterprises.

Risk and returns on social enterprises investment could be related by the functional equation Risk = 2 Returns + Initial Investments**.** The implication of this equation is that when returns are zero, the risk of the social investor is equal to the amount of funds invested in the project. The situation become adverse if returns are negative. Thus, the worse of the returns and the worse of the risk of the social investor and on the other hand the better of the returns on social investment and the better is the risk of the social investor, it will be better of the social investor.

In simple terms, the higher is the risk, the lower is the returns and vice versa. Another implication is that initial investment represents capital outlay or capital out flow, so it has a negative effect or carries a minus sign in the functional equation. This capital outlay for the case of local social enterprises mostly funded completed by the local social investors. It's estimated that local NGO invests or contributes on average some $40,000 a year in realizing social projects. This figure was used to compute the expected annual returns. It was observed that without extra funds in form of grants and donations, in an adverse economy with increasing and compelling social welfare needs to be satisfied; returns would gradually be heading towards zero and / or negative.

Without donations and grants, social enterprises could not be sustainable. It would be thoughtful for governments or countries to institutionalize national grants to both local and international nonprofit making organizations. This would be a worthwhile policy consideration for Cameroon. Countries prone to disasters, hazard, environmental and social issues could use this measure to get credibility and access the social needs of a needing society, thus reducing the risk of social investors.

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