Social Investment & Sustainability – A Critique of the Normative Paradigm

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Introduction

'Social Investment', sometimes also called 'Impact Investment', ultimately seeks to provide finance to social ventures (either debt or equity finance) with an expectation that a social as well as financial return will be generated (Brown and Norman, 2011). Social finance has been defined as *'…the deployment of financial resources primarily for social and environmental returns, as well as in some cases, a financial return'* (Moore, Westley and Brodhead, 2012:116). Social investment is distinct from other types of funding (e.g. grants), as the finance provided needs to be repaid with a rate of return built-in to the repayments. Social investment therefore normally involves the provision of loans (debt finance), capital investments (equity finance) or repayable grants that account for inflation in the repayments (philanthropic finance). This requirement to repay the investment can drive social innovation as it requires the investee to challenge their institutional logics (Nicholls, 2010a).

The social investment market in the UK is often held up as a world leading sector due to its depth of social-purpose organisations, its strong financial sector (Evenett and Richter, 2011) and the strong political support for the 'social investment market' that has come from successive UK governments (Nicholls, 2010b). Indeed, Robinson (March 2016) estimated that the social investment market in the UK is worth approximately £1.5 billion and involves over 3,500 individual investment deals. This scale and scope, when combined with the significant policy support that has existed for the social investment market (Nicholls, 2010b), has created a momentum within the UK towards a focus on investment as the main means to drive scale and growth in the third sector. This can be viewed as part of the wider 'marketisation' of the third sector that academic research has identified as the normative policy narrative (McKay et al., 2015). These policies have included: the creation of Big Society Capital (Cabinet Office, March 2012); the introduction of social investment tax relief (HM Treasury, November 2016); and the revisions to the state-aid 'de minimis' European rules that the UK government engaged in (DfBIS, July 2015).

This rapid growth has left academic research behind, as practitioners have accelerated their development of new products and extended the scope and number of investment deals in the UK third sector (Dagger and Nicholls, 2016). This has led to a paucity of (much needed) academic critique within the field of social investment, particularly in relation to the UK model. Indeed, whilst some academic papers are now seeking to explore alternatives to the Anglo-Saxon model of social investment [see: Michelucci (2016) for a good exploration of the alternatives to the Anglo-Saxon paradigm here] there remains an acute need for further research that seeks to theoretically critique the social investment market *and* also provide empirical data on the impact that social investment has upon the sustainability and growth of the third sector in the UK. This chapter seeks to provide such a critique, through the analysis of data collected as part of a national investment readiness grant support programme. In doing so, the authors aim to identify that sustainability should be the main focus of government policy, and that social investment is merely one element in this wider policy strategy.

The UK Third Sector & Social Investment

The prominence of the third sector in UK policy narratives has grown significantly over the last 20 years, as it has been increasingly viewed as a legitimate deliverer of public services and as a panacea for social problems that can unburden the welfare state (Austin et al., 2006; Amin, 2009; Haugh and

Kitson, 2007). This shift in how government interacts with the third sector has seen the state overtly promote an idealised vision of a sector that is more business-like, entrepreneurial and better governed (Macmillan, 2011; Wells, 2012). The UK third sector includes over 160,000 'voluntary, community and social enterprise' (VCSE) organisations, which contribute an estimated £43.8 billion to the UK economy and employ over 827,000 people (NCVO, 2016). The UK government defines VCSEs as including 'small local community and voluntary groups, registered charities both large and small, foundations, trusts and the growing number of social enterprises and co-operatives' (Department of Health, July 2011). However, the rise of the Big Society policy narrative over the last six years has led to an increasing focus on marketising the VCSE sector (McKay et al., 2015), particularly through the continued encouragement to focus on commercial revenue generation that has existed for the last thirty years (Eikenberry, 2009). However, there has been a shift in the focus of this commercial revenue generation, towards a model that encourages VCSEs to focus on investment as a means to achieve sustainability, scale the business, and achieve greater impact (Wells, 2012; Hazenberg, Seddon and Denny, 2014; Moore et al., 2012).

This policy shift has seen increased policy support for social investment, including programmes such as Futurebuilders, the Social Enterprise Investment Fund and most recently the establishment of Big Society Capital. It has also led to the emergence of a network of intermediary social investment organisations that have become known as 'Social Investment Finance Intermediaries' (SIFIs) (Hazenberg et al., 2014). This growth in the social investment market has in large part being driven by the state. Indeed, UK government policy has sought to encourage the growth of the social investment market through the capitalisation of the marketplace (i.e. Big Society Capital, Bridges Ventures, Big Issue Invest) (Michelucci, 2016); the encouragement of public sector investment and contracting with VCSEs through changes in procurement and purchasing legislation (the 2012 Social Value Act) (Spear et al., 2015); support for public service mutuals (spin-outs) that has resulted in whole public services becoming VCSE organisations (Hall, Alcock and Millar, 2012; Hazenberg and Hall, 2014); and regulatory framework changes such as the Social Investment Tax Relief (HM Treasury, November 2016).

These policy frameworks have also been supported by other network stakeholders including foundations, investors and large third-sector funders (Michelucci, 2016). These include specialist network facilitators who bring together investors, business consultants other key stakeholders as a means to support VCSEs to become 'investment ready' (for more on this concept see the next section). This has led to numerous programmes being launched in the last five years including: Big Issue Invest Corporate Social Venturing Fund (see: http://www.bigissueinvest-csv.com/); the Big Lottery Fund Big Potential Programme (see: http://www.bigpotential.org.uk/); the Access Foundation Reach Fund (http://www.reachfund.org.uk/); and the Investment and Contract Readiness Fund (ICRF) (Ronicle and Fox, 2015). Despite operational differences between these programmes, they all share the same strategic focus that is to increase the investment readiness of VCSEs and increase the 'deal-flow' of social investments in the UK (or at least in England and Wales). However, this focus on social investment as the main means of driving VCSE sector growth and sustainability, is reflective of the dominant neo-liberal paradigm that exists in UK third sector policy in the UK, and which has led to the aforementioned wider focus on the marketisation of the sector (Dey and Teasdale, 2016; McKay et al., 2015). It is important that academic research seeks to critique this narrative where applicable, in order to understand whether a focus on investment readiness and social investment is really the best means for delivering scale and sustainability in the VCSE sector?

Investment Readiness and Sustainability

Gregory et al. (2012:6) define 'investment readiness' as *'…an investee being perceived to possess the attributes, which makes them an investible proposition by an appropriate investor for the finance they are seeking.'* The process of seeking investment and becoming 'investment ready' begins at the point

that an organisation realises that their personal resources, or those of their organisation, are insufficient for their start-up, growth or sustainability needs (Silver et al., 2010). Whilst historically, there has been a lack of academic focus on 'investment readiness' in the third sector, this has changed in recent years as researchers have sought to identify what investment readiness means to social investors and policy-makers (McWade, 2012; Hazenberg et al., 2014). This research has identified that within the supply and intermediary sectors of the 'social investment market', investment readiness is seen as constituting: financial sustainability; robust governance structures; broad management skill-sets; an ability to increase social impact alongside the growth of the business; and a willingness to seek investment (McWade, 2012; Hazenberg et al., 2013). However, these conceptions of investment readiness are 'investor focused' and fail to take into account the perceptions (and more importantly the needs) of VCSEs. In addition, the prior research fails to identify whether the marketisation of the VCSE sector through social investment is really the best way to drive the growth and sustainability of the sector. Indeed, whilst the development of demand-led capacity building in markets is to be welcomed, there is the possibility that such schemes can favour the already well-resourced organisations within a market (Macmillan, 2013) and hence overlook those that have greatest need (although it could be argued that this is the aim of such policies).

Nevertheless, it is important to also acknowledge that developing investment readiness and securing social investment can be very beneficial for VCSEs, as it builds organisational independence and resilience (Sakarya et al., 2012). Investment readiness support can allow VCSEs to strengthen their business model, improve their financial forecasting; identify new (or better understand existing) market opportunities; improve staff and management skills and capacity; and diversify their income streams. However, these changes to the VCSE's core model of mission delivery provide challenges to management teams (Bugg-Levine and Emerson, 2011) that often require restructuring or skill-set injections at board level. An inability to successfully undertake these changes often causes problems for VCSEs seeking finance from social investors, as they do not have robust governance structures, skilled management teams and detailed business plans in place (Hines, 2005; Hill, 2011; Howard, 2012).

Through this analytical lens, it can be argued in many ways that investment readiness and sustainability are effectively the same concept, as the latter is also based upon organisational resilience through the development of robust organisational structures, enhanced marketing strategies, network and partnership formation, and increased commercial revenue (Jenner, 2016). Indeed, Sharir, Lerner and Yitshaki (2009:90) identify social venture sustainability as being dependent on the ability to *'gain resources and legitimacy, create co-operation between institutions and develop internal managerial and organisational capabilities'*. As Jenner (2016:55) notes, the development of social venture sustainability occurs through the facilitation of access to the most appropriate resources and networks that allow the VCSE to grow commercially and deliver greater social impact (and hence increase legitimacy). This chapter seeks to better understand these tensions and the *appropriateness* of social investment for VCSEs, through the analysis of data gathered from a national investment readiness support programme that seeks to support VCSEs to become more investment ready, achieve sustainability and hence access social investment. In providing this analysis and critique, the chapter will demonstrate that whilst investment readiness and sustainability support for the VCSE sector are to be welcomed, the wider policy narrative around social investment ignores the needs of the majority of VCSEs in a way that can be dangerous to the future sustainability of the sector.

Methodology

The Investment Readiness Support Programme:

The national investment readiness programme in question seeks to improve the sustainability, capacity and scale of VCSE organisations in order to enable them to deliver greater social impact in their communities and beyond. The programme seeks to specifically support organisations looking to grow through securing repayable investment, as well as to buy in specialist support from a range of expert 'providers' to improve their investment readiness. The programme offers grant funding of between £20,000 and £75,000 to VCSEs towards these aims so that they can undertake in-depth investment readiness work with approved providers. It should be noted that the focus of the programme is on the smaller-end of the VCSE sector who are seeking less than £500,000 of investment, and so the sample in this research is inherently biased. However, given the chapter's focus on sustainability issues and investment readiness, this is potentially a strength as it allows the research to focus on the element of the sector that are often overlooked by traditional interventions, namely the less well-resourced VCSEs (Macmillan, 2013). The programme has seven distinct phases:

- **Online registration:** Through the programme web portal.
- **Online diagnostic tool:** Completed by the VCSE, this online tool automatically assesses investment readiness[1];
- **1:1 support advisor session:** Carried out by a specialist programme advisor to further assess investment readiness;
- **Selection of a 'support provider':** The VCSE selects from a list of 'approved providers'.
- **Submission of a grant application:** Detailing the investment readiness work to be completed and the grant funding required.
- **Assessment of grant application:** Applications can be rejected, accepted or asked for revisions and resubmission;
- **Post-grant work**: Completed with the support provider to develop investment readiness (if successful).

Research Design and Analysis:

The research adopted a mixed-methods approach to the data collection, involving the collection of quantitative and qualitative data. Quantitative data was collected through an online diagnostic tool (DT) that was completed by applicant VCSEs both during their initial application to the programme, and again 12 months post-grant award (for those VCSEs that received funding). These tools captured organisational data (i.e. sector of operation, organisational reach, legal structure, financial data, income streams, governance models, staffing levels, skillsets, product details, accounting practices, and investment needs) from 527 VCSE applicants to the programme. All quantitative data was analysed using the Statistics Package for the Social Sciences' (SPSS v22.0), with descriptive statistics sought, alongside paired-sample t-tests.

Qualitative data in the form of a semi-structured interview was collected from 13 VCSEs; 4 Provider Organisations; and 5 strategic programme stakeholders. For the VCSE participants 5 had just completed their grant applications; four had been unsuccessful, two had been unsuccessful but successfully reapplied to the programme, and three were twelve months post-grant. Therefore a total of 22 interviews were held with the programme stakeholders. To date the programme has received and made decisions on grant applications from 186 VCSEs, and the participant VCSEs in this research were selected randomly from these 186 organisations (with the caveat that there would be a purposeful split across different stages of the programme (i.e. successful and unsuccessful VCSEs;

[1] The Diagnostic Tool was developed by a Programme Partner based upon their work in the VCSE sector over the last 10 years. A detailed description of the development of this tool is provided in Appendix A.

VCSE 12 months post-grant). The interviews explored each VCSE's business model, their experience of the programme and their future plans in relation to social investment and business scaling. For those VCSEs that were 12 months post-grant award the interviews also explored the long-term impacts of the programme on their organisations (not just in relation to social investment). However, the interviews were semi-structured in nature, which also allowed the participant VCSE to explore areas that they felt were important. The interview data gathered was analysed using a narrative approach, but in relation to the seven stages of the programme. This narrative approach was used to gather a rich picture of how change occurred within each organisation as they went through the programme and their experience of it. In particular, the analysis sought to understand what elements of the programme 'enabled' or 'inhibited' their investment readiness development, their knowledge of social investment and their future plans (Feldman et al., 2004). As with Feldman et al. (2004), the approach to data analysis was both inductive and iterative. This analysis process led to the identification of five core themes, namely: 'Programme efficacy'; 'Provider/VCSE values'; 'Investment Readiness and Sustainability'; 'Panel Decisions'; and 'Social Investment'.

Results and Discussion

As the focus of this chapter is on the investment readiness of the VCSE sector; and the relevance of social investment to the future growth and sustainability of the sector, the discussion below will reflect only the data from the above themes that are relevant. The discussion will be split into two sections: 'VCSE Investment Readiness'; and 'Sustainability Focus and Social Investment'. The results will be discussed in relation to the prior literature and the impact of grant funding programmes and the sustainability of the VCSE sector in the long-term, in order to explore the tensions that exist between investment readiness support/social investment, and the sustainability needs of VCSEs and the appropriateness of different means of supporting these (Jenner, 2016).

<u>VCSE Investment Readiness:</u>

Given the focus of the programme on the smaller-scale element of the VCSE sector, the data contained below in Table 1, especially in relation to turnover and investment need is not surprising. However, the data does demonstrate the challenges that the VCSE sector faces in becoming investment ready and sustainable, especially in relation to the low profitability of the sector (both in absolute terms and relative to turnover). Furthermore, the VCSEs are relatively reliant on just two income sources for over two-thirds of their income and over half of their income comes from public sector sources. There are also issues with the reliance that VCSEs have on volunteers, with their ratio of total staff to volunteers being two-thirds (although the FTE equivalent of these volunteers is not captured within the data). Nevertheless, in relation to assets and debt, the VCSEs are much better capitalised, having on average a debt to asset ratio of only 25.9%. The data presented here identifies that the VCSE participants are poorly placed to secure investment, or to be classed as investment ready, as they do not have the requisite financial sustainability (McWade, 2012; Hazenberg et al., 2014). Whilst this is to be expected to a degree given the target population of the programme, it also demonstrates how far away the VCSE sector is from meeting the investment readiness expectations of the social investment sector. This is particularly true considering that the median investment need of the VCSEs is nearly 100% of their turnover, a relatively significant amount in investment terms [especially given the average investment to profitability ratio of 1/92 (median) or 1/39 (mean)].

Table 1 – VCSE Demographic Data						
Demographic Variable		*N*	*Mean*	*Median*	*SD*	*Min.*	*Max*
VCSE age (years)		507	14.09	7.81	16.72	<1	112
Turnover		506	£1.18m	£277,500	£3.15m	£0	£41.3m
Net profitability		357	£30,194	£3,000	£85,495	£-79,924	£997,637
Total assets		503	£927,668	£109,079	£4.05m	£0	£60.64m
Total debt		454	£240,386	£17,025	£776,123	£0	£10.84m
Investment needs		511	£599,555	£250,000	£4.15m	£0	£90m
Income diversity *(% of income from top 2 customers)*		480	66.3%	70%	26.5%	1%	100%
Public sector reliance *(% of income from public sector)*		410	51.4%	50%	31.8%	0%	100%
Staffing	FT	518	14	3	48	0	847
	PT	516	15	3	49	0	847
	Volunteers	513	127	10	1605	0	35000

Nb. N < 527 as some organisations did not complete all parts of the diagnostic tool.

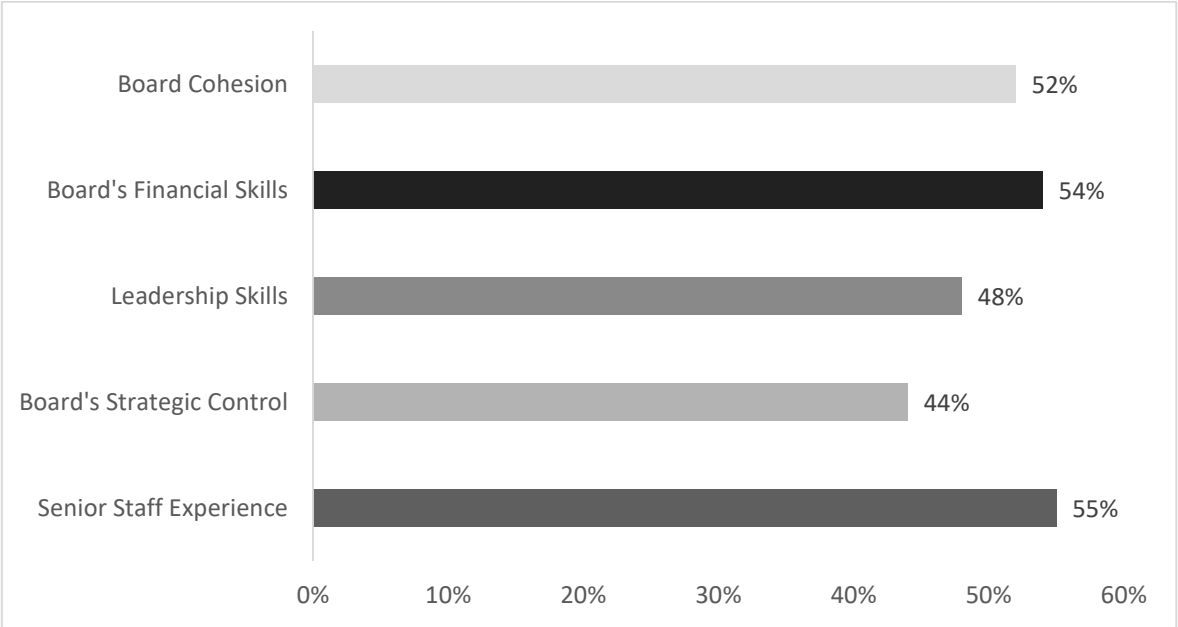
This assessment of the investment readiness of the VCSE sector based upon this sample is also supported by the outcome of the DT, which outlines an average IR score of 54% compared against the investment readiness target of 70%. This demonstrates that the VCSE participants are significantly below the threshold required to be deemed as being investment ready, highlighting both the difficulties for the lower end of the sector to secure investment (Hazenberg et al., 2014), and also the lack of resources within the organisation for securing growth/sustainability (Silver et al., 2010). Indeed, when looking at the figures presented in Tables 1 and 2, it is unsurprising that the vast majority of social investment still involves secured lending (77.5% of all lending to VCSEs and 51.3% of all social investment deals excluding 'profit with purpose' deals) (Robinson, March 2016), as the sector as a whole has the assets to provide security, if not the financial performance to give investors' confidence on unsecured or equity investments.

Table 2 – VCSE DT Scores			
Factor	*N*	*IR Score*	*SD*
Investment readiness score	467	53.7%	18.8%

N < 527 for the overall data as some organisations did not complete all parts of the diagnostic tool.

Leadership and governance is another area which the VCSE sector struggles with in relation to investment readiness, as many smaller organisations do not have managers with the requisite skills or the formalised process in place to provide effective governance. In addition, as many VCSEs are charitable organisations (54.4% of this sample), the skills and capabilities of trustees is also important. These were issues that were identified both in the DT and also in the qualitative data, with DT respondents identifying sub-optimal performance in relation to: Senior Staff Experience; Leadership Skills; Board Strategic Control; Board Financial Skills; and Board Cohesion (see Figure 1 below).

Figure 1 – Governance and Leadership Perceptions:



In addition, this was also identified in the interview data by VCSEs who both successfully and unsuccessfully applied to the programme. These findings offer support to prior research that has identified governance and leadership/management issues as a problem for VCSEs seeking social investment, and demonstrates the need that the SME-sized VCSE sector has here (Hines, 2005; Hill, 2011; Howard, 2012; Hazenberg et al., 2014):

> *"We haven't really paid that much attention to our governance systems and how we manage ourselves over the years because we've just been two blokes doing what we do."* (P17 – Unsuccessful VCSE)
>
> *"The areas that the consultancy support came in was around doing a skills audit with our board……and here we'd got an external organisation who were offering us some advice about the mix of skills on the board."* (P20 – Successful VCSE)

Finally and in relation to being investment ready, another area of importance identified relates to the social impact delivered by VCSEs, as well as their measurement and reporting of this. The data gathered in the DT identifies that social impact measurement is another area that the VCSE participants do not perform well in, as they rate themselves at between 46-49% for their performance management, social impact measurement fairness and dissemination of social impact data, again against an investment ready threshold of 70% (see Figure 2 below)[2]. As prior research has identified

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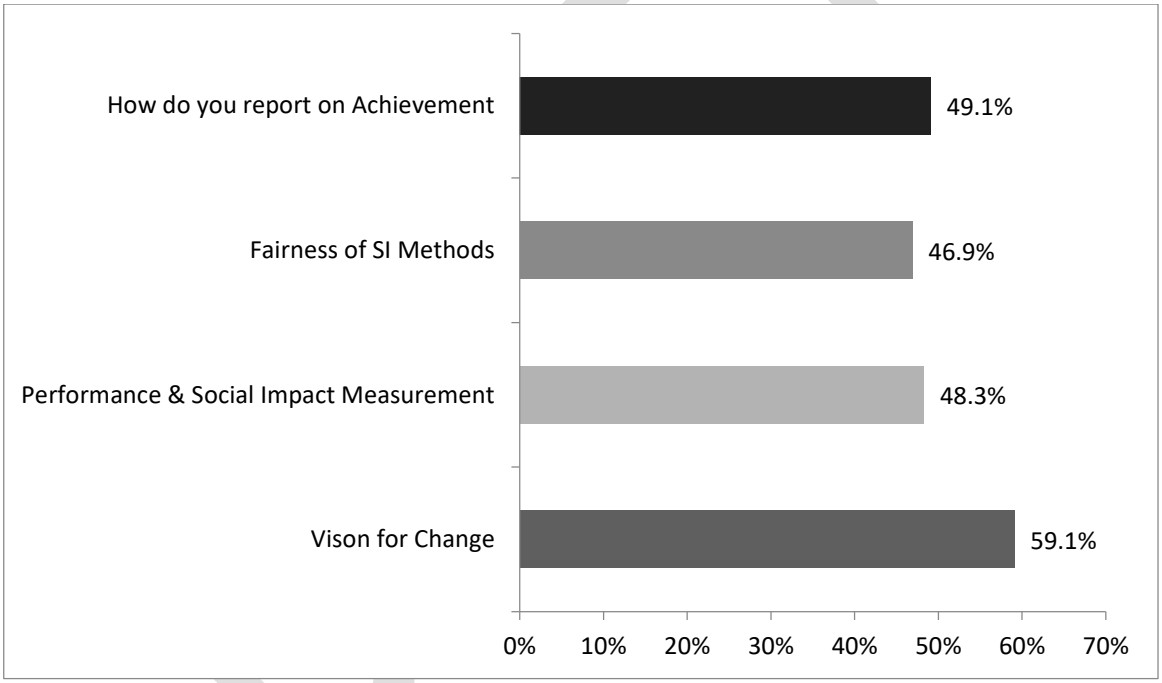
Nb. VCSEs were asked to rate their SIM abilities in the following 4 areas: **Report:** How do your report on your achievements and impact? *(0 = we don't provide documents such as annual reports, other than what is included in our financial accounts; 10 = an annual independently verified statement of our social performance is always available on our website and promoted widely).* **Fairness:** What do you to ensure that the information you capture and report about your performance and social impact is fair? *(0 = we don't routinely collect information about our organisational performance; 10 = our social impact methodology routinely involves scrutiny and verification from an independent external body).* **Performance/impact management:** What methods does your organisation use to manage performance and/or measure impact? *(0 = we do not have a formal method in place to track performance and measure impact; 10 = we use an established and externally developed social impact methodology, which is fully embedded in our overall organisational systems).* **Vision:** Does your organisation

the ability to be able to measure and report social impact as a key feature of investment readiness in the social investment sector (Hazenberg et al., 2014), this skill gap in the VCSE sample here identifies further issues for the sector in securing social investment. Indeed, this was also an issue that was articulated within the qualitative data, with interviewees discussing the lack of robust social impact measurement frameworks as an issue. As one programme provider noted:

> *"I think with* [VCSE]*, they came in and they were kind of like, 'Social Impact, what's that?' you know. And so I think what we managed to do in that six months was to create framework for them…to help them understand what their social impact might be. So what we were trying to do was to pull out what the social impact, to get them to understand what the social impact of them as individual* [centres] *was and then actually how the consortium, the impact in terms of the consortium worked alongside that."* (P13 – Provider – Theme 'Investment Readiness and Sustainability')

Figure 2 – Social Impact Measurement Perceptions:



Sustainability Focus and Social Investment:

As was identified earlier in the chapter, investment readiness and sustainability are closely intertwined concepts (Sharir, Lerner and Yitshaki, 2009; Jenner, 2016). When exploring the investment readiness problems that were facing the VCSEs on this programme, it is also clear that the sector is still lacking in the areas already noted by prior research, namely: robust governance and management structures/skillsets (Hines, 2005; Hill, 2011; Howard, 2012; Hazenberg et al., 2014); financial performance (McWade, 2012; Hazenberg et al., 2014); and social impact measurement and reporting (McWade, 2012; Hazenberg et al., 2014). However, dealing with these issues has a wider importance than just investment readiness, as these are also factors that relate to sustainability. Indeed, issues related to governance and management skillsets are directly related to 'legitimacy' and the

have a clear vision for change and the impact you are trying to achieve? *(0 = we don't yet have a clear vision of what our organisation is trying to achieve in the longer term; 10 = we regularly review our vision, mission and objectives and the board and staff are all aware and signed up to them).*

development of 'internal capabilities' (Sharir, Lerner and Yitshaki, 2009); whilst improved financial performance and resource acquisition is related to cooperation/coproduction, network formation and social impact delivery (Sharir, Lerner and Yitshaki, 2009; Jenner, 2016). These are all areas that are required for any organisation to grow, and that are even more critical for VCSEs that have to balance commercial and social missions (Bugg-Levine and Emerson, 2011). This was certainly an area that was recognised by the VCSE participants:

> *"I mean we* [need] *to get to the point of sustainability…we're looking at setting this up with a centre. We've got the centre, we've got the premises lined up. We just need the working capital to get the whole thing off the ground."* (P17 – Unsuccessful VCSE – Theme 'Investment Readiness and Sustainability')

> *"We have quite a forward thinking board of trustees of the charity, they had rightly recognised that the income streams were changing and that we needed to move with the times, and we needed to be proactive."* (P20 – Successful VCSE – Theme 'Investment Readiness and Sustainability')

The awarding of grants on the programme in question (of which 124 have been awarded in the first two years) have unsurprisingly tended to fund VCSEs to develop their social impact measurement, increase income diversification and improve organisational/governance structures (58.1% of all grant awards). VCSE motives for seeking grant funding and wanting social investment include: social/commercial scaling; consolidation of previous growth; and organisational independence/flexibility. There is therefore a clear need for programmes (including the one in question) that offer this type of support to the VCSE sector, if the overall *sustainability* of the sector is to be improved. However, this is very different to a sole focus on securing social investment, which as with all investment and all organisational types, is not suitable to all VCSEs. Indeed, it is about finding the most appropriate mechanisms and resource types to facilitate sustainability and growth (Jenner, 2016), rather than presuppose that social investment is the panacea for all of the VCSE sector's problems. This was articulated by all stakeholders that participated in the research, an example of this is provided below:

> *"I think also it's just worth pointing out that, in my experience at least, any organisation that embarks on an investment readiness journey gets lots of added value on that journey. It's not just about becoming investment ready. Yes, that is the focus of the programme but actually there's a whole lot of spin-offs in terms of the capacity building and strengthening and the culture change within the organisation which is a bi-product of the investment readiness journey."* (P15 – Provider – Theme 'Investment Readiness and Sustainability')

The actual uptake of social investment and VCSE attitudes to social investment moving forwards also provide interesting data, and this is the area that is perhaps most telling when offering a critique of both the social investment narrative and VCSE investment readiness. To date only 5 of the 124 VCSE grant awardees have gone on to secure social investment (of which 32 are at least 12 months post-grant). This suggests a number of possible factors, specifically that: 1) VCSEs are still not investment ready even after the grant support; 2) VCSEs do not see social investment as viable having explored it or see alternative routes to sustainability; 3) 12 months post-grant is still not enough time for the VCSEs to have developed sufficiently to become investment readiness. It is difficult from the data gathered to date to understand what the dominant factor is (if indeed there is one), but some of the data gathered does suggest that it is a lack of desire to engage with social investment from the VCSE sector rather than the other way around. Those VCSE participants that had completed (or almost completed) the post-grant phase articulated that for their organisation the process had identified to

them that a growth model based around social investment was not right for them (or at least too early-stage). In addition, other programme stakeholders also articulated that social investment and deal flow should not necessarily be the way to judge such grant programmes, as the key was to identify relevant routes to sustainability (Jenner, 2016). In addition, whilst the current data sample is small (n = 6) for those VCSEs that had completed the DT at the post-12 months stage, these VCSEs had a near statistically significant improvement in their investment readiness score to 73%, above the threshold considered to be investment ready (Time 1 = 66.83% / Time 2 = 73%; +6.17%; t = 2.42; p = .06). Interestingly, at that time none of these ventures had secured investment. Further data collection is required in this area to further test this early trend in the data.

> *"So the conclusion we came to…was that the model that we're actually working* [describes business model] *was probably better at this moment in time than* [describes alternative business model]*, which was a bit of a shock to us, but I think we felt going through the process as well that it was too early for us to look at social investments."* (P10 – Successful VCSE – Theme Social Investment)

> *"*[We] *need to be careful about how they* [Stakeholders involved] *evaluate the success of* [the Programme]*. I think that it's harder to evaluate because I think a lot of the gains are soft gains rather than hard numbers……I hope that if you are talking with investors they don't beat up on that, the deal flow issue, because I don't think it* [the Programme] *was really set up for that."* (P14 – Provider – Theme Social Investment)

Finally, the research data also revealed an interesting theme in relation to the idea of the scaling and growth of VCSEs. The dominant policy paradigm, characterised by neo-liberal attitudes to the marketization of the third sector (Dey and Teasdale, 2016; McKay et al., 2015), is partly underpinned by the idea that the growth of VCSEs is inherently good, as it will lead to more social impact. However, this relationship is not clear and indeed growth for the sake of it outside of a wider framework of strategic planning could have detrimental effects on VCSEs (Dees, Anderson and Wei-Skillern, 2004). This was an area that was also recognised by the programme stakeholders and that was articulated by one of the participants.

> *"It's not always about scaling up, actually. It's about working in different ways and I keep coming back to this. It's about creating the opportunity for generating a mixed portfolio of income rather than just relying on grant funding……So for some organisations, it's not about increasing your turnover, it's about becoming more profitable. And I know that's a dirty word for a lot of voluntary organisations so you can call it a surplus, call it what you like, ultimately its money that gets recycled back into the organisation to help it develop and deliver better in the future. Whether that's through a process of growth or whether it's just a process of change or a combination of both."* (P16 – Provider – Theme Social Investment)

This idea is one that needs to be challenged, as the focus for the sector (as has been outlined in this chapter) should be on sustainability that is delivered through the most appropriate means (Sharir, Lerner and Yitshaki, 2009; Jenner, 2016). Whilst social investment has much to offer and is clearly relevant for some organisations, it is dangerous to assert that this should be the dominant means of supporting the VCSE sector.

Summary

This chapter has sought to question the dominant policy (and to a degree sectoral) discourse around social investment as the panacea for VCSE sustainability. The argument presented *is not* one that seeks to discredit social investment or its role in supporting VCSEs; far from it, the growth in the social

investment market and the increase in deal flow over the last five years (20% per annum) demonstrates that the need is there (Robinson, March 2016). However, the dominance of social investment in policy discourse that was evidenced early on in the chapter, and the focus of grant funding programmes on increasing social investment deal-flow, is one that fails to recognise the serious sustainability issues of the VCSE sector (particularly at the lower end of the market). It also provides a dangerous focus on pushing social investment to a sector where clearly a significant number of organisations either aren't ready for it or are not interested in the products offered. Instead, support that focuses on driving sustainability within organisations (that is much needed as the data from this study demonstrates), whether that be to scale or simply survive should become the aim for policy-makers, with social investment being merely one tool in this process. The rhetoric around the social investment market at the moment means that this is seemingly not the case and policy-makers should reassess whether the mechanisms that they are putting in place will really achieve the aims that they are seeking to achieve.

Appendices

Appendix A: The Diagnostic Tool

The Diagnostic Tool (DT) for assessing VCSE investment readiness was based upon work by the associated Programme partner with the VCSE sector over the last 10 years. Five main areas related to investment readiness were identified, namely:

1. **Organisational demographic data** (name/age/sector of operation/legal structure/staff size);
2. **Finance and Accountancy** (turnover/historical turnover/profitability/assets/debt/investment type and need; accounting systems; cash-flow forecasts);
3. **People** (management/leadership/staff skills);
4. **Products and Services** (marketing/customer base/beneficiaries/product and service development);
5. **Organisational Capacity** (operations; impact; impact measurement; community engagement; brand).

In total there are 55 separate questions, each of which relate to one or more of the above 5 categories. The questions were developed by a panel of experts and were then piloted with a sample of VCSEs (n = 15) so that they could be adjusted for meaning/understanding. The VCSEs also feedback on how well they thought the DT overall analysis produced related to their VCSE. The questions either require the inputting of fixed data (e.g. the age of the VCSE or its turnover), or perceptions of effectiveness measured through 11-point Likert scales (0-10) through which VCSEs can rate their own efficacy in different areas. Each question has an individual weighting for each category that it is related to (expressed as a maximum possible score). The weighting and scoring profiles were developed through both iterative experience and case-studies, but were then refined through testing with VCSE organisations across the last 8 years. The DT in use here is the 6th iteration of the initially developed tool, with the majority of the development over that period being related to the scoring profiles and question weightings. A scoring profile for each of the above 5 categories was then created that is not always linear, but based upon a graphical representation of what optimal and sub-optimal answers are (e.g. for some questions it is a case of balance, and higher scores will be posted for mid-answers). Figure 1 below outlines the 4 types of profiles used.

Figure 1 – Scoring Profiles:

Each of the above 5 categories then has an overall score produced for it based upon the composite answers, and this is represented as a percentage. These five category scores are then combined to produce an overall 'investment readiness score' out of 100, with a score of 70% or above being viewed as demonstrating that a VCSE is investment ready.

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