

# Impact Investment & Sustainability: A Policy Panacea for the Third Sector?

## IRSPM Conference

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# Research Overview

- Seeks to explore investment readiness in the UK third sector.
  - Utilises data gathered from a £10m UK investment readiness support programme (IRSP):
  - IRSP offers Third Sector Orgs (TSOs) grants to increase their IR.
  - Seeks to increase deal-flow in the social investment market.
- The paper adopts a Kuhnian (1962) approach to argue that impact investment is part of a neoliberal policy paradigm that seeks to monetise civil society.
  - Builds upon the work of Hall (1993) and Kingdon (2003) in demonstrating how policy paradigms shape wider ecosystem conditions.
- Further, the paper seek to articulate utilising Jenner's (2016) work on sustainability, that IR/sustainability are the same & that the focus on the former is politically driven.

# Third Sector Sustainability

- Policy rhetoric in the UK is centred pm TSOs being inefficient, lacking in scale and not commercial enough to survive.
  - Policy ideation (Hall, 1993) centres on the need to marketise the third sector.
  - Impact investment is seen as the solution and pushed through policy & funding.
- TSOs are also argued to ***lack investment readiness (IR)***.
  - ‘*an investee being perceived to possess the attributes, which makes them an investible proposition by an appropriate investor for the finance they are seeking.*’ (Gregory et al., 2012:6)
- Does the wider policy narrative around social investment ignore the sustainability of TSOs?
  - This is part of a wider global push towards impact investment.

# Methodology

- Research questions to be addressed are:
  1. How well suited to accessing impact investment are micro/small TSOs?
  2. What are the implications of impact investment for TSO sector sustainability?
- Adopts a mixed-methods approach to this evaluation utilising:
  - Quantitative organisational demographic data captured through a Diagnostic Tool (n=928).
    - Data analysed in SPSS v26.0.
  - Qualitative data in the form of semi-structured interviews held with TSOs, Providers & other key stakeholders (n=55).
    - Data analysed utilising narrative method (Feldman, 2004).
- 6 core themes emerged from the interviews: ‘Programme Efficacy’; ‘TSO Values’; ‘Investment Readiness and Sustainability’; ‘Funder Decisions’; ‘Impact Investment’ and ‘Hybrid Tensions’.

# TSO Organisational Data

## TSO Demographic Data

Demographic Variable	N	Mean	Median	SD
TSO age (years)	915	13.2	7.0	17.8
Turnover	928	£377,765	£202,999	£463,083
Net profitability	416	£22,568	£11,472	£28,374
Total assets	713	£265,064	£98,072	£377,891
Total debt	548	£76,168	£31,094	£107,015
Impact Investment Need	823	£246,126	£210,000	£167,308
Income diversity (% of income from top 2 customers)	872	67.8%	73.0%	325.6%
Public sector reliance (% of income from public sector)	710	52.4%	50.0%	32.3%
Staffing FTE	821	9.9	5.5	12.7

# TSO Data Trends

- The data reveals that:
  - **Investment need** is significant when compared to turnover (103%).
  - **Profitability** is low (5.7%), making the servicing of debt difficult.
  - **Income diversification** is poor, with a heavy reliance on two or less contracts (73%).
  - **Asset to debt ratios** are good (3/1 ratio).
  - **Public sector reliance** stands at 50% by turnover.
- Based on this data, the investment readiness of the TSO sample can be considered low due to poor financial stability.
- The Diagnostic Tool also calculated an overall investment readiness score as a percentage, demonstrating that only 11.5% of TSOs reached the DT IR threshold of 70%...

# TSO Investment Readiness

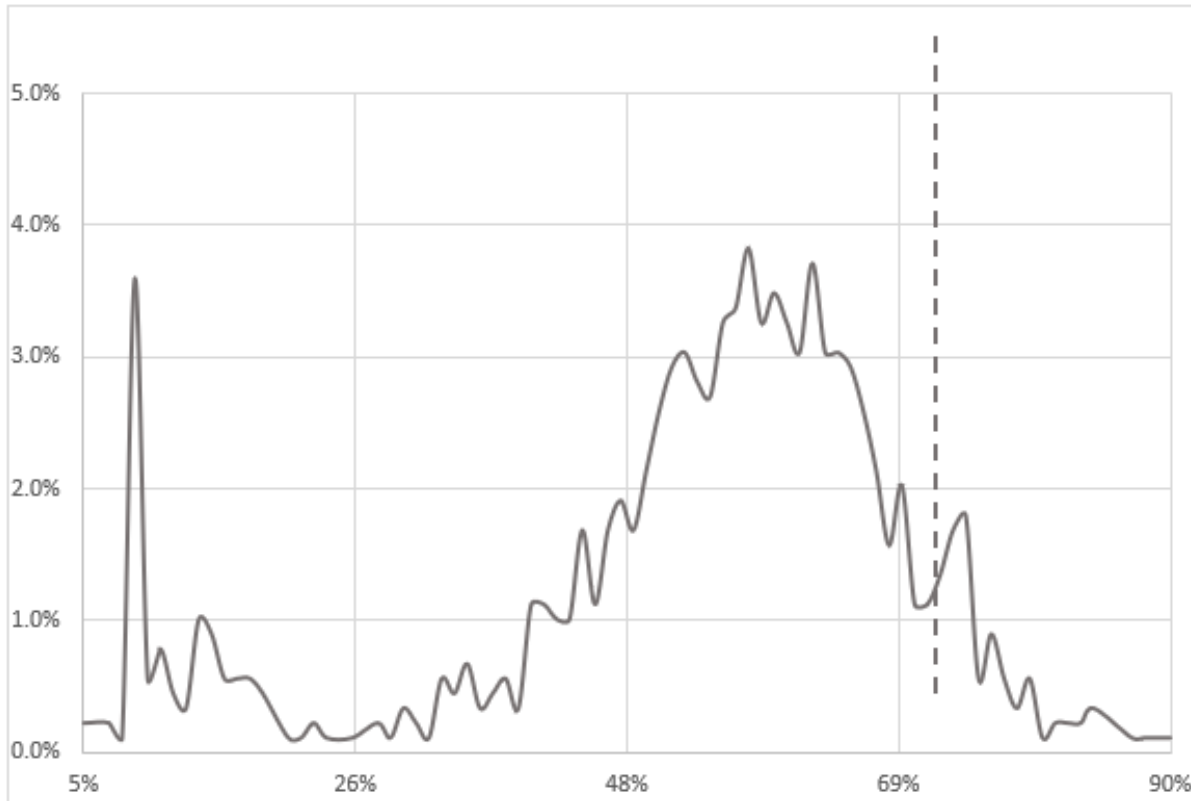


Figure 1 – DT Investment Readiness Scores Distribution [x-axis = investment-readiness score; y-axis = frequency (%)]. Dashed line represents the DT investment-readiness threshold score of 70%.

# Impact Investment Fit

The interviews revealed a lack of fit between TSOs and impact investment:

**Investment Fit:** *“Part of the problem is that a lot of that capital is very similar in nature. So, it’s all, most of it is less than ten years in terms of term, most of it probably less than five really. It’s all quite expensive, it’s all 5%+ and certainly all of the Big Society Capital money is. So, it’s all quite similar but there’s plenty of it. I think there is a need for long-term patient capital.”* (P54: Provider – Theme: Impact Investment)

**Risk-aversion:** *“I think voluntary organisations when it comes to risk are very risk averse quite rightly because their social mission has to come above their commercial one and as a result the Board of Trustees need a greater level of assurance again.”* (P29: TSO – Theme: Hybrid Tensions)

**Values:** *“It was just, everything that he was recommending in terms of our business development, this particular consultant, he wanted for us to sell everything we did.....he wanted us to try and, you know, make everything into a product...I just felt like, that’s not who we are, we’re a community benefit society.”* (P18: TSO – Theme: VTSO Values)



# Sustainability & Scale

The interviews also revealed tensions between policy/funding & what was delivered:

**Capacity Building:** *“Look, a lot of people talk about investment-readiness like it’s a place you can go to. And it isn’t, it depends on who’s looking at you really, it depends on their risk, risk blends I guess. For me, it means are you, does a business model stack up and are you ready to do it? And so, it’s almost capacity-building, but nobody wants to call it that.”* (P28: Investor – Theme: Investment Readiness and Sustainability)

**Organisational Fit:** *“I think it’s very difficult because I almost see it like a visually, a like a wave, like a mass, a large wave that’s pulling, like the tide is pulling back and then you see, it exposes everyone on the beach, you see how fragile the business models are. So, when it’s receding it just exposes all of the financial fragilities, it exposes the risk, it exposes the over-dependency on specific contracts etc.”* (P38: Social Investor – Theme: Investment Readiness and Sustainability)

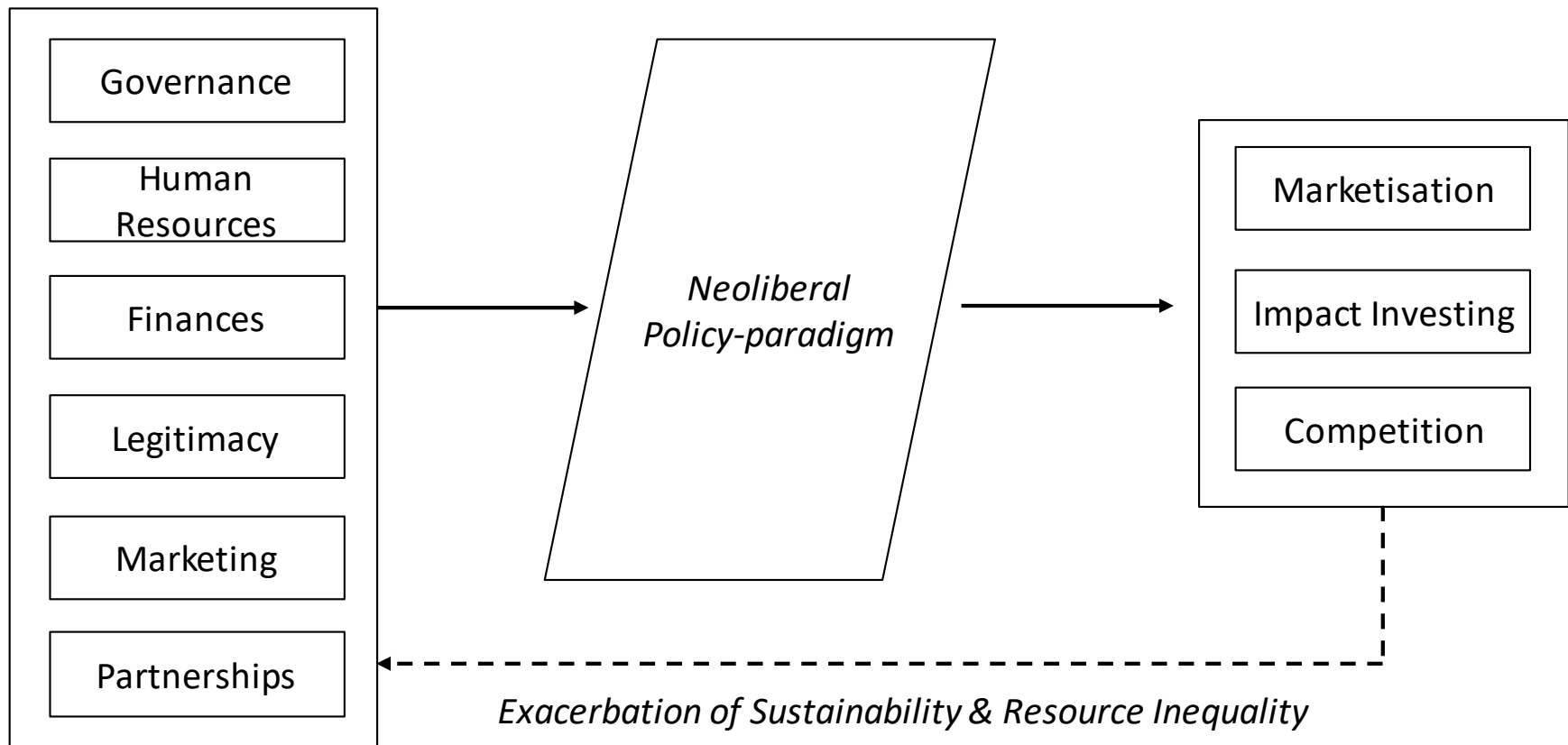
**Subverting Policy:** *“...what we were really doing was we were helping them to become sustainable and I think quite a lot of the time we were giving them much broader advice, we weren’t just focusing on how we could get them social investment.”* (P39: Provider – Theme: Programme Efficacy)

# Sustainability Crisis

*TSO Sustainability Crisis & Resource Inequality*

*Policy Ideation & Dominant Discourse*

*Emergence of Micro-Paradigms & Policy Solutions*



Thank you  
for listening

Any questions?

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