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Neo-liberalism and sustainability: Is social investment a ‘cure-all’ for the third sector?

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Research Overview

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- Seeks to explore investment readiness in the UK ‘voluntary, community and social enterprise’ (VCSE) sector. Specifically in relation to:
  - Social investment.
  - Grant funding support programmes.
  - UK policy vis-à-vis social investment.
  - VCSE sustainability.

- Utilises data gathered from a £10m UK investment readiness support programme (IRSP):
  - IRSP offers VCSEs grants to increase their IR.
  - Seeks to build capacity in the support provider market.
  - Seeks to increase deal-flow in the social investment market.

Social Investment Markets

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- Existing research suggests that VCSEs are characterised by:
  - Lack of business skills (Bugg-Levine & Emerson, 2011).
  - Poor governance structures (Hines, 2005; Hill, 2011).
  - Business plans that lack detail (Howard, 2012).
  - Lack of investment knowledge & risk-aversion (Hazenberg et al., 2014).
  - This is termed as a lack of sustainability (Jenner, 2016).

- VCSEs 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)

- Could be argued that investment readiness and sustainability are ***effectively the same concept***.
  - Does the wider policy narrative around social investment ignore the sustainability of VCSEs?

Methodology

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- The research seeks to assess the efficacy of the IRSP in increasing the investment readiness & sustainability of VCSEs.

- Adopts a mixed-methods approach to this evaluation utilising:
  - Quantitative organisational demographic data captured through a Diagnostic Tool (n=761).
    - Data analysed in SPSS v22.0.
  - Qualitative data in the form of semi-structured interviews held with VCSEs, Providers & other key stakeholders (n=33).
    - Data analysed utilising narrative method (Feldman, 2004).

- 5 core themes emerged from the interviews: ‘Programme Efficacy’; ‘Provider/VCSE Values’; ‘Investment Readiness and Sustainability’; ‘Panel Decisions’; and ‘Social Investment’.

VCSE Organisational Data

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Table 1 – VCSE Demographic Data

Demographic Variable	N	Mean	Median	SD	Min.	Max
VCSE age (years)	748	14.23	7.69	18.37	<1	117
Turnover	735	£1.27m	£255,000	£6.35m	£0	£41.3m
Net profitability	598	£39,113	£1,000	£172,973	£-79,924	£2.44m
Total assets	744	£984,711	£87,007	£4.97m	£0	£87.69m
Total debt	695	£253,187	£15,025	£1.26m	£0	£28.17m
Investment needs	751	£629,320	£250,000	£4.04m	£0	£90m
Income diversity *(% of income from top 2 customers)*	712	66.8%	70%	26.5%	1%	100%
Public sector reliance *(% of income from public sector)*	595	51.8%	50%	32.0%	0%	100%
Staffing FT	759	15	3	65	0	1,394
PT	757	15	3	64	0	890
Volunteers	756	208	10	3,050	0	75,425

VCSE Trends

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- The data in Table 1 reveals that:
  - **Investment need** is significant when compared to turnover.
  - **Profitability** is low, making the servicing of debt difficult.
  - **Income diversification** is poor, with a heavy reliance on two or less contracts (70%).
  - **Volunteer reliance** is also high, with over 3 volunteers to every member of FT staff.
  - **Asset to debt ratios** are good, with relatively high asset and low debt levels (6/1 ratio).

- Based on this data, the investment readiness of the VCSE sample can be considered low due to poor financial stability.

- This data identifies why the majority (77.5%) of UK social investments take the form of secured lending (Robinson, March 2016).

IR Diagnostic

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Table 2 – Diagnostic Tool IR Scores			
Factor	N	Mean (T1)	SD
Investment readiness score	729	**54.9%**	16.8%

N < 761 for the overall data as some organisations did not complete all parts of the diagnostic tool.

- Diagnostic Tool scores for the VCSEs also demonstrate the overall low IR of the sector:
  - A score of 70% is considered the minimum to be considered investment ready.
  - VCSEs scored only 55% on this tool at application.
  - VCSEs scored particularly low in:
    - Governance and leadership (51%) especially in relation to the board's strategic control (44%).
    - Social impact measurement (41%).

VCSE Weaknesses

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The weaknesses surrounding governance/leadership & social impact measurement were also exemplified in the qualitative data:

"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 – 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 – VCSE)

"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."* (P13 – Support Provider)

Sustainability & Scale

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Need to develop sustainability not linked to social investment:

Income diversification: *"…they* (Trustees) *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 – VCSE)

Capacity Building: *"It's not just about becoming investment ready…there's a whole lot of spin-offs in terms of the capacity building and strengthening and the culture change within the organisation."* (P15 – Support Provider)

Scaling Problems: *"It's not always about scaling up…It's about creating the opportunity for generating a mixed portfolio of income…it's about becoming more profitable"* (P16 – Support Provider)

Organisational Fit*: "And you often see that with organisations that are perhaps struggling with their sustainability…they want an asset because they think they can monetise the asset…as opposed to what they're going to* [do] *with that asset and whether it's the right thing for them."* (P32 – Social Investor)

Summary

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- There is a clear need for social investment as evidenced by the increase in deal-flow of 20% per annum over the last 5 years (Robinson, March 2016).

- However, the focus on social investment as the main tool of scaling the VCSE sector is a mistake, that ignores:
  - The lack of suitability of investment for many VCSEs.
  - Not all organisations can or want to scale their product.
  - Social investment is **not a cure-all** for sustainability**.**

- Sustainability should be the focus with broad tools utilised to support this (Sharir, Lerner and Yitshaki, 2009; Jenner, 2016).
  - The smaller-end of the VCSE sector is potentially the most in need of this support (Macmillan, 2015).

- The research will seek to explore this further over the next 18 months.

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Thank you for listening

Any questions?

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