# *VENTURING INTO PUBLIC GOOD:*

## *FROM VENTURE CAPITAL TO THE CREATION OF STATE-SUPPORTED VENTURE PHILANTHROPY AND ITS IMPLICATIONS FOR THIRD SECTOR FINANCING*


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# SUMMARY

It is a commonly-held assumption in economic geography, management, and public administration that specialised capital providers contribute to the performance and growth of supported industries. Venture capital, in particular, enjoys significant government support in recognition of its role in firm and employment growth. The past twenty years have seen the emergence and rapid growth of analogous funders in the third sector. The putatively value-adding activities of these "venture philanthropists" are underexplored, as are their growing interactions with governments. This dissertation addresses this gap by examining the emergence, operational practices, and institutional arrangements of two influential British venture philanthropy funds: the first such fund in Europe and the first fund in the world co-created with the state.

I found that like venture capitalists, venture philanthropists channeled resources to carefully-selected organisations. Surveying the CEOs of most organisations supported by the two funds (82 of 98 charities and social businesses), supplemented by interviews of selected CEOs and the founders and staff of the two funds, revealed that venture philanthropists offer a suite of non-financial services similar to venture capitalists. CEOs asserted those services improved various organisational capabilities in a cost-effective manner. This process had broader effects: providing signals of investee quality, preparing investees for subsequent funding, and expanding networks. It also created data regarding individual organisations and responses to social issues, which in both cases informed policy. As intermediaries, venture philanthropists decreased power differentials and improved the flow of (oft-anonymized) information amongst funders, statutory bodies, and funded organisations, facilitating several types of collaboration.

I documented the co-creation of a government-supported venture philanthropy fund through eleven interviews with founding managers and government officials. This model, in which state, private, and civil society actors collectively founded and funded a value-adding capital provider, militates against neoliberal assumptions of an ever-diminishing state, as does the leveraging of private resources in alignment with state aims—though it raises concerns around democratic processes, accountability, and local control. Overall, I find privately- and publicly-funded venture philanthropy playing a role in the third sector analogous to the role of venture capital in the private sector.

# DECLARATION

This dissertation is the result of my own work and includes nothing which is the outcome of work done in collaboration except where specifically indicated in the text.

It has not been previously or concurrently submitted for a degree, diploma, or other qualification at the University of Cambridge or any other university or similar institution.

In accordance with Department of Geography guidelines, this thesis does not exceed 80,000 words excepting references, footnotes, attributions, and appendices. It contains fewer than 150 figures.

Signed:____________________________________________________

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# List of Abbreviations and Acronyms

EVPA: European Venture Philanthropy Association

EYEA Fund: Early Years Early Action Fund

HMI: Her Majesty's Inspectorate

INGO: International non-governmental organisation

IPO: Initial public offering

IS: Inspiring Scotland

NCVO: National Council of Voluntary Organisations

NEET: Not in education, employment, or training

NGO: Non-governmental organisation

NPM: New public management

ONS: Office for National Statistics

RQ: Research question

SPO: Social purpose organisation

SPSS: Statistical Package for the Social Sciences

SROI: Social Return on Investment

VC: Venture capital(ist)

VP: Venture philanthropy

VPO: Venture philanthropy organisation

# LIST OF APPENDICES

I recommend that we think big. We should stop being concerned only with today and with what we cannot do in these days of Reagan or Thatcher austerity... Let us plan as if it mattered—and let us make big plans, even plans that no one is willing to afford today... We must be concerned with what is humanly possible, not just politically and economically possible.

Many of us might become disillusioned with planning, and with big plans. At least, however, we will have grappled with important issues of our time, we will have studied what planning might and might not be able to do, and we will have become worthy of the heritage of our profession by practising it. (Isserman, 1985, p. 489-90)

—Andrew Isserman, 1947-2010

Isserman, A. (1985). Dare to Plan: An Essay on the Role of the Future in Planning Practice and Education. *Town Planning Review* 56: 483–491.

# 1 Introduction

Over the last three decades, economic geographers have been at the forefront of examining the economic, social, and spatial impact of the financial sector. Venture capital firms have been a focus, generating a contested but deep literature around the roles of such "value-adding" capital providers in supporting the growth of firms, industries, and various territorial innovation models (e.g., Mason & Harrison, 2002; Zook, 2002). In parallel, there has been substantial government support—financial, regulatory, and otherwise—of these private sector financial intermediaries, despite scepticism (Brander, Du, & Hellmann, 2015; Lerner, 2009).

The past twenty years have seen the emergence and rapid growth of analogous funders in the third sector, itself the realm of substantial experimentation and growth. These new intermediaries in the philanthropy sector, "venture philanthropists", have become important players in shaping, structuring, and channelling funding to the third sector. The activities and effects of these venture philanthropists are underexplored, as are their growing interactions with governments—despite intentional and striking similarities to the evolution of venture capital. This dissertation addresses this gap by systematically examining the emergence, evolution, and operational practices of two influential British venture philanthropy funds: the first such fund in Europe (Impetus Trust) and the first fund in the world co-created with the state (Inspiring Scotland).

These two venture philanthropy organisations (VPOs) represent the influential vanguard of a broader trend of multi-sector interaction. Private sector logics, resources, and practices were applied to supporting charities and other third sector actors. Statutory bodies funded, regulated, contracted with, and collaborated with these same charities and firms. Charities worked extensively with private sector professional service firms over the course of a long-term "investment" from private, voluntary, and statutory sources. These complicated and changing interactions are on the front edge of a decades-long shift in the roles and responsibilities of the private, public, and third sectors. This dissertation examines four related areas of enquiry related to this emerging subindustry, in the process extending and challenging existing literature.

The empirical work presented here helps to address four gaps. First, it creates a nuanced, grounded understanding of the emergence of British venture philanthropy to understand how this growing phenomenon compares to both venture capital and other philanthropic funders. Second, it examines the operating practices of British venture philanthropy to understand how such an approach actually works in practice—and the broader implications for social service provision. Third, it scrutinises the practices of venture philanthropy organisations (VPOs) in greater depth than previous work. This includes opinions from the recipients of venture philanthropy support—managers of social purpose organisations (SPOs)—in order to understand the role that these financial intermediaries play in at least some areas of the third sector. This source of data helps fill a gap: academics and practitioners often lament that the voices of charities supported by foundations are not often enough heard (e.g., John, 2007; Moody, 2008), which necessarily limits our understanding of many aspects of organizational philanthropy and its effects—in particular the burdens and benefits for recipient organisations. Fourth, this dissertation explores the emerging role for the state as a co-producer and funder of a VPO, with focus on the tensions, challenges, and potential benefits of such a policy experiment.

This study examines the organisational manifestation of the ideals of venture philanthropy through the founding of the first, now-archetypal, British VPO and the first government-supported VPO. Each case includes extensive interviews with founders and funders to determine why and how the translation of venture capital concepts to the third sector occurred and the ways each VPO evolved. This analysis examines the explicit application of private sector finance principles to the third and public sectors and, in the process, examines potential broader influences of venture philanthropy funders within the third sector—notably the possible role of funders as providers of signals of quality about the organisations they fund.

First, I explore the institutional arrangements and operating practices of venture philanthropy. Venture philanthropy is the explicit and intentional attempt to translate private sector venture capital logics and practices into the third sector—and therefore rests on the assumption that venture capital practices *can be* and *actually are* transferred to the third sector, to the putative benefit of society. I assess seven areas where venture capital principles are applied: sourcing and selection of investees, due diligence, an engaged relationship, the provision of funding, nonfinancial support, network linkages, and the intentional ending of the funding relationship in an “exit”.

Then I examine the specific “value-adding” contributions provided by VPOs, exploring if they are found to be valuable by the chief executive officers (CEOs) of SPOs, and if they generate broader effects like those found in the venture capital model on which venture philanthropy is based.

Finally, I explore the co-creation and implications of a government-supported VPO. There are reasons to believe that state involvement would systematically shift the institutional arrangements and operating practices of a VPO; these tensions are explored, as are the roles of the many actors involved in that experimental financial intermediary.

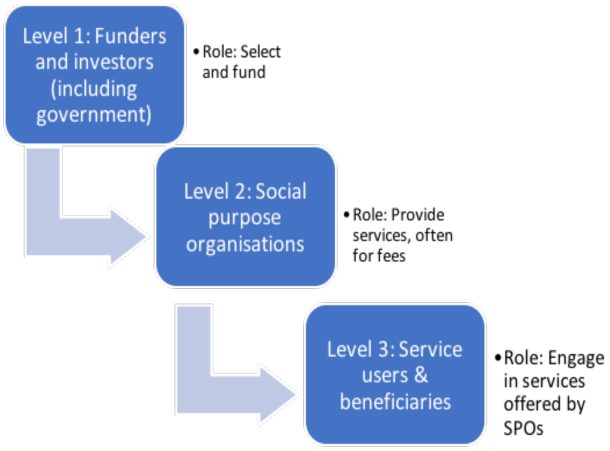
This work helps inform the changing nature of the voluntary sector and its relationship with the state. I focus on the increasing interaction of actors between and across systems—sometimes in new roles and coordinated by new intermediaries—in the allocation of resources and delivery of services in the public interest. These new interactions inform broad bodies of work that seek to understand changing sectoral roles, most notably discourses surrounding neoliberalism(s), financialisation, and public management.

By examining two emerging models of interaction between the private, statutory, and third sectors, I contribute grounded understanding of the way such systems support—and often contradict—straightforward narratives about the decline of the state’s role in providing services and the expanding application of financial and market logics across social and economic life. This includes an exploration of the fundamental tension between democratic accountability and the expanding role of both market- and voluntary-based systems in the allocation of public resources and provision of public services.

## 1.1 Shifting Sectoral Relationships: Introducing the Actors in Venture Philanthropy

Traditionally, charities that provide social services have been funded by statutory bodies, charitable trusts and foundations, and individual donors in a three-level system (Figure 1.1). In this model, these (i) funders provide support—and generally only financial support—to social purpose organisations. These (ii) social purpose organisations, chiefly charities and some social businesses, in turn provide services to (iii) a tremendous variety of service users and beneficiaries. Examples range from neighbourhood sports clubs to animal rescue shelters to the Red Cross.

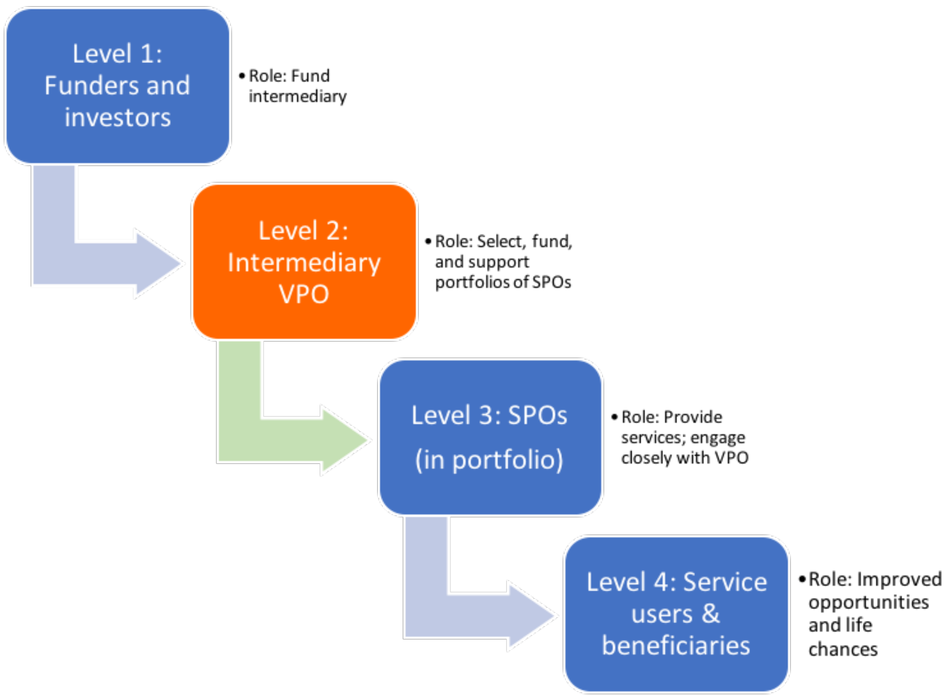
**Figure 1.1: Traditional method of funding for charities that provide social services**




This traditional model has been in place for centuries in much of the West, and for the last century has generally included government support (in the form of tax credits and exemptions) for both social purpose organisations and their nongovernmental philanthropic funders. However, new intermediaries such as Impetus Trust and Inspiring Scotland—the two venture philanthropy organisations (VPOs) examined in this study—have emerged in the last decade, as Britain and other states rely more heavily on social purpose organisations to deliver social services (Haugh & Kitson, 2007; Hogg & Baines, 2011).

The two VPOs I examine here are structured to create a different model. This model adds a venture philanthropy organisation as a *pure intermediary* between providers of capital and the charities which focus on social issues that those funders wish to address—that is, a charitable trust or foundation without any endowment and that does not provide social services to end-users. The VPO selects and supports SPOs working on that social issue. Figure 1.2 indicates the role of a VPO as a nongovernmental financial intermediary that delivers no direct services yet selects and supports the organisations that do.

**Figure 1.2: VPOs' model of funding and supporting charities that provide social services**




The central aim of most venture philanthropy funders is to provide better social services *by strengthening and expanding the social purpose organisation that provides those services*. There are four sets of actors involved, as indicated in Figure 1.2: (i) funders of the VPO, generally wealthy individuals, foundations, or the state; (ii) the VPO staff and board; (iii) SPOs; and (iv) service users and beneficiaries.

The ultimate goal of this model is effective outcomes for the fourth level: providing more and better opportunities to service users (generally young people in both case studies in this dissertation). This research, however, is most interested in the interactions between the "upstream" actors—the funders, the intermediary, and the supported charities. There are several reasons for this.

First, by considering the changing role of funders, I examine the different influence of private donors versus public funding. The first case, Impetus Trust, is funded by private philanthropists, corporations (mostly in finance), and foundations. The second case, Inspiring Scotland, is a new model of government-supported venture philanthropy and I examine it to find out why it was created, the practices involved, and their implications.

Second, by considering the VPO itself, I can describe and analyse the new actor in the ecosystem. Its interactions with funders and the social purpose organisations it selects are the key unknown elements in the model. My examination of these actors is guided by their explicit attempts to translate venture capital practices into the third sector.

Lastly, given the emerging and unusual nature of British venture philanthropy in general, and in particular the creation of publicly-funded venture philanthropy, I am keenly interested in the charities that comprise level three in this model. By contrast, most research on venture philanthropy funders focuses on the VPOs themselves, leaving the voices of those receiving and deploying those funds relatively silent. Hay and Muller (2014) argue for increased research into philanthropy, because "organizations dependent on philanthropic donations may be reluctant to look a 'gift horse in the mouth', we—as scholars positioned to do so—seek to open philanthropy up to critical geographical analysis" (p. 3).

## 1.2 The Operational Practices of Venture Philanthropists

Based on data generated in this study, I created a specific and independent analysis of the operational practices and institutional arrangements that result from the venture philanthropy model. In the private sector, venture capital firms conduct rigorous due diligence prior to investing, and then provide financing, nonfinancial support, and networking in the context of an engaged, multiyear interaction. These practices are implicated in creating signals of investee quality, improving investee outcomes, and broadening support and investment networks, and thereby foster broader economic growth—key reasons that venture capital is frequently subsidized by policymakers. This dissertation enquires: To what extent do venture philanthropists play an analogous role? This is a pressing question, given the state subsidies provided to foundations and social purpose organisations in all Western nations (Roodman & Standley, 2006), the rapidly-increasing stocks of philanthropic capital (Hehenberger, Boiardi, & Gianoncelli, 2014), and the shift toward "value-adding" philanthropy and social investment in which venture philanthropy is considered to be a vanguard concept (De Vita & Fleming, 2001).

It is often unquestioned that actions termed "value adding" *are* in fact valuable to recipient organisations. The drastic power imbalances usually found between funders and investees (Ostrander, 2007) exacerbates the challenges in testing these assumptions. Indeed, the first randomised evaluation of such capacity building was only published in 2014 (Minzner, Klerman, Markovitz, & Fink, 2014). This study interrogates this assumption. I offer data on the extent to which the venture philanthropy organisations' inputs are valued by the CEOs of supported social purpose organisations. Additionally, supported CEOs reported whether they believe these nonfinancial services are worth the costs incurred in providing them.

## 1.3 Exploring the Emergence and Implications of Government-Supported Venture Philanthropy

I also examine how these issues are expressed in the first such fund developed with government, foundations, and corporations. This study asks why the Scottish government was willing to devote public funds toward creating a financial intermediary, particularly given that charitable foundations are perhaps the least-controllable corporate form in British law. I explore some tensions in the model, including its presumed spatial biases (Milner, 2009), the challenge in providing access to all citizens, and what might be considered voluntary abdication of state democratic control over (some) social service spending. These questions are particularly relevant in a time of increased hybridity in public management, catalysed by austerity measures, and characterised by the emergence of similar place-based financial policy experiments like social impact bonds.

## 1.4 Why Study This Sub-Industry of Philanthropy: Growing Influence and Broad Implications

Philanthropy serves as a "seismograph" for larger trends in the interaction between sectors (Anheier & Toepler, 1999). Concomitantly, in this time of increasing cooperation, contestation, and interaction amongst the private, statutory, and third sectors, philanthropic funders display rapid growth and experimentation.

> *Within little more than two decades, [charitable trusts and] foundations in many countries have passed from a period of relative decline through a phase of unprecedented growth. Thus, foundations in many countries—and not only in the United States—represent essentially a late 20th century phenomenon. Perhaps we will soon have to recognise that the key to understanding the future of foundations lies not in the past, but in the present. (Anheier & Toepler, 1999, p. 258)*

The number of foundations and the amount of wealth they control and disburse has rapidly increased over the last four decades (Buckland, Hehenberger, & Hay, 2013; Foundation Center, 2008a). Despite the recession beginning 2008, annual giving by foundations has nearly doubled since 2003 in both the US (to $51B in 2012) and UK (to £3B in 2015) (Pharoah, Jenkins, & Goddard, 2014; Pharoah, Jenkins, Goddard, & Walker, 2016). In 2015, there were approximately 10,000 charitable trusts and foundations in Britain, the largest 300 of which controlled assets of £54B (Pharoah et al., 2016). All these numbers are set to increase as the baby boomer generation's wealth is transitioned into the next generation, along with billions of pounds of charitable giving (Havens & Schervish, 1999).

Venture philanthropy, as a hybrid sub-industry of philanthropic trusts and foundations (examined as an industry by Bernholz, 2004), has emerged and rapidly grown in Britain, and then Europe, since 2003 (Buckland et al., 2013). A 2016 survey found that European VPOs supported 3,121 organisations in 2015, mostly within Europe but also globally (Boiardi & Gianoncelli, 2016). Additionally, the surveyed VPOs had funded another 3,490 organisations for which they had concluded their period of support.

An in-depth examination of British venture philanthropy models is particularly relevant given the explicit goals of venture philanthropists to shift the capabilities and priorities of both the organisations they fund *and* other third sector funders. The relative scarcity of data exploring their operational practices increases the need to understand these highly influential organisations.

Beyond examining an emerging model of British venture philanthropy, this dissertation uses that lens to offer a militating perspective on the assumption that increased inter-sectoral collaboration results in diminished state influence and power, especially when that collaboration involves shifting functions or powers to the non-state actors. This perspective is surprising: the two cases examined here appear to be textbook, almost heavy-handed, examples of neoliberal logics and actors. Both cases can be boiled down to former bankers explicitly applying private sector practices and logics to the third sector. In many cases, these venture philanthropy organisations (VPOs) support social purpose organisations (SPOs) that provide services formerly provided by the state. The state subsidises the whole endeavour: tax advantages are given to donors, to the venture philanthropy organisations, and to the supported charities and social businesses.

More broadly, my findings in this examination of the operational practices and institutional arrangements of British venture philanthropy complicate any straightforward assumption that civil society funding—even when explicitly based on private sector venture capital—is antagonistic toward or focused on hollowing out the state. The second venture philanthropy case, Inspiring Scotland, receives substantially more direct public funding, leveraging a relatively small amount of private money with much larger amounts of state money. This account is indeed accurate, and in many respects reads like a caricature of neoliberalisation in which bankers *extend* their formidable influence on the public sector even as they influence civil society. In the case of Inspiring Scotland, the state was involved in the founding of the venture philanthropy fund, including its selection of the social issues it sought to address and specific targets in addressing them. The dynamic in which this occurred was collaborative—and brought private donor resources explicitly in line with public priorities, not through taxation, but through the deliberate and voluntary creation and funding of a financial intermediary. That said, not all findings see expanded state roles or influence: for example, venture philanthropists regarded the state as a potential buyer of services, and therefore deliberately attempted to increase the size and credibility of those charities to enable contracting with the state—sometimes in competition with statutory providers as well as private firms and other charities.

## 1.5 Outline of the Dissertation Structure

This introductory chapter serves to set the primary research agenda and provide context. Chapter 2 then examines the key concepts and literatures relevant to the emergence and implications of venture capital-inspired funders in the third sector. I examine the context underlying the logical reasons important to understanding venture philanthropy in Britain, outlining the shifting boundaries between the British state, private sector, and civil society, with a focus on the last four decades. This dissertation is particularly concerned with the hallmarks of the last four decades of contestation and collaboration among sectors, including the logics of managerialisation, financialisation, accountability, and hybridity. Each is often considered a hallmark of neoliberalism or neoliberalisation—and of new public management—and each is evidenced in my two cases.

I then define and size several key concepts: civil society, philanthropy, venture capital, and venture philanthropy. I begin with the nested concepts of civil society, the third sector, and the voluntary sector—the areas where VPOs deploy capital and support. I consider philanthropy as an industry and research topic, including its recent growth and criticisms thereof. This lays the groundwork to examine the intellectual roots of venture philanthropy, including a summary of the seven venture capital practices on which it is based. I conclude by exploring the tensions and criticisms resulting from the application of a venture-capital-inspired model to the third sector.

Chapter 3 lays out my research questions. I discuss the five stages of this mixed-methods research project: scoping and foundational research, research design, data collection, a first wave of data analysis, and a reflexive process of dissemination and continued analysis. I conclude by discussing the limitations of my data and research methods.

Chapter 4 explores the first British venture philanthropy organization (VPO), Impetus Trust. I examine its founding by venture capital and consulting veterans based on an article in the *Harvard Business Review* that advocated translating venture capital practices into funding social purpose organisations (SPOs) (Letts, Ryan, & Grossman, 1997). I trace the evolution of its institutional arrangements and venture-capital-based operating practices, informed by interviews of staff, founders, trustees, and supported SPOs. I focus on the venture capital parallels, in particular processes of due diligence, nonfinancial support provision, network enhancement, and performance-contingent funding in the context of an engaged relationship.

Chapter 5 provides data on the manner in which those venture capital concepts were manifested in Impetus Trust's operational practices and institutional arrangements one decade after its founding. I examine the provision, effects, and value of VPO support based on extensive surveying of CEOs of supported SPOs, along with supplemental interviews and document review.

Chapter 6 documents and analyses the founding of the first VPO co-created with government, Inspiring Scotland. I summarise its structural features and discuss the Scottish context to understand its founding. Informed by interviews with five senior officials in the Scottish government (including those most involved in the co-creation) and the VPO founders and management team, I catalogue the advantages and risks in the creation of a new financial intermediary. I then examine the process of structuring the first two funds created by the VPO, including a process of research into demographic and geographical targeting to set national targets.

Chapter 7 explores the institutional arrangements and operational practices of Inspiring Scotland, highlighting areas where the involvement of the state influenced each. The structure parallels that of Chapter 5, exploring sourcing and selection, due diligence, VPO–SPO engagement, nonfinancial services, networking, and portfolio structure and interaction. As in the case of Impetus Trust, this is informed by an extensive survey of relevant SPO managers.

Chapter 8 discusses the risks, benefits, and implications of both models of venture philanthropy, drawing comparisons with venture capital. This begins an examination of each of the seven operational practices, and how they differ in each case based on the VPO and whether funding is private or public. I discuss how the explicit adaptation of American and Australian venture philanthropy to Britain resulted in an unusually collaborative environment—in part because of efforts to mimic the creation of British venture capital 30 years earlier. I review the resulting portfolio structures and role of an intermediary VPO in shifting information flows and power dynamics.

I discuss the limitations of and challenges posed by the emergence of British venture philanthropy, which are expressed to varying degrees by the models created by Impetus Trust and the government-supported Inspiring Scotland. I explore conceptual and practical limitations of venture philanthropy, including the contexts, social issues, and organisations for which the approach is appropriate. Lastly, the emergence of government-supported venture philanthropy raises intriguing possibilities—and also challenges of governance, the politics of risk and failure, democratic accountability, and local control, each of which I explore.

Chapter 9 concludes my dissertation by discussing the findings of each of my four research questions, including their implications to the theoretical gaps discussed in Chapter 2, areas where future research is warranted, and the implications of my findings for practitioners and policymakers.

# 2 Key Concepts and Theory

This chapter explains the foundational concepts, contexts, and constructs surrounding the emergence of venture philanthropy, and the typical characteristics of venture philanthropy organisations. Venture philanthropy was adapted and adopted in Britain in the early 2000s, when public service provision was two decades into "rollout neoliberalisation" (Peck & Tickell, 2002), with "new public management" as the prevailing model of public sector management and resource allocation (Hood, 1991). In Britain, both concepts included institutional experimentation and the creation of new organisational forms and arrangements (Peck & Tickell, 2002), in particular between state and civil society (Brenner, Peck, & Theodore, 2010). The literature provides context to situate and explain the emergence of venture philanthropy, with its seven core operational practices derived from venture capital, and its interactions with a British state characterised in part by the proliferation and deepening of ties to private and voluntary sector organisations.

I first explore the values and logic of neoliberalism and new public management. I discuss the shifting relationships between the government, private, and third sectors in Britain, then define the nested concepts of civil society, the third sector, and voluntary sector—the recipients of venture philanthropy funding. The voluntary sector is an arena where public funding, following with a shift toward market logics, shifted its funding model from just over half grant-based in 2001 to less than one-fifth grants in 2015, with contracts for services becoming the new standard.

I explore philanthropy as an industry, and review its roles in society and academic research. I then describe the emergence of venture philanthropy as a sub-industry of philanthropy based on venture capital (VC) principles and practices. I define the typical institutional arrangements and organizational practices of venture capital that led to this emergence, and identify key areas of difference between venture capital and venture philanthropy. Lastly, I review key criticisms of neoliberal logic, with a focus on its manifestation in new public management and venture philanthropy.

## 2.1 The Founding Logics of Venture Philanthropy

A parallel set of logic and values influenced the emergence of both venture capital and new public management. This section begins by charting the roots of neoliberalism, developing a critical consensus definition of the central values and logic of neoliberalism, and then considering how geographers should define neoliberalism.

There are divergent perspectives on parsing contemporary neoliberal concepts and manifestations, viewing them variously as hegemonic/dominant (Smith, 2008), discursive (Springer, 2012), normative/class-based (Harvey, 2007), and variegated (Peck, 2004; Peck & Theodore, 2007). These perspectives, however, agree that neoliberalism emerged as a response to certain foundational concepts of the liberal state.

In the 17$^{th}$ and 18$^{th}$ centuries, philosophers including Thomas Hobbes, John Locke, and Adam Smith provided the foundational concepts of liberalism: that the wealth and progress of nations was measured in individual capabilities and freedoms, enabled to a significant extent by economic specialisation, property rights, and rule of law. Smith's (1776/2005) view of freedom included strong private property rights, enforced by a "civil government", as a means to facilitate free and voluntary exchange of goods and services within a specialised, competitive economy. Locke (1698) contributed the core liberal notion of freedoms as natural rights, and Hobbes (1651/2006) argued that liberalism obliges a society with associational freedoms that are protected from physical and (to an extent) economic coercion. Together these precepts formed an identifiably liberal foundation for the social, legal, and economic operation of most Western democracies until the mid 20$^{th}$ century.

In the mid-20$^{th}$ century, some took liberal thought further toward a market orientation, seeing a diminished role for the state. Hayek (1944/2007) was concerned that states are prone to undue growth in scope and power, thereby impinging on individual liberties, and favoured a minimal state presence in welfare and regulation. Friedman (2006) also feared state intervention and power, with similar faith in markets as the primary legitimate expression of individual freedoms, thus privileging free trade and free markets over state regulation and service provision. Detractors often refer to this viewpoint as “market fundamentalism” (Peck, Theodore, & Brenner, 2010, pp. 98, 108).

Taken together, the combination of classical liberalism combined with market-focused, state-power-wary economic concepts, form the basis for what is referred to as neoliberalism. Though the concepts have been parsed many ways, with varying degrees of overlap or contradiction, the focus on achieving expanded freedoms for individuals via market activity regulated by a (more- or less-active) state has been the dominant system of governing and governance in much of the Western world for the last several decades.

### 2.1.1 Defining and situating relevant concepts from the literature concerning neoliberalism

Many geographers have taken the (easily defensible) position that neoliberalism is not a monolithic—or even coordinated—system or agenda (e.g., Peck, 2004; Springer, 2010; Williams, 2012). This section recognises two tensions, especially relevant to geographers, which emerge when considering neoliberalism: the need to balance description and prescription, and the need to balance granularity and generalisability. I will then outline the features of neoliberalism I consider having a critical consensus.

This chapter sets out how geographers might engage with conceptions of neoliberalism in a nuanced way. This approach is sufficiently sensitive to the heterogeneity of capitalist structures (and that of voluntary and charitable institutions), while still describing relevant identifiable and generalisable principles of neoliberalism. This allows us to understand the emergence of venture philanthropy in a political economy dominated by neoliberal thought, analyse its distinctive features and, in a later chapter, make limited normative statements that arise from analysis of data presented here. I include voices of neoliberalism’s “discontents” to consider whether these critiques can be fairly applied to the venture philanthropy cases I examine.

Peck and Theodore (2007) contend that geographers should be sensitive to institutional and cultural variety, preferring granularity, specificity, and localism over grander convergence theories like those put forward by Fukuyama (1989) or Friedman (2006). Economic geographers, write Peck and Theodore (2007), should commit to researching "'local' forms of contemporary capitalism and economic restructuring", recognizing "the institutionally mediated, socially embedded nature of economic structures and relations" that are "marked by various degrees of divergence from, or dissonance with, neoclassical economics" (p. 733). In acknowledging the importance of contextually grounded accounts of economic activities, Peck and Tickell (2002) neatly capture the tension between universality and granularity,

> *…between producing, on the one hand, overgeneralised accounts of a monolithic and omnipresent neoliberalism, which tend to be insufficiently sensitive to its local variability and complex internal constitution, and on the other hand, excessively concrete and contingent analyses of (local) neoliberal strategies, which are inadequately attentive to the substantial connections and necessary characteristics of neoliberalism as an extralocal project. (pp. 381-82)*

In subsequent chapters, I follow Peck and Theodore's recommendations, presenting two spatially uneven, institutionally-mediated manifestations of neoliberal concepts. These two case studies are "local forms" shaped by neoliberal values and logics but instantiated in the context of particular institutional arrangements and organizational practices. I show that both conform to how we might expect neoliberal logics to be realised in their organisational forms and practices—but, crucially, each diverges from such expectations in their overall institutional arrangements and effects, especially regarding the relationship between venture philanthropy and the state.

By focusing on neoliberalism as tending towards particular empirical processes, we can identify material similarities in its operation, and avoid positioning it as a "concept". One of the most oft-cited definitions of neoliberalism is offered by David Harvey (2005) as

> *…a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial*

> *freedoms and skills within an institutional framework characterised by strong private property rights, free markets and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices.... but beyond these tasks the state should not venture. (p. 2)*

Despite the high degree of disagreement between those who would bolster or oppose neoliberal political economics, there exists a reasonable degree of agreement in the literature about a set of overlapping, constituent processes. In calling for a better definition of neoliberalism to examine the post-2008 political and economic landscape, Brenner et al. (2010, p. 334) offered "core analytical processes" that focus on neoliberalism as consisting of dynamic process rather than as a static entity. I consider here six processes: privatization, financialisation, management of crises, state redistribution, regulatory experiments, and systems of inter-jurisdictional policy transfer. These processes, and their parallel constructs in public management, help us to understand the emergence of venture philanthropy organisations as putatively value-adding financial intermediaries in the third sector—including a venture philanthropy organisation heavily supported by the state.

*Privatisation* is the shifting of assets or rights from government or common ownership into private ownership. According to Harvey (2007):

> *The corporatisation, commodification, and privatisation of hitherto public assets have been signal features of the neoliberal project. Its primary aim has been to open up new fields for capital accumulation in domains formerly regarded off-limits to the calculus of profitability. [This includes] social welfare provision. (p. 35)*

Privatisation of government functions in Britain has taken many operational forms (Gormley, 1989). These include the provision of service via tendered, fee-for-service, contract-based private firms, the replacement of government workers with a more casualised workforce, and the leasing of rights to previously public goods or markets to private firms. A number of financial activities and practices, such as venture philanthropy, have arisen to facilitate (and in some cases profit from) the opening of social and economic activity to private sector action.

*Financialisation* refers to increasing financial sector activity in the broader economy (Krippner, 2005), especially the trading of equity and debt capital. It encompasses not only increases in the absolute and relative size of the financial sector, but also the growth of this sector into realms not previously open to capital accumulation or management. Financialisation has been criticised as a "buzzword of the 2010s" (Christophers, 2015, p. 182), with substantial limits in its explanatory and theoretical power. It is also not necessarily a new concept, after more than a century of consideration whether the financial sector is overlarge or overly influential (Veblen, 1904).

In the context of this dissertation, the logic of financialisation instantiates in discourses and practices of managerialism and accountability. These discourses were embraced first by financiers, in particular the venture capital industry, then by venture philanthropy organisations (VPO), and finally by a VPO in conjunction with the state. Private sector financial logics, and their parallels in public management, are well-evidenced in the seven core practices of venture philanthropy.

In addition to privatisation and financialisation, Harvey characterises neoliberal states as *managing and manipulating crises*. Harvey sees neoliberal states as opportunists in the face of crises, prescribing solutions of privatisation and financialisation. The recent recession and resultant government austerity has made private sector funds (and concomitant private sector practices) particularly desirable, fiscally and politically.

Brenner et al. (2010, p. 334) offer an additional three "core analytical processes" of neoliberalisation: regulatory experiments, systems of inter-jurisdictional policy transfer, and transnational rule-regimes. This research examines an experimental financial intermediary that explicitly draws upon the internationalisation and spread of venture capital logic (Bruton, Fried, & Manigart, 2005; Ooghe, Manigart, & Fassin, 1991) and their expansion into new geographical and regulatory domains—these issues are examined later in this chapter.

## 2.2 British Public Management in the Last Century

This section examines an emerging set of practices in Britain concerning the role of the state, with a focus on the relevant processes of neoliberalism and their impact.

Examining the influence and manifestations of neoliberal and other political concepts on Britain since the 1970s provides context to understand the novel civil society funding arrangements currently being explored by the Scottish government. In this section, I am particularly influenced by Peck and Tickell's (2002) landmark history of neoliberalism, as well as the extension provided by Hendrikse and Sidaway (2010).

I then shift to a complementary literature regarding British new public management and its core doctrines. Those two perspectives describe the historical and contemporary dynamics between the British state and the third sector that created the conditions for venture philanthropy to emerge as a model supported by the state.

The public administration and management literature adds a particular focus on the state. In parallel with the neoliberalisation literature, the last 100 years are framed in four epochs (Osborne & McLaughlin, 2002). The *minimal state* of the late nineteenth century saw state provision of services as the worst option, dominated by voluntary options. The recognition of systemic social problems (rather than a collection of individual problems) led to the *unequal partnership* period, in which the state provided a basic level of services that were sometimes extended or complemented by civil society or private provision—with the state as the senior partner.

### 2.2.1 Keynesian Britain

State expenditure as a proportion of gross domestic product increased across much of the Western world for the majority of the twentieth century. After the depression of the 1930s, the British state embarked on widespread nationalisation of several industries involving communications, transport, commodities, and energy. During the Second World War, national production was largely coordinated by the state, although the means of production remained in private hands.

In the "post-war consensus" the role of the state was broadly (though certainly not unanimously) agreed to be providing significant social services and security to all citizens, owning some major industries, and applying Keynesian economic policies (Osborne & McLaughlin, 2002). The post-war era saw the expanded provision and widening access to social services, including the creation of the National Health Service and wealth redistribution through National Insurance in 1948. During the

1950s and 1960s, during the era of "embedded liberalism" (Harvey, 2005), Britain continued to employ Keynesian economic policies focused on full employment and the construction of a social safety net. The Conservative party undertook some relatively minor "proto-neoliberalisation" in the form of privatisation from 1951 to 1964, but major state ownership remained a hallmark of the British economy until the mid-1960s. In the 1970s, friction with organised labour faced both Labour and Conservative prime ministers, but state ownership largely continued.

The welfare state of 1945 to 1979 was based on the idea that state provision by professional civil servants was preferable to fragmented provision by non-state actors, which was viewed as duplicative and poorly managed.

### 2.2.2 Rollback neoliberalism

Throughout the decade beginning in 1979, the Thatcher government drastically reduced the direct economic role of the state, arguing that welfarist, Keynesian governance had led to the "stagflation" of the 1970s. Peck and Tickell (2002) dub this the era of *rollback neoliberalisation,* in which the logic of individual choice, creation of opportunity through increasing marketisation, and a privileging of managerial thinking were applied to state action, resulting in the roll back of many of the public institutions of the Keynesian welfare state. In the United Kingdom, this shift included the privatisation of public properties in real estate, mining, and infrastructure, the accompanying weakening of trade unionism, and the implementation of American-influenced "workfare" reforms. This was one of the first of many trans-Atlantic neoliberal policy transfers, as explored by Peck (1998). Venture philanthropy would become another transfer of neoliberal practices, although one characterised by distinctive British adaptation.

According to Peck and Tickell (2002), during the rollback of the 1970s and 1980s, neoliberalisation consisted of the "active *destruction* and *discreditation* of Keynesian-welfarist and social-collectivist institutions" (p. 384, emphasis in original). This rolled-back set of state institutions responsibilities left a number of gaps in state provision—which would be filled using a different set of logic: that of investment and individual choice (generally in marketised contexts) rather than state-provided services.

### 2.2.3 Rollout neoliberalism: Experimentation, asymmetry, and "new public management"

Following the rollback of services, the 1990s and 2000s maintained the preference for markets and private sector activity but also *rolled out* government programs in developing human resources, social capital, and the environment. Under both Conservative (1990-97) and Labour (1997-2010) governments, Britain continued to move toward the logic of investment and opportunity and away from care and state provision. This increasingly involved shifting direct costs of once-public goods, like university education, to individuals. It also saw the creation of markets that allowed individual "choice" to steer public spending, for example, via the (capped) voucherisation of benefits and school fees.

Peck and Tickell see the "Third Way" policies of New Labour under Tony Blair as a manifestation of this rollout stage, where the desirability of markets to advance individual freedoms and capabilities became largely a taken-for-granted concept (for example, nationalisation was removed from the Labour Party constitution). However, they note the fundamental tension between an entrenchment of market logics in governance *even as* much of the government's action involved rolling out programs to combat challenges created by the prior rollback of the state. Over this time, Labour attempted to craft a more socially sensitive rhetoric around market expansion, and did oversee an expansion of many social service programs—public spending on services increased 4.4% per annum, in real terms, from 1997 to 2010 (Chote, Crawford, Emmerson, & Tetlow, 2010).

A distinctive feature of rollout neoliberalisation in Britain has been significant experimentation and the creation of new organisational forms and arrangements (Peck & Tickell, 2002), especially between the state and the civil society sector (Brenner et al., 2010). As summarised by Billis (2010):

> *…we now appear to have reached a new pinnacle of complexity with a bewildering array of policy initiatives and apparently new organisational forms. The list is lengthy and includes compacts, partnerships, social enterprises, quasi-markets, networks, transfer associations, community interest corporations, foundation trusts, city academies and others. (p. 4)*

The institutions created in this rollout phase are not without critics. In the early 2000s, anti-capitalist and anti-globalisation movements challenged neoliberalism as a hegemonic economic force. However, even in examining contestations of neoliberalism, Leitner, Peck, and Sheppard's (2007) pre-crisis-edited collection described protest movements of the early 2000s in England and elsewhere as lacking a credible alternative to replacing the neoliberal political economy—in part due to the movements' embeddedness in the programs created by previous implementations. Overall, despite a focus on contestation and potential alternatives to neoliberalism, Peck and associates acknowledge the tremendous political and economic influence that neoliberal concepts and logics have exercised over the last four decades.

### 2.2.4 Continued experimentation and scalar asymmetry

Peck and Tickell in 1994 considered this "bewildering array" of government actions and arrangements to contribute to the scalar asymmetry of neoliberalisation. More recently, in 2012, they reiterated their assertion regarding

> *…intrinsically regressive scalar politics of neoliberalism, which duplicitously conferred on local agencies and interests responsibility without power, while brazenly granting global institutions and actors power without responsibility. Subsequent mutations and metastasisations of neoliberalism have rendered these scalar asymmetries more, not less, of a constraint on (local) progressive or extra-neoliberal action. (p. 248)*

The model of state-supported venture philanthropy examined here exhibits what could be viewed as an intrinsically progressive scalar politics: national resources are allocated by a venture philanthropy organisation to local interests based on relative need, and with the explicit goal of bolstering the capabilities of local actors. However, that the funding and goals are set nationally complicates any assertion that this model straightforwardly increases local power, as does the fact that the local actors are mostly charities rather than public agencies.

Venture philanthropy, though, certainly should not be viewed as a critic's or insurgent's activity. As noted previously, the actors, methods, and logic of venture philanthropy are very much in tune with neoliberalisation—and with the dominant management thinking of the state.

### 2.2.5 A complementary, governance-focused perspective: New public management

Other important literature also captures the steady move of the state toward traditionally private sector practices and logic. The public administration field adds another perspective by describing the shift in government practices and logic as *new public management* (Hood, 1991). I will examine the key doctrines of new public management (NPM) to clarify the practices and justifications involved and avoid the trap of simply gesturing at neoliberalisation to situate a new phenomenon. Additionally, my research questions concern the role of public officials in the creation and operation of venture philanthropy organisations—this literature describes with greater granularity the way that neoliberal concepts might inform the actions of those officials. Hood's (1996) seminal formulation includes seven doctrines; I add an eighth, following Stewart (1996) in Table 2.1.

**Table 2.1: The eight core doctrines of new public management**

| Doctrine | Meaning | Justification |
|---|---|---|
| Hands-on professional management of public organisation. | Visible managers at the top of the organisation, free to manage by use of discretionary power. | Accountability requires clear assignment of responsibility, not diffusion of power. |
| Explicit standards and measures of performance. | Goals and targets defined and measurable as indicators of success. | Accountability means clearly stated aims; efficiency requires a "hard look" at objectives. |
| Greater emphasis on output controls. | Resource allocation and rewards are linked to performance. | Need to stress results rather than procedures. |
| Shift to disaggregation of units in the public sector. | Disaggregate public sector into corporatised units of activity, organised by products, with devolved budgets. Units dealing at arm's length with each other. | Make units manageable; split provision and production, use contracts or franchises inside as well as outside the public sector. |
| Shift to greater competition in the public sector. | Move to term contracts and public tendering procedures; introduction of market disciplines in public sector. | Rivalry via competition as the key to lower costs and better standards. |

| | | |
|---|---|---|
| Stress on private sector styles of management practice. | Move away from traditional public service ethic to more flexible pay, hiring, rules, etc. | Need to apply "proven" private sector management tools in the public sector. |
| Stress on greater discipline and economy in public sector resource use. | Cutting direct costs, raising labour discipline, limiting compliance costs to business. | Need to check resource demands of the public sector, and do more with less. |
| Separation of policymaking and implementation (from Stewart, 1996). | Purchaser (state) focuses on needs of service users, not contractors, in policy formulation. | Facilitates competition, requires formalised targets, reduces potential conflicts of interest. |

This approach focuses on the *nature* of the state – introducing increased levels of competition, cost control, and management tools to public management. NPM is, in part, a reaction at the level of national and sub-national public bodies to this challenge of shrinking state capacity but substantial (or growing) state responsibilities—deeply related to Peck and Tickell's spatial asymmetry argument.

Broadly, new public management describes the way in which officials create and manage a network of service delivery groups *without* state ownership or direct provision. These state-focused doctrines parallel the key logics of neoliberalisation. The UK is not alone in its shift toward new public management, but it has moved, under three successive governments, steadily toward private-sector-influenced managerial practices, as summarised by Pollitt and Bouckaert (2011). Central to this shift, alongside the adoption of market- and choice-based policies, statutory bodies expect increased managerialism and entrepreneurial actions by public servants (Denhardt & Denhardt, 2000).

Stewart (1996) highlighted a core challenge of the eighth core doctrine of new public management, separating policymaking and delivery system design from their implementation. Although facilitating doctrines of competition and financialisation, the separation ignores the many benefits of strategic cooperation seen in the private sector from which the model draws its legitimacy. The second case in this dissertation, Inspiring Scotland, offers a co-created model, using an intermediary venture philanthropy organisation, that represents one potential way to navigate this tension.

### 2.2.6 New public management and the British third sector: More interaction, blurring boundaries

The state aimed to introduce or encourage market forces in the public services provided to its residents. This involved decentralising and reducing direct state action.

The key doctrines of new public management guided the British government's rollout period, and the third sector continues to play a large role. This third sector role—more properly, a set of many roles—has become increasingly formalised as it has grown and multiplied. As described by Hogg and Baines (2011):

> *Overall, the Thatcher/Major period was characterised by piecemeal and ad hoc attention to [voluntary and charity sector] organisations—for example in the field of adult social care. This was a sideshow to the main project of rolling back of the state and the strengthening of markets (Kendall, 2000; Haugh and Kitson, 2007). In 1996, the Deakin Commission's Report on the Future of the Voluntary Sector recommended that a formal relationship be developed between the state and [voluntary and charity sector] organisations, allowing organisations to have a say in policy concerning the services they deliver (Kendall, 2000). This was to be picked up by New Labour after the 1997 election. (p. 344)*

Haugh and Kitson (2007) identified four features of New Labour that disposed it toward working with civil society—marketisation, managerialism, decentralisation, and financialisation—all hallmarks of neoliberal thought and of new public management. First, the push for "efficient and market-like" allocation of resources led to increased tendering for social service provision to non-state actors, including both private firms and civil society actors. Second, devolving at least some government functions to the third sector was politically and functionally pragmatic. Third, some British civil society organisations were well-placed to deliver services in areas of increased policy focus, like social exclusion and the environment. Lastly, charities are more trusted by or have better access to some (particularly marginalised) communities compared to private firms or state providers, though this is a complex and disputed topic.

Third sector providers therefore offered a "third way" compromise between the private sector and big government. Indeed, Kendall (2010) examines a narrative that pragmatically places the third sector "as somehow 'beyond' ideology" (p. 244). This was likely an appealing feature to a Labour party focused on reinventing its traditionally statist positions and again for the 2010 Coalition Government, when it rebranded itself as promoting a "Big Society".

In practice, this increased interaction was facilitated by a compact between the British government and the third sector in 1998 (Commission for the Compact, 2009) which discussed shared values and goals, and how to improve joint efforts and delivery of services. The compact was the first major codification of the third sector's importance in society (in any Western nation) and characterised the sector as having an independent but complementary role to government that deserved resourcing and collaboration. The independence of the third sector was also strategically helpful in satisfying audit requirements of new public management, in which policymaking and implementation should be separate activities (Stewart, 1996).

Some have argued that the compact's implementation fell behind its rhetoric (Zimmeck, 2010), but the impulse was consistent with the new public management of the 1990s:

> *It is now generally acknowledged that, as an exclusive agent of governance, the traditional conception of public administration is slowly shifting under the blurring of sector boundaries (i.e., public, private and nonprofit), and moving towards an emerging view of distributed governance (networks and alliances). (Choudhury, 2002, p. 562)*

This "blurring" of sectoral boundaries has continued after the rollout second stage. As this dissertation devotes significant attention to a multi-sectoral funding model, the logics and practices of the contemporary state are of particular interest.

### 2.2.7 Toward a plural state: New alliances and new institutions

Shifting ideals in public administration are one element of what Hendrikse and Sidaway (2010) call neoliberalism 3.0, extending Peck and Tickell's 2002 two-stage typology of neoliberalism. Hendrikse and Sidaway reorient and restore the processes of neoliberalisation in response to a crisis of legitimation in neoclassical economics caused by the financial crisis and resultant drive to austerity. This third stage prioritises the “pursuit of social affinities and alliances in support of [state austerity and marketisation] strategies” as one of four distinctive elements of post-crisis neoliberalisation:

> *This is symbolised by Obama's rhetoric of inclusion and the formal alliance between the Liberal Democrat and Conservative parties that established a new government in the UK in the spring of 2010 (Watkins, 2010). ...neoliberal capitalism does not simply atomise social life, but, in Konings's terms, requires "the* ***creation*** *of new social connections, cultural affinities and political capacities"' (2010, p. 6, emphasis in original). A new generation of firms and consultants inhabit this space. (p. 2039)*

This “new generation of firms and consultants” describes the space examined by this dissertation: venture philanthropy, which itself has been described as applying principles of new public management to the voluntary sector (Jung & Harrow, 2015).

The literature of neoliberalisation and new public management both highlight shifting ideals in the role of the state and its interactions with the private and third sectors over the last four decades. In the sections above, I have described how neoliberalism emerged and changed in response to economic and political necessities in the United Kingdom. The continued modifications of neoliberalism increasingly involved recruiting, partnering with, and drawing on the rhetoric and resources of civil society in order to avoid the fiscal and political contingencies of a large social welfare state. The state was no longer the sole provider of a social safety net, and social services were delivered by a large array of providers in complex relationships with the state and each other.

In addition to the state–venture philanthropist dyad, consulting firms and think-tanks like New Philanthropy Capital and The Sutton Trust informed, targeted, and designed social programmes in conjunction with and on behalf of national government, another manifestation of increasingly hybridised state functions in the area of social service provision. These relationships are a core feature of neoliberalism 3.0, according to

Hendrikse and Sidaway (2010), the continued expansion and modification of "practices of audit and the rhetoric of accountability established during rollout neoliberalism" (p. 2039).

This increased hybridisation of government's work and its "creation of new social connections" are exemplified by the primary empirical objects of research in this dissertation: state-funded initiatives designed and delivered via civil society funders in the form of venture philanthropy organisations.

## 2.3 Civil Society, Third Sector, and Voluntary Sector: Understanding Areas Funded by Venture Philanthropy

This section describes the nested concepts of civil society, the third sector, and the voluntary sector. With a focus on Britain, I define and size each concept. Drawing on concepts and influences from neoliberalisation where appropriate, I develop a contemporary understanding of this (putatively) non-market associational realm: the increasingly visible roles of charities, trusts, and philanthropies in economic and social life. I then analyse the mechanics of hybridity: the many ways in which the state interacts, funds and influences civil society organisations. I then focus on a subsection of civil society: traditional philanthropy organisations, before turning to the emergence of venture philanthropy. Lastly, the chapter raises criticisms of venture philanthropy and neoliberalised provision of social services.

### 2.3.1 Defining and sizing British civil society

There is a great deal of international variation in the makeup of civil society and its relationship with governments, religions, and the market.[1] According to John Clark,

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[1] This international variety in the construction of civil society is also reflected in—and made more complex by—a growing and variable set of international non-governmental actors. As Brenner et al. (2010) note, a hallmark of neoliberalism is transnational and interjurisdictional transfer of rules and processes. In particular, the "sideways" and "upward" shifts to international non-governmental organisations (INGOs) is an example of this (Jessop, 2002). Certainly the increased international adoption of neoliberal processes correlates with the growth of INGOs, non-profit organisations that

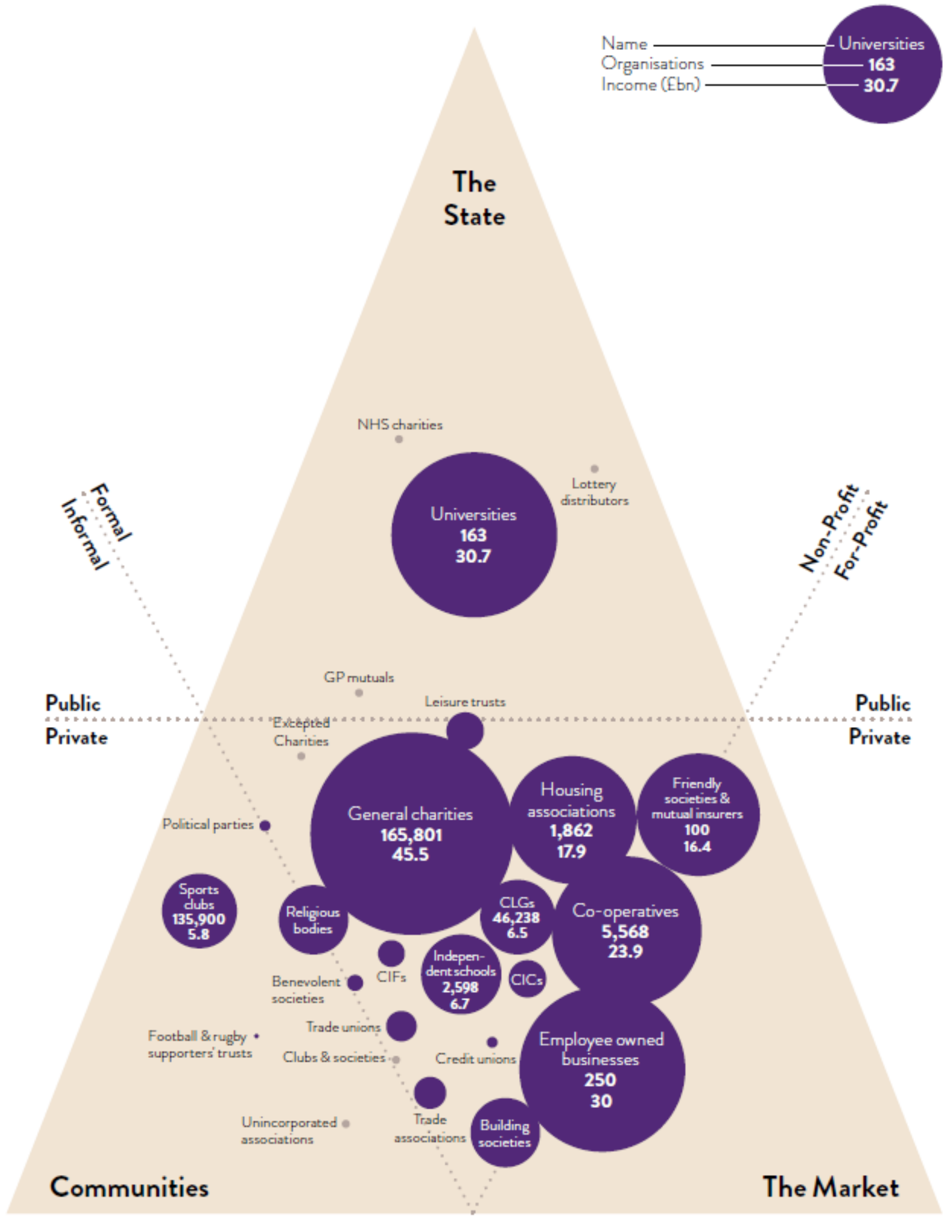
project director of the UN secretary-general's panel on UN–civil society relations, "Policy-makers universally agree that civil society is crucial, but there is wide variation in how it is defined—and the characteristics of civil society vary enormously from country to country" (Anheier, 2004, p. 230). The most accepted broad definitions, though, focus on volitional, associative action undertaken by non-familial groups. These groups vary in their degrees of formality, their participation in markets, and their degree of profit-seeking. This has resulted in a potentially confusing set of terms: civil society, third sector, voluntary sector, community sector, charity sector, nonprofit sector, social enterprise sector, and so on.

In the UK in 2014, the fiscal year in which data for this study were collected, there were at least one million civil society organisations, encompassing a broad spectrum of variety in geographic scope (from local clubs to international organisations), economic size and purpose (from housing associations to employee-owned firms to charities), and formality (from unincorporated clubs to financial cooperatives). Approximately 390,000 civil society organisations are formally incorporated (National Council for Voluntary Organisations [NCVO], 2017).

The British National Council of Voluntary Organisations, following the work of Pestoff (1992), and Evers and Laville (2004), created the following image representing incorporated civil society organisations, reproduced as Figure 2.1.

work in multiple countries: the number of INGOs increased each year between 1989 and 2010, a total shift from 20,063 to 55,583. In over two-thirds of the nations in the world, the number of INGOs outpaced population growth over the decade 1998-2008 (Anheier, Kaldor, & Glasius, 2012).

**Figure 2.1: British civil society organisation types by income, 2014-15, from NCVO (2017)**




By fitting organisational types, numbers, and budgets onto the Evers and Laville framework—and positioning them in ways that highlight that organisational forms can straddle axes, thus acknowledging the porous boundaries between sectors—this diagram provides a useful map for the following statistics and definitions. With the broadest definition of civil society, those 390,000 formally incorporated organisations constitute a major element of British social and economic life, with a total income of £197.8 billion in 2014 and employment of 2.26 million staff (NCVO, 2017), or approximately 7.3% of the UK workforce (Office for National Statistics, 2015). In Britain, civil society includes the entire voluntary sector (charities, NGOs, trusts), universities, employee-owned companies, cooperatives, social enterprises, professional associations, benevolent societies, trade unions, building societies, housing associations, political parties, religious orders, and independent schools.

Additional terms are used in Britain to differentiate within the universe of civil society. *Civil society* is the broadest term; nested within it is the more commonly used and restrictive term *third sector* and the even more restrictive term *voluntary sector*. The British government uses the term third sector to describe

> *…voluntary and community organisations, charities, faith groups, social enterprises, cooperatives and mutuals both large and small. There is no agreed or universal definition with groups self-defining and determining who and what they are. However, their defining characteristic is that they are value-led for public benefit. (Commission for the Compact, 2009)*

The third sector is the area of social and economic life funded by venture philanthropy organisations, and is the site of substantial growth and organisational experimentation. In 2005, in recognition of increased hybridity in organisational goals that included social enterprises—for-profit companies with a social purpose—the British Government created a new corporate form, the Community Interest Company. By 2015, more than 11,000 such companies had been formed (Villenueve-Smith & Temple, 2015). These vary in geographical scope from local community enterprises to international fair-trade organisations. While the overall third sector, and particularly those organisations classed as social enterprises, are challenging to accurately characterize in terms of economic footprint, it is fair to state that social enterprises are growing in number and scope (Cabinet Office, 2016; Richardson, Bacon, Cochrane, & Tzigianni, 2015; Villenueve-Smith & Temple, 2015).

The majority of venture philanthropy funding in this study was directed within the *voluntary sector,* which removes from the *third sector* mutuals, cooperatives, and other groups with the ability to distribute profits to owners, as well as universities. The voluntary sector comprises a significant portion of the British economy (and the economies of many other Western nations). In 2014, the 165,801 general charities in the UK employed 853,000 people, approximately 2.7% of the workforce, and had revenues of £45.5 billion (NCVO, 2017; Office for National Statistics, 2015). Although the number of charities was largely constant over the period 2004-2014, the total turnover was nearly £66 billion by 2014, a nominal increase of 88% from the 2004 figure. The number of charities with annual turnover greater than £10 million rose from 511 to 1,068 in the same period. Lastly, the share of total turnover captured by those large charities increased from 45% to 60% (Charity Commission, 2017).

## 2.4 Financing the Voluntary Sector: State, Market, and Philanthropic Funding

The voluntary sector's revenues of £45.5 billion come from private, state, and civil society sources. Just over half of all revenue is the result of trading: selling goods or services, with buyers from all three sectors of economic life. The voluntary sector's income from all sources has grown substantially over the last decade, as has the UK government's funding of and interaction with charities. UK government funding increased from £8.6 billion in 2000/2001 to £15.3 billion in 2014/2015, a real increase of 53%—nearly all of that growth occurred from 2001-2008, since which time such funding has essentially plateaued (NCVO, 2017).

Beyond direct funding, the state subsidises charities through the tax system. Charities that work in the public interest, as defined by the UK government's Charity Commission, are eligible for tax-exempt status and can receive tax-deductible donations. These amounted to £5.2 billion in 2015. Voluntary organisations themselves claimed £3.8 billion through tax repayments, national non-domestic rates (business rates), the Gift Aid small donations scheme, VAT, and stamp duty or land tax. Individuals were granted £1.4 billion in relief.[2] This has risen steadily over the last two decades, and increased 95% in real terms from fiscal year 1993-1994 to 2015-2016 (HM Revenue and Customs, 2017).[3]

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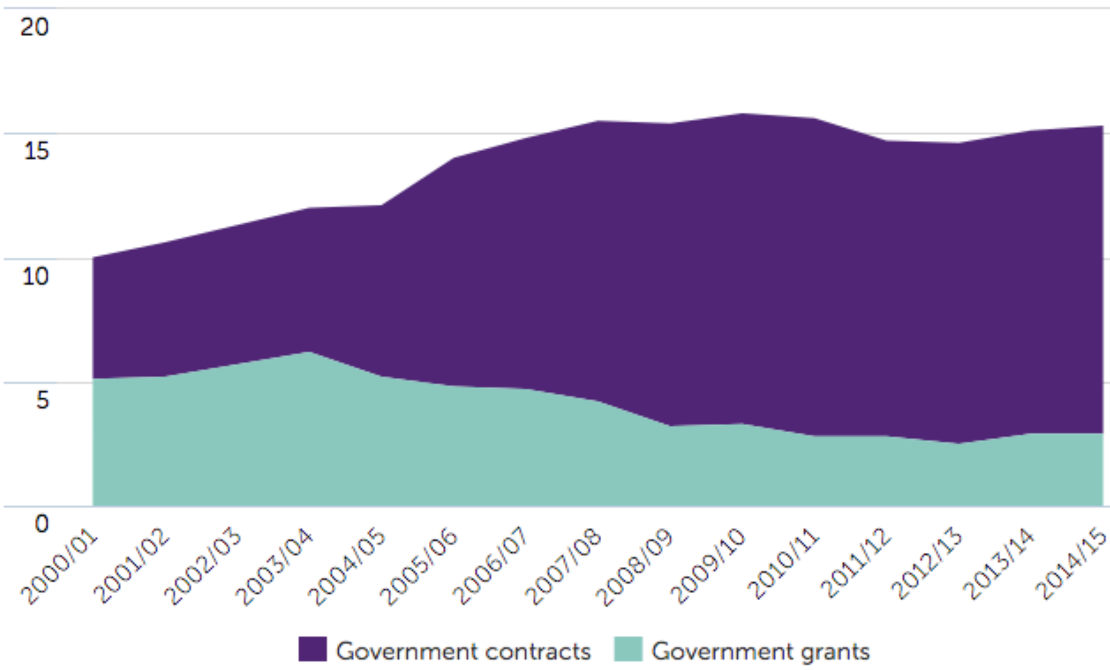
[2] Relief to individuals is through foregone taxes on inheritance, payroll giving, gifts of shares and property, and higher rate relief for Gift Aid and covenants.

[3] 1993-1994 was the first year in which the UK Government tracked the costs of charitable tax relief in a comparable format.

Of particular relevance to this dissertation is that, in keeping with the increasing application of market logic to previously non-market realms of human activity, the constitution of government funding has shifted substantially from grants to earned income. In 2001, just over half of the £10 billion funding from the British state was in the form of grants, with £4.6 billion coming through earned income, chiefly contracts. Between 2003 and 2008, government grant-making declined while contracting rose very significantly (Figure 2.2).

**Figure 2.2: Voluntary sector grant and contract income from statutory sources, 2000/01-2014/15 (£B, 2014/15 prices), from NCVO (2017)**




Overall, grants to charities by the British Government fell significantly, even as the state more than doubled its payments to charities before levelling off. In 2014/2015, grants accounted for only 19% of the £15.3 billion government funding. This represents a sustained and rapid shift away from the state providing support to charities as a public good toward the state contracting with charities as social service providers.

Buckingham (2012) created a typology of third sector organisations as contractors. Her four categories placed groups according to their proficiency as contractors: comfortable contractors, compliant contractors, or cautious contractors. The fourth group is tellingly named community-based non-contractors; they are the group that relies most heavily on volunteers and existing organisations (like churches and church kitchens), and are "arguably the most embedded within local communities" (p. 585).

Nearly half of the total state funding of charities comes from local councils (£7.1 billion in 2014/2015), with the other half primarily from the British government (£7.3 billion in 2014/2015). The balance between local and national government funding has shifted since 2007/2008, when local government funding for the voluntary sector was nearly £2 billion more than that of national government. Less than £1 billion comes from the European Union and other international organisations (NCVO, 2017).

The parties involved in the funding and provision of social services, located in all three sectors of social and economic life, have different incentives and goals, and apply different logic to their work in the public interest. An emerging institutional arrangement that attempts to align these interests—state-funded venture philanthropy with corporate and individual support—is a key feature of this research. Venture philanthropy organisations are comfortable with and supportive of market logic in the third sector. Bringing private sector values and practices, they claim particular expertise in supporting third sector organisations to reach government contract readiness, thereby increasing the pool of charities able to tender. Subsequent chapters will interrogate this and other claims, evaluating whether venture philanthropy organisations provide effective value-added services, compared to traditional philanthropic funders.

### 2.4.1 Collaboration in contracting between civil society organisations

It is relatively common for charities to collaborate in contracting with government: a 2012 survey of charities that contracted with government found that 44% were working as part of a group or consortium (Hedley & Joy, 2012). Kail and Abercrombie (2013) identified four common types of collaboration among charities: 1) loose network, 2) super provider, 2) managing agent, and 4) managing provider. The first two types of collaboration are more "democratic", with peer organisations coming together for joint action. However, the authors assert that the loose network, with relatively few or no formal affiliations among organisations, is falling out of favour with public commissioners because of its lack of accountability for results. The super provider model, in which a joint venture or other vehicle is created specifically to bid for a project, solves the accountability challenges of loose networks; however, Kail and Abercrombie state that public service commissioners rarely provide sufficient preparation time to create such a venture.

The other two models are more transactional and contract-based, with clearer roles and hierarchy yielding more obvious and more traditional chains of responsibility and funding. Both involve a primary contractor being granted the contract and then farming out elements to sub-contractors. The chief difference is whether or not the primary contractor also directly delivers any of the services: a managing agent does not, a managing provider does.

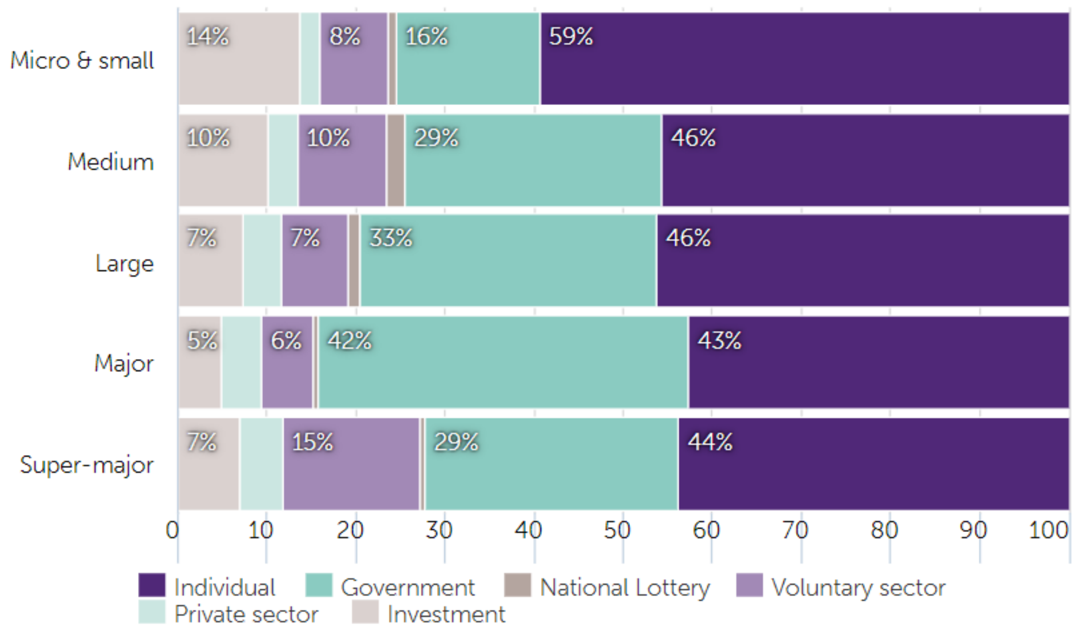
Kail and Abercrombie cite anecdotal evidence that collaborations between and among charities are encouraged by commissioners. This is unsurprising: indeed, it was an explicit government policy to increase the amount of public service provision provided by charities and to build the interconnectedness and capacity of the third sector (Cabinet Office of the Third Sector, 2009). The portfolio-based approach favoured by the two British venture philanthropists featured in this research explicitly aims to foster collaboration and knowledge-sharing among organisations in the portfolio.

The next section examines philanthropy from a theoretical and functional perspective to provide context for one of the core themes of this work: the emergence of venture philanthropy in Britain and its recruitment by government bodies.

### 2.4.2 The relationship between charity size and funding source

Smaller voluntary organisations receive a smaller proportion of their funding from government sources (Figure 2.3). Larger organisations are more likely to provide contracted public services and receive a larger proportion of their revenue from statutory services (Charities Commission, 2007; NCVO, 2017).

**Figure 2.3: Sources of income to voluntary organisation by size of organisation, 2014/15 (%), from NCVO (2017)**




The largest charities, with over £10m in annual revenue, received £8.5b of a total £15.3b in statutory funding. The absolute and relative shares of government support captured by these charities has been on the rise since the 2008 financial crisis (NCVO, 2017). In later chapters, I will consider whether the private sector expertise of venture philanthropy organisations may be able to assist these community-embedded organisations to expand.

Based on name alone, one might be tempted to dismiss micro organisations as unimportant—but such organisations, which comprise of at least 86.7% of English and Welsh charities (Charity Commission, 2016), leverage significant human and social resources, not least large numbers of volunteers (Isserman & Markusen, 2012), that afford them capacity that can be much larger than their formal revenue numbers indicate. Additionally, lower wage rates than other sectors controlling for qualifications (Taylor, Kamerāde, & McKay, 2014) can further increase the actual social, cultural, and economic impacts of charities relative to their revenue.

## 2.5 Philanthropy

As we have seen, civil society is a broad and varied term that contains the smaller term third sector. At a more precise level is the term philanthropy, with two common meanings. Philanthropy can refer to informal (often large-scale) charitable giving by individuals (philanthropists), as well as philanthropic foundations. Philanthropic foundations are formal organisations that seek and distribute funds to charities and other social profit organisations.

In this section, I present a portrait of contemporary philanthropic logic, practices, and arrangements, in order to understand the current state of the broader philanthropy industry of which venture philanthropy is a new and growing sub-section.

### 2.5.1 Size of the philanthropy industry

Internationally and in the UK, philanthropic capital stocks and giving rates have been increasing for decades—especially via trusts and foundations. In the UK, from 1995 to 2005 the largest 500 foundations and trusts quadrupled their grant making to £2.7 billion annually, and nearly tripled their assets, to £33.3 billion (Goodey & Hall, 2007). By 2014-15, the largest 300 British foundations had assets of £54.6 billion (Pharoah et al., 2016). The next several decades are likely to witness continued increases as baby boomers transfer their wealth to younger generations and the public benefit (Havens & Schervish, 1999). Overall, we are witnessing the rapid expansion of organised philanthropic giving with broad ambitions and increasingly broad reach—and its growth creates new interactions, opportunities, and frictions with the state.

In addition to trading income and declining statutory grants, the UK third sector is supported by voluntary contributions of funds by private individuals and foundations: philanthropy. In 2014-2015, philanthropic and charitable giving was approximately £14.2 billion—just under one-third of all funding to the voluntary sector. Individuals do the bulk of philanthropic giving, donating over £10b in 2014-15 for a total of .54% of GDP, the fourth-highest rate of giving in a 24-country sample (Charities Aid Foundation, 2016).

Trusts and foundations accounted for a further £3.0b in giving in 2014-15. Philanthropic organisations are of particular interest to this dissertation for two reasons. First, venture philanthropy emerged as a hybrid of philanthropic and venture capital institutional arrangements and operational practices. Second, venture philanthropy organisations claim to offer additional value compared to traditional philanthropy organisations, and this is a claim I will consider in light of the data generated by this dissertation.

Bernholz (2004) frames philanthropic capital provision as an industry, relying largely on Porter's (1980/2008) definition of an industry as including: capital for investment; firms, markets, and customers; products and services; competition and alliances; regulation and public policy; media attention, and public awareness. She argues that the size and breadth of the industry's potential is sufficient cause for evaluating its effectiveness, a claim I will extend to venture philanthropy as a growing industry with increasing influence. Anheier and Teopler (1999) argue that the most important time in the proliferation, influence, and development of charitable foundations is not, as has traditionally been argued, the early 20th century and establishment of the first major "scientific" foundations, but now:

> *Within little more than two decades, foundations in many countries have passed from a period of relative decline through a phase of unprecedented growth. Thus, foundations in many countries—and not only in the United States—represent essentially a late 20th century phenomenon. Perhaps we will soon have to recognise that the key to understanding the future of foundations lies not in the past, but in the present. (p. 258)*

### 2.5.2 Roles of philanthropy

The roles of private charity and philanthropy in contemporary America and Britain are theorised by Frumkin (2006) and Anheier and Toepler (1999). Frumkin explains that although charity and philanthropy operate in parallel, charity seeks to ameliorate current suffering and philanthropy seeks to address the causes of that suffering (p. 12). This section lays out Frumkin's and Anheier and Toepler's overlapping explanations of the five functions of philanthropy in society, with reference to relationships to the state.

The first is the direct creation of public and social change (Frumkin, 2006), in which philanthropic funds pay for services addressing or advocacy surrounding a given issue. Anheier and Toepler (1999) describe this phenomenon as philanthropic foundations having a complementary role to the state, in which they fill gaps in the provision of services. For Frumkin, this service provision may or may not share the same goals as government provision. In Britain, the qualification for operating in the public interest is extremely broad, and includes many opportunities where philanthropy can work against at least some government goals.[4]

Second, philanthropy has a history of locating and supporting innovative ideas—some of which have been taken to scale by the state (Frumkin, 2006). Anheier and Toepler (1999) describe this role as "risktaker" or supporter of innovative activities. From almshouses to hospitals to public libraries, British and American social services have been heavily influenced by ideas and institutions that were initially supported or proven with support from private philanthropic funding. Private money has several advantages over public funding in fulfilling this role, particularly around issues of risk and access. Governments—and especially politicians—tend to avoid making risky investments of public money on uncertain goods or services, even if the expected return is positive: the political (or bureaucratic) cost of a failed experiment in social policy is high, as are potential liabilities for negative social impacts. In terms of access, government programs usually face an expectation of universal availability (at least within sub-groups) of programs that benefit its citizens. Private money, for better or worse, can be spent more flexibly, and with less complaint or oversight from citizens. Beneficiaries can generally be limited by geography, circumstance, or even to create a control group to test impact.[5]

Third, philanthropic funding can be used to achieve some amount of economic equity (Frumkin, 2006). While all Western governments exercise redistributive policies,

[4] There is evidence of different roles for VPOs with regard to the state in different European countries, described by Buckland et al. (2013).

[5] There might be significant political consequences, for example, if a local government implemented an experimental bonus cash transfer using its citizens as a control—and only those with odd street numbers received the extra funds.

shifting the nature or amount of that redistribution is politically fraught. Should an individual or trust wish to distribute its funds in the interest of greater economic equity, it has far greater leeway (and scale, of course) than statutory bodies.

Fourth, philanthropic funding supports pluralism (Frumkin, 2006). It allows for multiple conceptions of the public good—complementary, overlapping, and even competing. Where a national government makes decisions and then faces the expectations of enforcing those decisions universally, private philanthropy allows groups with different views to formalise organisations and activities around those views. In this way, it is more varied than representative, consensus-based democracies.

The fifth function of philanthropy, expression of donors' values (Frumkin, 2006), is the only function that is more about private individual utility than public welfare, and is the only one that does not take place in the public sphere (though having one's name emblazoned on a building might blur that distinction somewhat).

### 2.5.3 The study of philanthropy as seismograph

Additionally, Anheier and Toepler (1999) argue that because of industry expansion, and foundations' rapidly increasing collaboration and experimentation between sectors, philanthropic foundations function as a seismograph for research into cross-sectoral relationships across time:

> *[Foundations] indicate, perhaps more than any other type of nonprofit organizations, longer-term directions and shifts in the combined relationships between public and private responsibilities, and between private wealth on the public good. ...In short, the behavior of foundations may be "seismographic" of these important and often indiscernible features of modern society.*

They argue that philanthropic foundations are seismographic due to three "built-in tensions" inherent to the practice of philanthropy:

> *There are **economic tensions** because foundations have to balance two potentially competing goals: asset preservation and grant promotion (Salamon, 1992, p.118); there are built-in **social tensions** because of the*

> *very constitution of foundations. Expressing primarily the will of the donor, their organizational structure does typically allow for broad-based participation outside the limited circle of trustees. No shareholder or membership represents the interest of its clients or beneficiaries.*
>
> *Finally, they are **politically ambivalent** because, as private endowments for public purposes, they operate outside the direct majoritarian public control; foundations represent private agendas in public arenas (see Karl & Katz, 1987; Nielsen, 1972). Thus, due to internal ambivalence, **foundations assume a seismographic nature** that lets us register changes in values, political preferences, definitions of private and public spheres, of responsibility, and new social and cultural deficits, often more clearly than other institutional forms. (pp. 256-7, emphasis mine)*

In subsequent sections, I will argue that venture philanthropy maintains these functions and tensions, while adding venture-specific expertise and value unavailable to social profit organisations supported by traditional philanthropic foundations.

### 2.5.4 The special influence of foundations

Peck and Theodore (2007) discuss the "contagious" nature of complementary organizational practices within (geographically bounded) systems of production, in which the institutional arrangements and preferences that govern one mode of social or economic life are predicted to have "mutually reinforcing spillover effects" (p. 747) on the institutional arrangements governing other modes. Charitable trusts and foundations, with their increasingly professional staffs[6] and ability to mandate practices and interaction in return for funding, might be particularly "contagious". These trusts and foundations have a role in dictating or influencing the management (and sometimes governance) of the organisations that they fund. These influences take place at the firm level through processes common to most grant making: the

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[6] Foundation staffs, which now include some 60,000 professionals in the United States, hardly existed in the founder-driven wave of Fordist philanthropic foundations. However, ever since early Fordist-style foundations cycled family members out and professional managers in, foundations have become increasingly professionalized and managerialised (Schramm, 2006).

setting of criteria to determine eligibility for applications, the data and strategic information required in the application process, the process of screening and interacting with applicants, ongoing interaction and monitoring throughout the grant period, and reporting at the conclusion. The practices and products produced—and the people and structures enlisted to produce them—are then likely to be used for other, complementary tasks, making more permanent the capacities and practices demanded by foundations. In addition to those firm-level effects, Lagemann (1987) asserts that foundations can play a direct role in the broader politics of knowledge creation and distribution.[7]

These interrelated influences and institutional relations are of particular interest to research projects like this one, which considers emerging but high-profile phenomena in civil society with meaningful links with private and public sector agents. For example, a shift in the preferences of philanthropic foundations from funding individual projects to funding core costs of organisations might easily have direct influences on the strategic direction of charities (and the ways that they design and pitch those directions to potential funders, including government). Government preference for funding charities via service contracts rather than grants—as has been the case over the last decade in the United Kingdom—likewise can heavily influence the direction of charities. Less obviously, the consultants and analysts who work to support, monitor, and evaluate charities may also work with local councils or national policy bodies, where the same principles can then impact local and regional culture.

Understanding the forces at work in such a system therefore requires capturing the views and practices of foundation staff and boards, donors, national and local government officials, politicians, consultant and think-tank workers, board members, and staff throughout the charities supported, as well as the users of those charities' services. Such work is challenging, and has resulted an ongoing need for "increased

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[7] Lagemann explores the role of the Carnegie Corporation in the United States, arguing that its funding of organisations and research—the National Bureau of Economic Research, American Legal Institute, National Academy of Sciences, National Research Council—actively shaped who was given access to knowledge, what certifications were required to access and create knowledge, and how that knowledge was shared with the public and with elites.

understanding of and stronger engagement with foundations' multiple realities and roles", especially in the context of a diverse and growing set of trusts and foundations (Jung & Harrow, 2015, p. 50).

Overall, philanthropy is undergoing major shifts during "a time of growing attention to foundation performance and accountability by government, the media, the public, researchers, and funders" (Ostrower, 2004, p. 1). A focus on accountability and impact, hallmarks of what has been called the "new philanthropy", is changing the way at least some foundations operate (Frumkin, 2003; Frumkin & Kim, 2001; Ostrower, 2004; Reis & Clohesy, 2001; Vogel, 2006). The same "megatrends" of neoliberal financialisation and managerialisation that powered the new public management (Hood, 1991) provided the background legitimacy for these shifts. Additionally, a number of influential researchers asserted that movement toward market-oriented principles was necessary for the social sector (Acs & Phillips, 2002; Foster 2008; Letts et al., 1997, 1999; Porter & Kramer, 1999).

Like politicians before them, philanthropic foundations have adopted the language of investment—and neoliberal managerialism, accountability rhetoric, and financialisation—to emphasise their commitment to results: in 2008, 77 of the largest 100 US foundations claimed to be involved in investment, venture activity, or leveraging (Foster, 2008).

A great deal of the proximate impetus for these changes come from the "New Philanthropists," the moniker given to the high profile, baby boomer-and-younger donors who are explicitly focusing on maximising the impact of their giving and are often highly engaged in the process. The list is heavy with "New Economy" entrepreneurs and financiers, among them Bill Gates, Pierre Omidyar, Steve Case, and Jeff Skoll—and an increasing number of British financiers, who have adopted and adapted several principles of venture philanthropy to create a new institutional arrangement in cooperation with the state.

## 2.6 From the Market to Civil Society: Venture Capital and Venture Philanthropy

The most oft-modified definition of venture philanthropy comes from the European Venture Philanthropy Association [EVPA] (2009):

> *Venture philanthropy works to build stronger social purpose organisations by providing them with both financial and non-financial support in order to increase their societal impact. EVPA purposely uses the word societal because the impact may be social, environmental, medical or cultural. The Venture Philanthropy approach includes both the use of social investment and grants. (EVPA website)*

In 1997, the *Harvard Business Review* published a seminal article titled "Virtuous Capital: What Foundations Can Learn from Venture Capitalists" by Letts, Ryan, and Grossman. In their criticism of the American third sector, Letts et al. pointed out that foundations focused on pilot funding of innovation in social service provision. This initial funding, they argued, came at the exclusion of long-term support and capacity building for proven social purpose organisations. They contended that the result was a less-effective third sector, with dependent SPOs unable to implement promising programs.

Letts and colleagues' proposed solution was an application of venture capital principles to the third sector. Venture capital focuses on capacity building and expansion, which are rare in the social sector. In 2006, only 19% of US grants were for general support (Foundation Center, 2008b). Venture capitalists, on the other hand, direct up to 80% of their financing toward "infrastructure required to grow the business" (Zider, 1998). The 1997 Letts et al. article, despite never using the term venture philanthropy, identified six "relevant practices" of venture capitalists that, the authors argued, could and should be translated into the funding of charities and social enterprises by foundations (p. 37). Those practices—risk management, performance measurement, close relationships, larger funding commitments, longer relationships, and exit strategies—were adopted by a number of American donors and foundations in the late 1990s and early 2000s under the flag of venture philanthropy (Moody, 2008). In 2000, there were at least 37 venture philanthropy organisations in the United

States, the majority founded after January 1, 1999 (Venture Philanthropy Partners, 2001).

Venture philanthropy's high profile and status as a potential bellwether for larger philanthropic trends make it an appealing research subject. Researchers have examined venture philanthropy from many perspectives: as a new organisational field and professional culture (Moody, 2008), as an operational model (John, 2007; Scarlata & Alemany, 2008; Van Slyke & Newman, 2006), as compared to its "parent" model of venture capital (Scarlata & Alemany, 2009), as a model favoured by British government and financial professionals (Kidd, 2007), as an influence on the largest foundations in the United States (Foster, 2008), and as a model to fill third sector funding gaps (Pepin, 2005; Simon, 2008).

Venture philanthropy is a very high-profile example of the shift toward engagement and accountability (Frumkin, 2006; Moody, 2008). It is among the most highly-engaged models of civil society funding, with venture philanthropy funds providing a wide suite of support services to investee organisations in addition to frequent and close contact (John, 2007). In terms of accountability, the venture philanthropy model places strong focus on monitoring and measuring the performance of its investees, with some VPOs allocating 10% of grant funding to monitoring (Ochs, 2009).

This thesis examines how economic logic and values—often associated with neoliberalisation—lead to and are manifested in the emerging sub-industry of venture philanthropy. To understand this manifestation clearly, and to understand the movement of concepts between industries, I examine each industry and case in terms of the operational practices and institutional arrangements that realise that logic.

In this dissertation, I define *operational practices* as the tasks and routines that are commonly performed by the actors involved. For example, monthly formal meetings between a venture philanthropy organisation and a supported charity to review progress against mutually-agreed milestones would be an operational practice. I define *institutional arrangements* as the relationships—formal and informal—between institutions. For example, a VPO having sole decision-making authority for deploying assets from all of its funders would be an institutional arrangement. These terms are, of course, interrelated and influence one another.

These terms will be used to track the reasoning and values of one sphere of economic activity, venture capital, as it is adopted and adapted in the third sector as venture philanthropy.

### 2.6.1 Institutional arrangements and operational practices of venture capital

Letts et al. (1997) identified the components of venture capital practice that they believed relevant to third sector funders: risk management, performance measurement, close relationships, and larger investments over a longer period. These are hallmarks of "classic" venture capital (VC), which focuses on building and commercialising early-stage companies (Bygrave & Timmons, 1992).[8]

One of the most difficult issues facing investors, particularly in small ventures, is that of insufficient or asymmetric information (Akerlof, 1970). Indeed, the venture capital industry's specialty is considered to be making investment decisions in environments of incomplete information and high uncertainty (Amit, Brander, & Zott, 1998; Kaplan & Stromberg, 2003). Venture capital providers specialise in mitigating information problems in the initial decision to invest and then throughout the relationship; accordingly, the venture capital model begins with an intensive information-gathering and due diligence process (Bygrave & Timmons, 1992).

Venture capitalists invest in the small minority of companies that meet all of their requirements, taking an equity share of the company in exchange for funding and expertise. The investment itself involves intensive contracting that often gives venture capitalists significant control over the venture (Hellmann, 1998). Venture capital contracts are often staged, allowing the investor opportunity to withdraw from the deal (Gompers, 1995; Sahlman, 1990). Equity ownership and organisational control through ownership or board representation also give VCs more official control over the venture (Cumming, 2006). Of particular interest to this research, the intensive due diligence process and domain expertise of VCs can create reputations for the VC and

[8] "Merchant" venture capital, which is focused on later-stage expansion, buy-ins, and buy-outs, is less relevant to venture philanthropy.

their investees. These positive signals of investee quality (Megginson & Weiss, 1991) translate into better terms for high-reputation VCs (Hsu, 2004), and easier access to additional funding for VCs and investees (Nahata, 2008).

Once the investment is made, venture capital funds monitor and support investees through close and frequent contact. Sapienza, Manigart, and Vermeir (1996) divide the nonfinancial contributions of VCs into three areas: interpersonal, strategic, and networking.

The interpersonal and strategic functions are related, and core to the "value-adding" nature of VCs. Comparing American, British, French, and Dutch VCs, Sapienza et al. (1996) found American and British firms to be the most highly involved with investees, and that they added the most value. "Procedural justice", a construct based on standing of the actors in a relationship, neutrality, and trust, was found to be positively correlated with venture success over ten years (Busenitz, Fiet, & Moesel, 2004). Croce, Martí, and Murtinu (2013) examined VCs in a sample of six European countries, and found that increased venture performance was due to value-adding activities during the investment period—that is, the improvements were not due to the screening and selection process.

Venture capitalists directly provide strategy, management, and governance support in the context of an engaged "interpersonal" relationship. Hellmann and Puri (2002) found that Silicon Valley start-ups supported by venture capitalists adopted more professional measures than start-ups with funding from other financial intermediaries. These included more formalised internal policies, search processes, and the hiring of managers. The strategy support provided can include identifying and recruiting outside agents: other investors, strategic partners, customers, employees, consultants, lawyers, and accountants (Bygrave & Timmons, 1992; Gompers, 1995; Sapienza, 1992; Sapienza et al., 1996). Further, the human capital, that is, the experience and formal education (Becker, 1962), possessed by venture capitalists is positively related to venture performance (Dimov & Shepherd, 2005).

The centrality of relationships and information-sharing amongst VCs and investees is often considered to support new firm formation (Johnson & Loveman, 1995; Kenney

& Florida, 2000), though not all researchers have found evidence of added value based on information sharing itself (Busenitz et al., 2004).

Lastly, networks play a role in the sourcing, support, and exit of VC-backed firms. VC firms with higher network quality show better investment returns (Hochberg, Ljungqvist, & Lu, 2007). Network connections include links within portfolios: Lindsey (2008) showed that firms funded by the same VCs are more likely to collaborate in alliances (e.g., in marketing or research) or joint ventures, and more likely to successfully exit. When the time comes to "exit" the relationship, venture capitalists can help locate underwriters, auditors, or buyers (Megginson & Weiss, 1991). As Cumming (2006) summarises: "Both theoretical and empirical research is consistent with the proposition that VCs are value-added investors, typically geographically proximate to their investees, and among the most sophisticated of financial intermediaries at mitigating informational asymmetries…" (p. 1084). Saxenian's (1994) work highlighted the role of regional culture and institutions, including venture capital, in the success of Silicon Valley and its firms.

This role as a value-adding intermediary, with the (contested) ability to support growth of entrepreneurial firms in given industries or locations, has made interaction with venture capital an influential policy tool. In part based on the importance of new firms and small firms in creating new products and innovations in emerging industries (Acs & Audretsch, 1988), governments have made substantial investments in and subsidies of VCs and VC-like intermediaries in the last 30 years. Indeed, government-funded or -supported VCs distribute approximately $4 billion per year globally (Brander et al., 2015) and seem set to continue growing (Lerner, 2010), despite fundamental questions about how or whether policy experiments in public venture capital are effective (Da Rin, Nicodano, & Sembenelli, 2006; Lerner, 2009). More general business advice for small and medium enterprises has been subsidised by the British government as well, with limited effect (Bennett, 2008).

### 2.6.2 Differences between the venture capital and venture philanthropy models

There are parallels between the spread of venture capital institutional arrangements and operating practices and those of venture philanthropy. Both arose in the United

States and spread first to Britain (Ooghe et al., 1991) and then to continental Europe, with modifications in each new national context and with an influential trade association playing a key role to create strong definitions and practices for the industry. These are documented by Bruton and colleagues (2005) in the case of venture capital, and by Buckland and colleagues (2013) in the case of venture philanthropy. Influential, early American successes in venture capital inspired models elsewhere, despite questions regarding the broader geographical and institutional contexts of that replication (Megginson, 2004). Policymakers began providing substantial public support to VCs despite limited initial evidence, and we are now seeing similar experimental policy support for VPOs.

Despite these parallels, there are significant tensions we might expect to find when the venture capital model is applied to the third sector. During the rapid proliferation of venture philanthropy practice and publicity in the late 1990s, conflicts arose in early implementation stages. This same time period saw tensions around the core idea of *capacity building* itself amongst funders, statutory bodies, and the organisations to be supported, especially in voluntary sector contexts (e.g., Harrow, 2001). The most enduring problems, though, are based on fundamental differences between the private and third sectors in several areas: possibilities for exit, diversification and risk in investment, intellectual property, measurement of success, and funder incentives.

#### 2.6.2.1 Exit

Perhaps the most fraught difference between venture capital and venture philanthropy is the concept of "exit". Venture capital investors have clear goals for their exit: maximising the investors' return on their investment. While the decision to exit any individual investment is far from simple—there are many issues from pricing to opportunity costs—it has a single, clear measure of success. Venture philanthropy, however, lacks an analogous benchmark. It has no universal and well-defined measure of success. VP funds often have very specific missions and operating guidelines—which are lacking in many foundations, according to Porter and Kramer (1999)— but they almost uniformly define their success by "social return on investment" (SROI). Capturing such a nebulous concept is difficult, although numerous tools have been developed (Nicholls, 2009), and the development of such tools continues to be a priority for practitioners and researchers (Chatterji & Levine, 2006; Kerr, 2007). Even given excellent social impact monitoring, exit is a thorny issue in venture philanthropy: without an initial public offering (IPO) or a buyout, how do VP funds know when it is time to end a long-term funding relationship?

The most common exit goal is "sustainability". Many VPOs focus on building capacity and facilitating the growth of promising organisations, with success measured by revenue or impact goals focused on achieving "sustainability", generally measured by the change in revenue streams over the course of the relationship. Charities are funded through two principal means: earned income and donated income (Hansmann, 1979). Movement away from grants is generally seen as positive, as is diversifying income streams. In short, although venture philanthropists and others have developed tools to help them determine when an organisation has built capacity and become more "sustainable" (e.g., Guthrie & Preston, 2005), the absence of a venture-capital-style exit through merger, acquisition, or IPO makes defining a clear exit more difficult (Frumkin, 2003), despite attempts to clarify the process (e.g., Boiardi & Hehenberger, 2014).

#### 2.6.2.2 Ownership and governance

Several researchers have discussed the issue of control in venture philanthropy relationships (Chambers, 2008; John, 2007; Scarlata & Alemany, 2008). In venture capital, funders often take a seat on the board of their investees (Bygrave & Timmons, 1992; Lerner, 1995). In a survey of European VP funds and social entrepreneurs, John (2007) found that a majority of funders and investees consider board representation in their investments. In a 2006 article, John wrote:

> *It is the author's experience that board level access and involvement are essential ingredients of good VP practice. This may not mean taking a formal place on the organisation's board, but will demand a high level of engagement with the board members in vision and strategy. (p. 22)*

The relatively large amounts of capital that VP funds commit to individual social-purpose organisations strengthen the influence that venture philanthropy investment can have on the organisations that it supports. Dowie (2001) illustrates this dynamic with a fine example, stating that "…the five million people who support a large national organisation with a $25 annual donation have far less influence over its direction or policy than a foundation that grants it $50,000 for a specific program or purpose" (p. 3).

Venture capital funders secure significant rights over the governance and ownership of investee ventures through equity holdings, board seats, and contracts (Hellmann, 1998; Kaplan & Stromberg, 2003; Lerner, 1995). Although venture philanthropists have much more limited means of formal control over their investees, the size and duration of their investments gives them significant leverage.

#### 2.6.2.3 Diversification and risk

The diversification of risk is a central concept in venture capital. Even though venture capital specialises in making risky decisions in conditions of limited information (Amit et al., 1998; Kaplan & Stromberg, 2003), the overall success of venture capitalists can ride on a few very successful investments that generate large returns to offset the failed investments (Zider, 1998). In contrast, the third sector, especially charity, is unlikely to provide returns of that magnitude, whether they are social impact returns or otherwise. Nor can the sector's funders tolerate the majority of investments failing to create social impacts. With few SPO models capable of generating large profits, and without the ability of venture philanthropists to realise large gains from the growth or sale of SPOs, it is difficult to imagine large returns to VP funds even though they might make risky allocations of capital.

#### 2.6.2.4 Intellectual property

In venture capital, some start-up firms have a strong incentive to remain secretive about their ideas and plans. This is true even between firms within a given VC portfolio, where VC "neutrality" militates against sharing within the portfolio (Busenitz et al., 2004). In the private sector, having another organisation emulate your approach is generally a threat to your margins, market share, or both. In the third sector, the need for secrecy is much less pressing. While some social enterprises have a need for privacy, and some charities might have controversial programs or goals, SPOs tend to have less at stake in revealing their operating models and goals. Additionally, mandatory reporting for charities and public availability of some grant applications make secrecy much harder to maintain.

Indeed, in the voluntary sector having one's approach adopted by others—even, and perhaps especially, government—proves one's concept. Emulation, cooperation, and sharing of best practices, rather than being an existential threat to an organisation, is generally seen as a selling point to attract more funding. One of the chief differences between building a venture philanthropy portfolio, then, as opposed to a venture capital portfolio, is that many sector-level forces make collaboration and networking *easier* and less risky: minimal competitive and intellectual property concerns make sharing information and practices within the portfolio far easier in venture philanthropy than in venture capital.

#### 2.6.2.5 Measuring success

Two of the most important measures of success for private sector firms are 1) the generation and subsequent distribution of profit and 2) the acquisition of market share. Much of the cultural celebration around successful firms and products orbit around these two concepts and the several ways in which they are measured. In terms of distributing profits, charities are barred from all forms of out-of-organisation distribution except passing on grants. They can invest within the organisation—in endowments, in property, and so on—but generally plough surpluses into additional programming or to subsidise loss-making programs.

Thus, SPOs may measure success by scaling up the number of service users who are provided with services, the proportion of potential service users the SPO reaches, or the cost-per-service of the SPO's model. For charities working on homelessness, for example, there are hundreds of different programming models that attempt to deal with one or more of the many factors: unemployment, alcohol and drug addiction, criminal offending and recidivism, lack of formal education or training, and so on. These different charities, depending on the bundle of services they elect to offer, the manner in which the services are combined in programmes, and the geographies in which they operate, will often appeal to very different donors and compete for very different contracts or customers. The extent to which a group gains market share is challenging to measure: the "markets" are overlapping, untracked, and consist of a mix of donations and earned income, both of which can come from the private, public, or third sector.

The fact that profitability and market share, two simple and useful metrics of private sector success, do not transpose easily into most voluntary sector activity does *not* mean that there is no competition in the voluntary sector. Organisations often face significant scrutiny of their operations' "efficiency" in achieving social outcomes—including the on-going discussion about appropriate levels of "overhead" spending by charities—though the tools are blunter than simple profit measurement.

Although the tools for measuring successfully "competitive" organisations are hard to compare across organisations on the macro scale, there are some metrics that are locally useful. When considering profitability, many contracts to provide social services are awarded based on the cost-per-service—which are analogous to working backward to the cost of service provided and the appropriate margin to charge above that. And in market share, of course there is competition for scarce resources, and within geographical boundaries there are often market share considerations for say, providing beds for the homeless within a given town. This examination is not meant to provide a naïve view of a competition-less voluntary sector, but to highlight the ways in which there are systematic differences in the forces and opportunities that face voluntary sector organisations compared to private sector firms.

2.6.2.6 Funder incentives

Unlike the venture capital market, the "market" for traditional philanthropic grant making is one without intrinsic pressures on capital suppliers. Donors can feel good about the act of giving regardless of whether they are doing good. They are not accountable for the results of their giving (to registered organisations), and ineffective funding choices or poorly-designed grant requirements are not penalised (Bradach, Tierney, & Stone, 2008). Indeed, given the scarcity of resources for grantee organisations and their desire for future funding, suppliers of grants are rarely made aware of problems in their processes (Bradach et al., 2008; Frumkin 2006). In a *Harvard Business Review* article, Porter and Kramer (1999) acknowledge the role of incentives in engaged philanthropy:

> *For those who care deeply about social problems and work tirelessly to make a difference, current foundation practices not only diminish effectiveness, they inevitably reduce the satisfaction that donors, staff, and*

*trustees derive from their work. Scattered funding, arm's-length relationships with grantees, and a lack of awareness of outcomes necessarily create a divide between the foundation and the ultimate results of its work. Acting strategically is much more difficult. But for trustees and staff alike, it will be far more rewarding. (p. 130)*

This lack of forces encouraging "market discipline" might make venture philanthropists and other third sector funders seem like poor stewards or conduits of public funding. However, examining several prominent definitions of venture philanthropy clarifies its similarities with dominant governance themes—of financialisation, managerialism, experimental and hybrid institutional arrangements, and accountability (Appendix 1).

Emphasis on performance management and accountability, in combination with a management-focused close relationship over multiple years, provide many opportunities for a funder to influence the activities of an SPO. The provision of nonfinancial services, often provided pro bono by private sector professional services firms, represents another avenue for private sector practices to be applied in the third sector.

### 2.6.3 The distinctive institutional arrangements and operational practices of venture philanthropy

Following the processes and logic of neoliberalisation, venture philanthropy brings private sector institutional arrangements and operational practices into the third sector (Letts et al., 1997). Frumkin (2003) offers a three-legged stool metaphor, highlighting the long-term funding, engagement to add value (managerialism), and performance measurement (accountability) that venture philanthropy organisations provide to their supported SPOs:

*Getting to scale either through franchising or commercialism requires a different kind of financial support than that customarily provided by donors. Venture philanthropy has therefore developed tools to boost the likelihood of success. At its core, venture philanthropy can best be seen as a three-legged stool, each leg of which is seen as a solution to a problem*

> *in traditional philanthropy that has impeded nonprofit organizations. First, venture philanthropists believe that large blocks of capital delivered over an extended period of time are needed to build the capacity of nonprofit organizations. Second, these new donors believe that improving nonprofit strategy through management consulting is critical to lasting success. Third, venture philanthropists are committed to developing new metrics to measure organizational performance or, in their words, the "social return on investment." (p. 9)*

As venture philanthropy spreads globally, specific practices may be adapted to local conditions (for example, the focus on development and on individual entrepreneurs in the earlier-stage Asian context), but the concept nearly always maintains a set of widely accepted operational practices (I include a table comparison of six definitions in Appendix 1).

Much of this work explores the seven operational practices of venture capital as adapted to two British VPOs, summarised in Table 2.2.

**Table 2.2: The operational practices of early-stage venture capital compared to those of Impetus Trust and Inspiring Scotland**

| Practice | Venture capital | Impetus Trust case | Inspiring Scotland case |
|---|---|---|---|
| Sourcing and selection | Deals sourced through active search, personal and professional networks. Non-referred applicants less successful. Generally, all investees selected in first 1-3 years of fund life. | Deals sourced through active search, mostly through personal and professional networks. Open application exists but rarely successful. Rolling admissions into fund. | Funds selected all at once. Sourcing through open application, with active search by VPO and partners. Focus on how portfolio SPOs might interact. |
| Due diligence | Months-long process with substantial contracting elements establishing formal rights. Attempts to mediate information asymmetry and agency challenges. | 12-month period of strategic planning at the beginning of relationship. Costly in time and funding. Aim is to provide value even if SPO is not funded after 12 months. | VPO-provided consultants assist SPOs during their application to join a fund. Costly in time, some consultant fees. Aim is to provide value even if SPO is not funded. |
| Engaged relationship and monitoring | Provision of advice, management support, and networking. Often via or including board representation. Formal contracting with funding | Frequent and close interaction with VPO staff. More than other SPO funder types. Quarterly in-person meetings to evaluate performance. | VPO staff are organised and based in regions. Frequent and close interaction with VPO staff. More than other SPO funder types. |

| | | | |
|---|---|---|---|
| | dependent on monitored results. | Share best practices among SPOs. | Quarterly in-person meetings to evaluate performance. Share best practices among SPOs. |
| Provision of funding | Highly variable proportion of total budget, depending on venture stage. Use sometimes restricted by contract. Focused on growth toward eventual exit. | Usually unrestricted. Focused at the organization level and longer-term. Multiple stages of funding possible. | Usually unrestricted. Focused at the organization level and longer-term. Funding duration set at outset of relationship in most funds. |
| Provision of non-financial support | Often involving identification of new team members, especially management. Implicated in removing managers and locating new hires. Support and links for many professional services. | Substantial. Average SPO receives nonfinancial services, including from pro bono professionals. Spreads practices across SPOs. | Substantial. Average SPO receives nonfinancial services, including from pro bono professionals. Spreads practices across SPOs. |
| Creation of network linkages | Explicit provision of links to professional, and often personal, networks of VC staff. Frequently have professional staff to facilitate intra- and extra-portfolio links. | Most frequent links are with professional service firms, other portfolio SPOs, other trusts, and corporates. Links within portfolio not a core focus. No all-portfolio programs. | Most frequent links are with other portfolio SPOs, professional service firms, other trusts, and government. Links and collaboration within portfolio are a core focus; all-portfolio programs support this. |
| Intentional exiting of relationships | Exit goal is financial return. External liquidity events required: acquisition by other firms or public offerings. | Exit goal is sustainability of SPO. Exit on a per-SPO basis. Best performers receive continued support. | Exit goal is sustainability of SPO. Exit on the fund schedule, all at once. (First fund was per-SPO exits.) Created additional follow-on fund in one case. |

Scholars who discuss venture philanthropy universally link to its clear history in venture capital. Most scholars who discuss venture philanthropy note its clear links with and affinity for dominant themes in (neoliberal) government and governance, in particular business practices (e.g., Jung & Harrow, 2015; Moody, 2008). Venture philanthropy's explicit focus on market-based managerial competence and financial accountability, as well as capacity-building and network strengthening, appeal to neoliberal governance impulses—and position it as a compelling partner in new institutional arrangements to design and fund social innovation (Buckland et al., 2013).

## 2.7 Criticisms of Venture Philanthropy and Neoliberalised Social Service Provision

The final section in this chapter lays out the most commonly cited criticisms of venture philanthropy and neoliberalised social service provision. In subsequent chapters, I will present data to consider whether these criticisms are validly applied to my two cases, and venture philanthropy in general. The criticisms described here relate to the interests of elites, democratic accountability, the evidence base for the effectiveness of neoliberalised service provision, and the co-option of smaller charities or local councils.

### 2.7.1 Elite interests

One of the most oft-cited criticisms of neoliberalised social service provision concerns the class interests and values of the project and its actors. Harvey (2005) conceives neoliberalism as a decades-long story of class struggle characterised primarily by the wealthy securing a greater share of overall financial and political power. His writings are the most oft-cited work on neoliberalism in geography. Although Harvey doesn't focus on venture philanthropy directly, his general critique of contemporary capitalism would apply to the voluntary sector's market orientation, increased competition, and financialisation. Harvey's critiques suggest that venture philanthropy may be attempting to solve the problems created by neoliberalism with the very practices that contributed to social inequalities in the first place. He considers that the managers and manipulators of neoliberal capital have accumulated capital to themselves to such a degree that "redistributive effects and increasing social inequality have in fact been such a persistent feature of neoliberalisation as to be regarded as structural to the whole project" (p. 16). This is a viewpoint shared by Smith, Pain, Marston, and Jones (2009), who describe markets as being "set against" social care with only the "residual sphere of social policy" to vainly intervene (p. 31).

Knight (1993) argues that contracting charities can be important parts of society but that they are essentially part of the established social order. According to him, voluntary organisations are meant to be truly independent of the state and capable of voluntary action— "a form of energy, stemming from free will, having a moral purpose, and undertaken in a spirit of independence” (p. xii) and only then can they fill a role critiquing and challenging the social order.

Venture philanthropy is undoubtedly an “elite” enterprise, drawing most of its founders and staff from highly paid, private sector careers (Factary, 2011). These critiques question whether the class-based interests of these organisations and individuals can be expected to genuinely address the root causes of social inequality.

### 2.7.2 Democratic accountability

When social services are delivered by the state, citizens have at least a technical right and ability to scrutinise decisions and procedures and to reject policy decisions, often buttressed by press and other scrutiny. While the level of accountability achieved by electing a government is most often constrained, especially with respect to detailed policy decisions, philanthropically funded social service delivery is even less accountable to external stakeholders. Philanthropic organisations are accountable only to their funders, not to their service users, nor to the public (recall Anheier and Toepler’s (1999) discussion of the “built-in social tensions” (p. 256) of trusts and foundations cited in Section 2.5.3). This is not to say that there are not political and leadership concerns manifested in the management of trusts and foundations. In her examination of the American philanthropy industry, Bernholz (2004) noted that at times, foundation leadership changes precipitated shifts in giving or priorities not unlike the reshuffles seen in the public and private sectors during leadership transitions—and not always related to social or community needs.

Considering Frumkin’s (2006) conception of the mix of public and private functions of philanthropy, Harvey’s (2005) allegation that neoliberalisation results in increased income inequality, and Bernholz’s (2004) concerns about donor control, there is potential for “financial intermediary capture” of government resources in venture philanthropy. My research can inform whether the emergence of government-supported venture philanthropy resulted in an immediate loss of public control or accountability; however, it is possible that such shifts in control would happen over a longer timeframe than this work allows.

### 2.7.3 The evidence base for the effectiveness and sustainability of neoliberalised social service provision

Research of the neoliberalisation of the third sector and social service provision has found limited rigorous evidence that such approaches are necessarily more effective than a social welfare state or traditional charity (e.g., Macmillan, 2010). This is a crucial question for this dissertation to inform: can venture philanthropy organisations provide sufficient added value to justify the additional costs inherent in their model? For example, Osborne, Chew, and McLaughlin (2008) were concerned that focusing on "innovation" can privilege marketing over substance, and that performance measurement can lead to SPOs "teaching to the test":

> *In 1994 this context privileged innovative activity above other types of activity. This led [voluntary and charitable organisations] both to focus more of their activity on innovative work and to portray their other work as innovative, irrespective of its true nature, in order to gain governmental funding. In 2006, this context has shifted to favour the development and provision of specialist services that enable local authorities to meet their own performance targets from central government. (p. 66)*

Bernholz (2004) also saw performance measurement as a double-edged sword for funders as well, describing foundations that might "focus on compliance rather than building effective operations", resulting "in processes for making grants that keep staff people hurrying to meet false deadlines and nonprofits spending time on reports that never get read" (p. 7). Similarly, Charity Commission (2007) survey results raised concerns about whether third sector organisations are sustainable providers of social services. It found that only a minority of charities fully recovered their costs when providing public services, and that two-thirds of all contracts were for one year or less—raising questions about whether the shift toward contracting might provide insufficient resources for SPOs to survive. Whitfield (2008) also found that charitisation of once-public services like local leisure and sports facilities could lead to a litany of problems: more casualised, anti-union labour structure; increased fragmentation of services; decline in service quality; less transparent governance; less accountability; and fewer savings than expected. Whitfield also noted that savings that did occur through privatised social service delivery were offset by foregone tax revenue, caused by the favourable taxation arrangements made for philanthropy organisations.

In addition to the lack of evidence for neoliberalised social service provision, Bernholz (2004) argued that foundation staff were often unprepared for the complicated realities of service provision.

### 2.7.4 Co-option

Lastly, many critics claim that the logic and practices of neoliberalism have led to the co-opting of small charities and local councils. Cater (2002) colourfully explained in popular press:

> *Actually, it's a pincer movement, uniting privatisation and what I would like to call "charitisation".... Councils may be sorry creatures but even with low turnouts, ludicrous politicking and endemic corruption their democratic accountability shines out like a beacon amid the gloom of charities' closed worlds, where even the richest 200 have to be chided publicly by the chief charity commissioner for their lack of simple transparency.*
>
> *The aim of these twin reviews is to use voluntary and community groups as a stick to beat local councils and undercut their services. This will exploit their "value added" claims to reach the parts other systems cannot, and their instinct to offer cheap, non-unionised staff and volunteers with low levels of training or support. Neither companies nor charities will have any power—that remains with the ultimate paymasters—and accountability will get lost. (paragraphs 5-9)*

The political economy of service provision by charities—and I use the phrase political economy here to signal an attention to which actors can and do exercise power and why—includes a complicated set of incentives and actions by the British government, local councils, and the voluntary and charitable sector. MacMillan (2010), reviewing the literature and evidence around public service commissioning and the third sector, suggests that "relationships between commissioners and third sector organisations cannot be viewed as homogenous, uni-directional or static, but rather subject to a range of dynamic contingencies shaped by organisational strategies and 'market' position" (p. 24). Buckingham (2009) concurs that government demands risk influencing third sector organisations in a way that reduces their long-term prospects as partners.

## 2.8 Concluding Remarks

Overall, critics of the underlying logics of venture philanthropy raise important questions about the efficacy, governance, public accountability, and long-term implications of its emergence. Given that many possible frictions are based on the application of market-based concepts to social service funding and provision, I situate this research in the evolution of the shifting roles of the state, market, and third sector in Britain. This includes a high degree of experimentation and creation of new organisational forms and arrangements in Britain (Peck & Tickell, 2002), particularly between the state and the civil society sector (Brenner et al., 2010)—and in the context of a shift in state funding for charities away from grants and toward contracted service provision. I specifically examine relevant practices and institutional arrangements in government, notably the "new" public management, and in finance provision, notably venture capital.

In this work, I address these theoretically consistent hypotheses by applying them to the seven core practices of venture capital that were adapted to create venture philanthropy, and examining them in the context of new public management and the broader roles of philanthropy in Western societies.

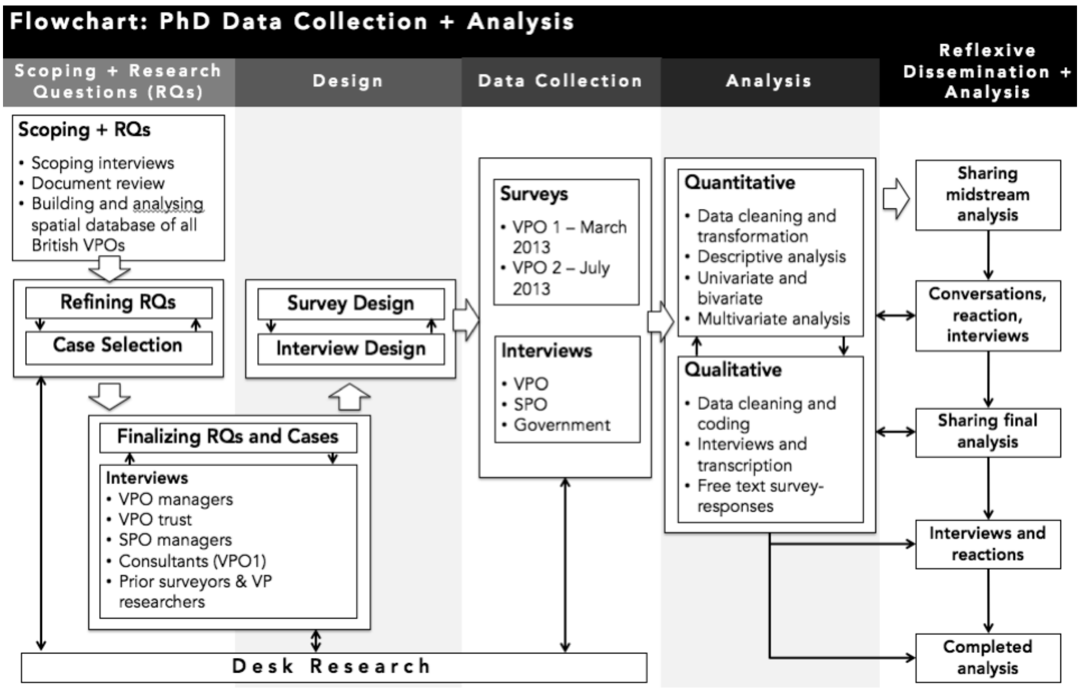
In subsequent chapters, I examine two case studies of venture philanthropy organisations in Britain, and use a large-scale survey and interview methodology to seek the opinions of SPO managers and VPO staff, founders, trustees, and funders. I analyse the institutional arrangements and operational practices of VPOs to address four research questions concerning the emergence and implications of a new financial intermediary in the third sector. The next chapter lays out those questions.

# 3 RESEARCH QUESTIONS AND METHODS

## 3.1 Overview of Research Process and Rationale

This research project comprised multiple methods to describe, examine, and develop theory around the emerging British venture philanthropy industry. My research took place in five stages: scoping and research question development, research design, data collection, a first wave of data analysis, and a reflexive process of dissemination and continued analysis (Figure 3.1).

**Figure 3.1: PhD data collection and analysis**




### 3.1.1 Scoping and research questions

Examining the literature relevant to the emergence of venture philanthropy in Britain revealed a series of gaps, as outlined in Chapter 1. It became clear that there was a surprising dearth of knowledge regarding some fundamental aspects of venture philanthropy. This led to the first two research questions:

How and why are venture philanthropy organisations being created in the British third sector, and what does their emergence and evolution imply for the funding of third sector service provision?

How are the practices and institutional arrangements of venture capital translated into the third sector by venture philanthropy organisations? What do venture philanthropists *actually do* to support the organisations they fund, and is this similar to or different from venture capitalists?

Beyond these gaps in our knowledge of the emergence of British venture philanthropists and their practices, the literature is unclear on whether or not nonfinancial services from venture philanthropists are valued by supported organisations. Unlike venture capital, where financial returns justify the creation and persistence (and failure) of venture capital firms and their actions, the mere existence of dozens of venture philanthropists does not indicate value creation.

Indeed, even starting with the assumption that the venture philanthropy model does *not* provide any additional value beyond funding, it is straightforward to construct a theoretical scenario in which all actors would still participate: VPOs, SPOs, funders, and service users.

VPOs desire to prove their usefulness, and that of their model: they will select high-performing SPOs, fund them, provide them nonfinancial services and networks, and monitor their performance. Even if each of the distinctive "value-adding" elements of the model are unhelpful or actively harmful, SPOs may be willing to endure costly interaction with VPOs, provided those costs are less than the value of financial support. The funders of VPOs receive information and anecdotes provided by the VPO and its supported SPOs—and given the rigorous due diligence process VPOs claim to undertake before allocating funding, selected SPOs are likely strong performers prior to VPO support. Additional core funding to those SPOs over multiple years, even if offset to an extent by *negatively* valuable services, would likely result in positive outcomes for the SPO and its clients, yielding an overall positive set of outcomes to be measured. This attention to incentives, along with a gap in the literature regarding the voices of organisations supported by venture philanthropists (John, 2007; Moody, 2008) raised another question:

Do the managers of supported organisations believe the operating practices and institutional arrangements of venture philanthropy to be appropriate and valuable? Who finds it valuable, why, and what are the limits?

The emergence in 2008 of Inspiring Scotland provided a novel model. This is a state-supported venture philanthropy organisation which launched at a scale significantly larger than that of Impetus Trust and most European VPOs. Given the long heritage of philanthropy influencing state provision of services, and the fact that the British state spends approximate two hundred times more than foundations (Pharoah et al., 2016), I sought to understand:

To what extent does private sector or government funding of a venture philanthropy organisation affect its practices and institutional arrangements? What are the benefits and weaknesses of any observed differences?

This fourth and final question raised particularly pressing issues about the creation process, institutional arrangements, and operating practices of such a model compared to a "typical" privately funded VPO. It also informs a broader gap in the examination of philanthropy. Despite—and perhaps because of—the many and contested roles of philanthropy in society, its governance implications are often overlooked. As put by Jung and Harrow (2015), these "polarised debates… frequently draw academic, policy and practice gazes away from the governance implications of those achievements [of philanthropy]" (p. 48).

With a broad set of *how* and *why* questions, as well as an emerging model of substantial interest, I designed and conducted mixed-method case studies in a five-stage process: scoping and selecting research questions; designing case studies, interviews, and a survey; collecting data; analysing data; and a reflexive process of disseminating, discussing, and analysing data.

The first, scoping stage of this research project involved three elements: creation of a database of all British VPOS and all the SPOs they supported; review of industry and research documents; attendance at industry events; and interviews with SPO and VPO founders, managers, and staff. To create a database of British VPOs, I reviewed the membership roll of the European Venture Philanthropy Association (EVPA, 2007; 2010b), surveys of European venture philanthropy (John, 2007; JPA Europe, 2008), resources directed at philanthropists (Association of Charitable Foundations, 2009), the UK Charity Commission, and the government-supported database Guidestar UK. Additionally, several industry informants reviewed the list to make it as comprehensive as possible. The database included all SPOs supported by each VPO, in addition to geographic data on the headquarters of each VPO and SPO, and service locations of SPOs.[9]

I then conducted almost two dozen interviews as part of the scoping phase to ensure that my research questions were informed by a realistic view of the current state of venture philanthropy practice and research. This helped target my questions at areas where researchers and practitioners had identified gaps, helped me learn industry-specific language and terms, and identify and gain access to relevant informants in both the scoping stage and thereafter. This understanding and triangulation was augmented by attending industry events and conducting site visits at several British VPOs.

In parallel with this formal scoping work, I joined the primary industry association, the European Venture Philanthropy Association (EVPA), as a member of the University of Cambridge. In this capacity, I attended a number of industry events: site visits, workshops on issues of importance to venture philanthropy practitioners, annual conferences, and served on an expert group on nonfinancial support. These interactions were important enablers of my research: they helped me build trusting relationships and credibility with otherwise hard-to-access members of the

[9] The initial scoping was heavily focused on the basic spatial anatomy of British venture philanthropy. The analysis revealed spatial concentration in London as well as a proximity bias in SPO selection (Isserman, 2009). The distance distribution between VPO–SPO dyads showed a distance decay effect: 75% of all supported organisations were headquartered within 75 miles of their supporting VP fund, and 61% were within 25 miles. However, the existence of some relationships operating across large distances, and the fact that some funds invested both locally and across distance, warranted further research.

philanthropic and voluntary sectors. That said, those memberships might have influenced, positively or negatively, the opinions of certain informants toward me (discussed in Section 3.2.1). I consulted other documents and data sources to avoid potential overreliance on those communities, with their potential biases, and to counteract any biases I might form based on familiarity.

The formal and informal knowledge generated in this scoping phase was crucial in refining my research questions and creating necessary relationships and access. With clear questions, I selected two VPO cases of special interest: Impetus Trust, the first VPO in Europe, and the first significantly government-supported VPO in the world, Inspiring Scotland.

### 3.1.2 Choosing to conduct case studies using a mixed methodology

Case studies are an appropriate methodology for enquiries that examine a contemporary phenomenon (Yin, 2008) and focus on causal mechanisms (Gerring, 2004; 2007). Economic geography has a long tradition of building theory based on influential case studies, blending quantitative and qualitative data to generate context-aware understanding of complex institutional arrangements within industries. I follow in that tradition, drawing particular inspiration from the work of Gertler (2004) and Saxenian (1994).

Flyvbjerg (2006), citing Ragin (1992), holds that “small-N” research can avoid some of the arbitrary subjectiveness of “big-N research”. The methods associated with large samples—questionnaires, surveys, and dataset analysis—give fewer opportunities for researchers to revise their methods and theory based on subject feedback.

However, research methods with larger samples were appropriate to address research questions 2-4. It was therefore crucial to understand the venture philanthropy landscape and VPO cases to design the larger, SPO-focused survey. The complexity and heterogeneity of British VPOs, the relative youth of all VPOs, and the lack of information about the practices and institutional arrangements of British VPOs placed a premium on the ability to rapidly gain contextual information, modify my research assumptions, and adapt theory early in the case selection process.

Case study research can be valuable for the researcher as well when addressing research questions. Flyvbjerg (2006) argues that conducting such work facilitates creation of a “nuanced view of reality” (p. 223). Relatedly, he claims that case studies help researchers develop skills and knowledge to avoid “ritual academic blind alleys” (p. 223) of research design that does not accurately reflect reality—of particular importance, I would argue, in an emerging area of study with relatively scarce academic literature against which to compare findings. For this reason, I situate each VPO case in literature and broader context, as advocated by scholars of innovation processes. For example, I looked to Lundvall’s (2010) guidance in examining the relevant institutions—formal and informal—of the primary actors, VPOs, and the organisations they support.[10] This approach of beginning with an in-depth study of the major actors before taking a more “macro” view was also advocated by Wolfe (1994) : “A number of scholars have recently suggested that in-depth, inductive innovation studies be conducted… such research provides a safeguard against the premature adoption of an innovation framework and of limiting one's scope of inquiry” (p. 420).

Single-case studies are dependent on theoretical underpinnings for their external validity; the domain to which they can be generalised is determined by theory and mediated by their context. By contrast, multiple-case studies can provide external validation for each other’s findings if their results are consistent with common propositions. This is the case regarding the allegedly similar institutional arrangements and operating practices of the two VPOs examined here. The many similarities between the two VPOs also allow me to focus on the ways in which they

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[10] In the case of innovative sectors and innovation systems, Lundvall (2010, p. 340) offers a general four-step method of study based on his conception of innovation. He recommends beginning at the within-firm level, examining the organisational set-up and human resources involved in innovation. In the second step, the researcher should then examine the interactions among actors and the knowledge infrastructure, both domestically and internationally. Third, the researcher should explain “national specificities in these respects” with relevant national institutions and actors; labour markets, financial markets, and welfare regimes are most relevant in this case. Fourth and finally, Lundvall advocates returning to firm organisation and interactions to explain contextualised specialisation and performance in the innovation system.

vary, including the role of private versus public funding, the scale of funds, the degree of targeting, and the structuring of portfolios. The external validation between cases is also active at the level of supported organisations: the 82 supported SPOs operated in many different contexts.

### 3.1.3 Case selection

With these research questions and methodological considerations in mind, I selected two VPOs that were recognised as influential leaders but varied in their founding and funding sources. Both cases practiced venture philanthropy according to the widely accepted industry definitions: they provided grants, nonfinancial services, and network links to rigorously selected SPOs. The cases also differed in important ways.

The first VPO case, Impetus Trust, was an "archetypal" VPO: it was the first in Europe, was founded by finance industry veterans, and played an intentional role in the growth of the venture philanthropy sub-industry. In contrast, the second case, Inspiring Scotland, was the first VPO to be significantly government-funded. It was founded the year this research began, 2008, and provided the opportunity to examine ways in which public involvement influenced venture philanthropy, traditionally viewed as a private sector phenomenon linked with concepts of neoliberalisation.

#### 3.1.3.1 The archetypal VPO case: Impetus Trust

Impetus Trust was of research interest for a number of distinctive reasons. It was an archetypal case and practiced a "textbook" version of venture philanthropy, much like that described throughout Chapter 2. It had the longest record of venture philanthropy funding in Britain, including several "exited" grantee organisations. It was a high profile and influential organisation that intentionally spread awareness and knowledge about its model. As a private-sector-based archetypal case, it provided an excellent basis for comparison with the government-supported venture philanthropy model.

Founded in 2002, Impetus Trust's operational model focused on scaling charities and social enterprises. Impetus Trust served as a frequent exemplar of venture philanthropy in the public and academic press; this is partly the result of an explicit "commitment to thought leadership" that included work with public relations consultancy and commissioned research (Sayer Vincent Auditors, 2011, p. 19).[11] Impetus Trust had been honoured by government agencies and by various British charity awards. These factors served to make Impetus Trust a well-described and influential organisation, particularly given its relative youth and small size.

Impetus Trust also served a central role in coordinating and encouraging the emergence of venture philanthropy organisations in Europe. An Impetus Trust founder co-founded the European Venture Philanthropy Association in 2004; the EVPA had 77 VPO members (and more than 190 total members) across Europe as of August 2015, many of which used EVPA writing and research in defining themselves as practitioners of venture philanthropy (EVPA, 2015).

Beyond the EVPA, Impetus Trust and its founders remained active disseminators of the venture philanthropy concept and remain globally influential, including the subsequent 2011 founding of the 130-member Asian Venture Philanthropy Network. The story of Impetus Trust and its founders represents the evolution and adaptation of an originally North American set of principles and practices into the British (and eventually pan-European and Asian) context.

Impetus Trust is funded by private donations with clear London and finance-sector origins, in contrast with the state-supported second VPO, the Edinburgh-based Inspiring Scotland Foundation.

#### 3.1.3.2 The emerging, government-supported VPO case: Inspiring Scotland

Inspiring Scotland was founded in 2008, five years after Impetus Trust, with explicit influences and advice from American, Australian, and other European models of venture philanthropy. It was founded by two people: a Scottish charitable trust CEO with a banking background and a UK government civil servant (who had been seconded to that same Scottish charitable trust). Inspiring Scotland was funded mostly

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[11]According to the Impetus Trust's 2011 Audited Report, between July 2010 and June 2011 the organisation was covered BBC News, Sky News, BBC Radio 5 Live, *Financial Times*, *The Times*, *The Sunday Times*, *The Independent*, *Guardian* Online, *Reuters*, *Bloomberg*, *Wall Street Journal*, *Private Equity New*s, *Real Deals*, *Hedge* magazine, *Spear's* magazine, Third Sector Social Enterprise, and Philanthropy UK.

by the Scottish government, and also by private individuals, firms, and trusts and foundations, and was started at larger financial scale than many VPOs, including Impetus Trust.

There were many similarities between the two VPOs at the time of selection in approach, staffing, influence, and transparency. Both VPOs explicitly defined themselves as practitioners of venture philanthropy, and in very similar terms. Both had similar numbers of staff, 15 at Impetus Trust and 18 at Inspiring Scotland; both had far more staff per SPO than typical charitable trusts or foundations. Both VPOs saw themselves as "pioneers" and innovators, and were externally regarded as such. Lastly, both VPOs publicly committed to learning from failures as well as successes, and to do so transparently. Both explicitly tied the value of transparency to their roles as experimenters and innovators.

Key differences in the two VPOs allowed for the exploration of research questions 1 and 4. The two VPOs differed in their age, their time of founding in the context of British venture philanthropy, their founding structure, funders, relationship with government, portfolio structure, overall size, and requirements around geography and accessibility.

3.1.3.3 The cases in the context of British and European venture philanthropy

A survey of 71 European venture philanthropy funds indicated that Impetus Trust was similar in size to the broader European venture philanthropy sub-sector, in which 58% of organisations have budgets below €2.5 million and 83% have budgets below €10 million (Hehenberger & Harling, 2013). Inspiring Scotland was among the 7% of European VPOs with budgets in excess of €20 million. Britain is the European nation with the largest amount of venture philanthropy spending per year, at approximately £55 million in the 2012-13 fiscal year spent by 13 VPOs (Hehenberger & Harling, 2013). (A further £43 million was spent in Ireland.)

The ultimate beneficiaries of the work done by the majority of both VPOs and their supported SPOs were children, young people, and (often young) people in poverty—the three most common beneficiaries across all European venture philanthropy funds, with 35%, 25%, and 45% of all funds focusing on those areas, respectively. And like 67% of all European venture philanthropy funds, funding from both VPOs generally supported core budgets of SPOs rather than projects or programs. Funding was linked to performance milestones, like 43% of all European venture philanthropy funds (Hehenberger & Harling, 2013). Both VPOs were structured as intermediaries—unlike many foundations and trusts, neither possessed nor planned to create large endowments from which to make distributions. So while they are similar in this regard, results from these cases may not be generalizable to foundations and trusts with such structural differences.

In summary, focusing on two very intentionally chosen VPO cases—and only after examining the full universe of British VP funds—this study provides replication of findings on two levels. For variables hypothesised to be similar—for example, most operational practices of the VPOs—literal replication of findings provides support for the hypothesis. Variables where we expect the results to differ in a predictable fashion—for example, in the broader spatial patterns of SPO locations expected with government support—are meant to provide support of the hypothesis via theoretical replication (Yin, 2008). The case studies used both within-case methods and between-case methods (Gerring, 2007), with individual between-case hypotheses targeted at either literal or theoretical replication.

## 3.2 Research Design

Having identified research questions and VPOs of interest (Sections 3.1.1 and 3.1.3), I used a mixed methods approach to minimise two risks in studying emerging, complex phenomena: overgeneralisation based on weak or incomplete data on the one hand, and, on the other, particularistic case studies with temporal relevance but weak theoretical grounding. As advocated by Yin (2008), Gerring (2004; 2007), and Flyvbjerg (2006), I designed and conducted interviews, a survey, and a programme of desk research for each VPO. Importantly, the survey was intended to counteract the lack of good data with regard to the opinions of SPO recipients of venture philanthropy support—especially independent data not collected or paid for by the foundations themselves. These well-documented power dynamics (Ostrander, 2007) exacerbate two already-formidable challenges addressed by my research questions. The first challenge is determining how support services and close relationships like those in venture philanthropy function, and the second challenge is the pressing social concern to understand the extent to which these practices achieve their goals, according to managers of organisations receiving such support.

### 3.2.1 Qualitative design

Within the context of this mixed methods research design, I elected to conduct focused, semi-structured interviews. Having conducted significant scoping research, a primary prerequisite of such interviews (Merton & Kendall, 1946), I aimed to address my research inquiries through asking thoughtful and informed questions, while staying flexible and open to personal narratives and explorations within the interview (Kitchen & Tate, 2001). In this case, interview preparation involved an understanding of the relevant venture capital and venture philanthropy literatures, as well as the specific social issues and organisations relevant to each interviewee. All interviews covered, to the extent they were relevant, the emergence of British venture philanthropy (and founding of particular organisations where applicable), the institutional arrangement of venture philanthropy, and the operating practices of venture philanthropy organisations, always including the seven core practices discussed here but leaving the opportunity to discuss additional practices.

Nearly all semi-structured interviews were conducted at the offices of the interviewee. This included five SPO locations, three VPO offices, and two Scottish government locations. Additional interviews were conducted alongside industry events or gatherings in neutral locations: hotels and conference facilities. Interviews were between 45 minutes and 90 minutes in duration, depending on venue and availability.

#### 3.2.1.1 Risks of interviewing and mitigation through informant selection and triangulation

Schoenberger (1991) stresses that each interviewee must be viewed as an actor “embedded in a complex network of internal and external relationships,” (p. 181) and that qualitative interviews allow the researcher to understand the constraints and possibilities that influence the decisions of individuals. Nonmarket forces are seen as particularly difficult to gauge statistically, and therefore require more sensitive, qualitative methods like interviewing. In the case of the third sector, where market forces and signals are generally weaker or less clear than in the private sector, I place an even greater premium on the ability to detect, through individuals, the nonmarket forces that influence behaviour. Individuals also serve to increase verifiability if multiple individuals within a firm can corroborate findings (Schoenberger, 1991); I triangulated across interviewees to better understand complex processes and decisions.

There are potential biases introduced when data are collected through interviews with individuals in organisations. First, their viewpoints and opinions might not represent those of the organisation as a whole, as acknowledged by De Clercq and Sapienza (2006) in the case of researching venture capital funds; the converse is also a risk, in which individuals they share opinions that flatter the organisation, even if they do not agree. Second, individuals' opinions may very well be biased, perhaps systematically, and they might pass on false information by accident or intentionally. In my research, substantial preparation with primary and secondary document sources—annual reports, meeting minutes, tax documents, and Charity Commission documents—mitigated the risk of being misled about general facts, but provided less protection against bias. Triangulation across individuals within an organisation provided greater verifiability, as did triangulation among individuals from both VPOs and SPOs in dyadic relationships.

Triangulation's usefulness depends largely on the sources across which one triangulates, necessitating careful selection of sources. I made my initial contacts within organisations based on the positions of individuals within those organisations, generally in senior management roles. In each case, I reviewed an organisational chart of the VPO beforehand and selected individuals likely to be well-informed on topics of interest: the founding and evolution of the VPOs, the provision of nonfinancial support services, and the selection and monitoring of SPOs. Subsequent interviews within organisations were scheduled in two ways. I had discussions with senior management team leaders *and* SPO support staff at each VPO in which we collaboratively chose which individuals were most likely to add insight or new perspectives to my understanding. In some cases, subsequent interviews were the result of referrals from a prior interview, or "snowballing." When attempting to represent a large sample, snowballing as a sampling method introduces obvious potential biases. Cloke et al. (2004), for instance, argued that researchers must recognise "the propensity of people to pass the researcher on to people whom they consider to be like-minded" (p. 156). However, in this case, the risks were mitigated by selecting most interviewees based on clear criteria (primarily roles and organisational history) rather than referrals—and referrals were based on my research needs.[12] Furthermore, the criteria for my research limited the set of potential interviewees to a very small group of individuals: VPO trustees, founders, managers, and staff; SPO leaders and others who interacted heavily with VPOs; and relevant experts and funders, including government officials.

#### 3.2.1.2 Positionality

In interviews, the positionality of the interviewer is a source of potential benefits, weaknesses, risks, and biases (Cook, 2005). By considering my identity and practices as a researcher, I attempted to mitigate those risks and biases. My relevant identities were: Cambridge researcher, American, and former management consultant. Each identity offered potential benefits and challenges.

My identity as a Cambridge researcher provided an institutional reputation of quality, buttressed by the Gates Cambridge Trust as a funder, which had particular currency among philanthropic and SPO managers. However, this identity included potential drawbacks, including being perceived as an agent of an elitist, English institution. My American identity established a role as an outsider, which obviated tensions around British politics and biased interviewees toward providing broad analysis. It also might have caused me to miss cultural clues, cues, and references.

My identity in the sub-industry of philanthropy, as a member of EVPA and former strategy consultant with a focus on SPOs and funding, was an important enabler and also a source of some tension. I was often perceived as having potentially valuable knowledge or advice, and interviewees were often willing to discuss strategic and management challenges. It lent credibility to my interactions with VPO and SPO

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[12] For example, early interviews for the Inspiring Scotland case—with interviewees selected based on their roles—revealed potentially interesting SPO–SPO interactions in some of Inspiring Scotland's funds. I then asked who on Inspiring Scotland's staff worked most closely with those funds and SPOs, resulting in a referral for subsequent interviews.

leaders, and established my familiarity with such interactions and associated customs around issues like confidentiality and board governance. It also allowed me to comfortably present a professional image, which may have lowered some barriers. My background consulting for nongovernmental organisations, including several based in Europe as well on four other continents, helped me understand the issues faced by VPOs and SPOs and establish credibility with interviewees.

However, that same professional image and former consultant identity led to some assumptions about knowledge I did not possess, for example, an understanding of British SPO management history or previous scandals around British charities. This was easily mitigated by asking for clarification—but occasionally led to interview time being spent on establishing context rather than the topics of my research. Similarly, being perceived as a potential resource sometimes led informants to focus on issues where I could, perhaps, be of help to their organisation—rather than on topics most useful to this research project. That particular tension was partly navigated by providing something back to research participants, as advocated by Mason (2002), in the form of presentations and a brief report on my midstream findings. This also provided a helpful inflection point in my analysis, after which I focused on rigorous academic examination of my data rather than a consultant-style trends analysis—a final potential challenge of my consultant identity. Overall, I attempted to understand my positionality, then took steps to maximise benefits and minimise potential drawbacks.

#### 3.2.1.3 Recording, transcription, confidentiality, and reporting of interviews and surveys

All semi-structured interviews were recorded. In each case, verbal permission was requested and granted at the beginning of recording. The degree of confidentiality and non-attributability of recorded statements was discussed. Fifteen interviews were transcribed, using several transcription services, yielding approximately 150,000 words that were subsequently reviewed and verified before being included in my research.

When quoting informants, I note whether the quotes were taken from surveys or interviews, and note whether the speaker is from Impetus Trust, Inspiring Scotland, or an SPO. To protect the anonymity of SPO managers, I have referred to them as SPO Manager and then an identifying number, followed by a descriptor of the size of their organization, the fund in which they were included, whether they were actively supported or had exited at the time of the statement, and, in the case of survey responses, the specific question to which they were responding.

#### 3.2.1.4 Document review and confidentiality

In addition to reviewing publicly available industry and organisation-level documents—which are extensive, given transparency requirements for VPOs and SPOs—internal documents from VPOs and SPOs were provided confidentially. These documents included information regarding donors to VPOs, internal VPO policy and strategy documents, the minutes of board meetings, and a wide collection of documents cataloguing the interaction between VPOs and SPOs, including progress reports and strategy documents. Some were under formal nondisclosure agreements, which are honoured here, but provided valuable understanding.

### 3.2.2 Quantitative design

Research questions 2-4 commended a survey across *all* supported SPOs as a highly desirable methodology—and an opportunity to fill a significant gap in the literature concerning the constitution and value of the practices involved in venture philanthropy.

The survey was designed based on two previous surveys that examined support services and firms: the 1997 Cambridge ESRC Centre for Business survey of small and medium enterprises in Britain (Cosh, Hughes, & Bullock, 2001), and a small-scale survey of VPO nonfinancial services (John, 2007).

To address my research questions, I heavily modified those frameworks to create a survey targeted at the managers (or key VPO relationship holders) of supported SPOs. There was cooperation from both VPOs studied: an impartial, uncompensated, and independent offer to conduct research exploring VPO practices was welcomed. There was consultation with VPO staff in each case to make sure the survey used appropriate phrasing; in the Impetus Trust case, this included a team of pro bono consultants from Bain & Co.

The VPOs' interest in the survey and its design provided a strong opportunity to discuss their key questions and thoughts on the venture philanthropy sub-sector. However, as in all of the survey work involved in this research project, the balancing of competing demands was a key challenge well before the (comparatively) straightforward work of designing and distributing the survey itself.

A high response rate and substantive survey were critical for three reasons: the small universe of supported SPOs, my goal to create a full picture of the VPO–SPO interaction, and the historical lack of data from SPO managers about the value of interactions with funders. These same reasons militated for the inclusion of numerous targeted free-text response options. Leveraging my positionality and support from the VPOs, I created a substantive survey that took an average of 48 minutes of active response time to complete.

This mixed-methods process has yielded what appears to be the most comprehensive dataset yet collected that examines the VPO-level practices and effects of venture philanthropy-style funding.

## 3.3 Data Collection and Analysis

The primary methods of data collection were interviews, surveys of SPO managers, and extensive review of SPO, VPO, industry, government, and academic literature (some under nondisclosure agreement). Each method was used to triangulate findings from the others.

### 3.3.1 Interviews

While all 44 interviews followed a similar template, some interviews also focused on specific research questions or methodological issues (Section 3.2.1). For example, three interviews with VPO founders focused heavily on the founding process (Chapters 4 and 6), while four interviews with VPO founders focused on operational practices and institutional arrangements and their evolution (Chapters 5 and 7). Likewise, conversations with five senior civil servants were designed to inform research questions about the founding of the second VPO, Inspiring Scotland, and the government's role and risk assessment. Other interviews also addressed methodological issues. For example, in the process of designing the SPO survey, some interviews focused on selecting appropriate questions, structure, and phrasing for SPO manager respondents. Finally, I interviewed key VPO founders (n=3), VPO managers (n=5), and SPO managers (n=5), some multiple times, after the release of some of my research findings; this is described in Section 3.3.6.

### 3.3.2 Observations

I conducted site visits with VPOs, SPOs, and the Scottish government. I visited both VPOs prior to selecting them as cases. The VPO site visits were both formal visits offered by those VPOs to members of the EVPA, and included "insider" descriptions and information tailored to a well-informed audience as well as visits or presentations with SPOs supported by each (one in the Impetus Trust case and three in the Inspiring Scotland case).

For both VPO cases, *after* choosing them as cases, I also conducted two additional visits, primarily to conduct interviews. For each VPO, I was introduced to all staff by the senior management team during an all-staff meeting. I conducted a visit with each VPO both before and after the survey was sent out. Additionally, prior to sending out the survey, I conducted site visits with four SPOs supported by Inspiring Scotland and three supported by Impetus Trust and interviewed their managers. This aided in better understanding the VPO-SPO relationships that the survey sought to explore.

Additionally, I attended numerous VPO-oriented events: three annual conferences of the EVPA (2009, 2010, and 2012), the 2008 Forum on Responsible Investing, several issue-focused EVPA workshops, meetings of the EVPA Expert Group on Nonfinancial Services, and the first meeting of the Social Impact Analysts Association. I also attended several SPO-focused events. These included general annual meetings, board meetings, and the first "graduation" (exit from VPO portfolio) ceremony in Britain.

### 3.3.3 Conducting surveys

With a clear understanding of the actors, issues, and processes involved, I conducted an extensive survey of the SPOs supported by the two VPOs (n=82, across five portfolios) and follow-up interviews based on survey responses (n=10). In both cases, it was made absolutely clear to the VPOs and supported organisations that my work would remain independent and uncompensated. All SPO responses were to be kept confidential and would not be shared in any attributable form, including to the VPOs. In the Impetus Trust case, raw results and my analysis were shared with independent consultants at the request of Impetus Trust.

This independence was recognised to be of clear and mutual value. The results were likely to be more honest, mitigating the inevitable (perceived) risk for SPOs in criticising the hand that feeds. For VPOs, the ability to share results (if they chose to) from an independent research project based at a respected university was a potential benefit. That said, there was a mutual understanding that I would share results even if they did not reflect the hopes of the VPOs, which was one of several potential tensions discussed prior to the survey as advocated by third sector researchers (e.g., Jung, Harrow, & Pharaoh, 2012).

The final issue was leveraging VPO support to encourage SPOs to participate in the survey while keeping it clear that VPOs would not receive the results directly. To counteract this, the process was divided into two pieces. The first was a preliminary email from the CEO of the VPO to the main contacts at all supported SPOs telling them to expect an email from me; I was "carbon-copied". The second stage was then fully in my control as I distributed the survey.

The survey was distributed via emails from me to each SPO manager. The emails were routed through the Qualtrics survey package, and included links to the survey site. Each SPO manager was emailed the initial survey link in an email tailored to their fund within the VPO. They were sent reminder emails after one, two, and three weeks if they had not yet completed the survey. Individuals who completed the survey received a thank-you email. The response rates were 88% for SPOs supported by Impetus Trust (23 of 26 SPOs) and 84% for Inspiring Scotland (59 of 70 SPOs).[13] The two surveys are appended (Appendices 2 and 3).

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[13] The four portfolio funds within Inspiring Scotland had response rates of 70%, 88%, 91%, and 100%.

### 3.3.4 Qualitative analysis

#### 3.3.4.1 Interviews and transcription

The semi-structured interviews included a standard format that I used to take categorised notes during interviews. All interviews were recorded and replayed in full at least once to verify understanding and identify additional valuable content. Fifteen key interviews, especially those concerning the various perspectives of individuals involved in the founding of VPOs, were transcribed in their entirety. This interview corpus was examined with particular focus on the key logic, institutional arrangements, and operating practices of interest.

#### 3.3.4.2 Free-text survey responses

In general, each survey question presented three possibilities for SPO managers to enter data. First, most questions asked SPO managers to select amongst a number of options, and often to indicate a degree measure for each selected option (e.g., strength of agreement or number of interactions). Second, most questions included "other" boxes, where SPO managers could insert new options and then evaluate them in the same way. Third, most questions had a follow-up question asking for additional explanation or examples.

Data collected through the second method was, where possible, categorised as one of the default options and counted there. In some cases, new categories were created based on similar responses. All of this data was then analysed.

Data collected through the third method was used to deepen understanding and verify that questions were properly understood by respondents. In some cases, the free-text replies were used to create new categories based on number of mentions (for example, of the types challenges presented by high engagement).

### 3.3.5 Quantitative analysis

#### 3.3.5.1 Descriptive analysis

Survey results were examined using Qualtrics Reporting 2.0, Microsoft Excel, and Statistical Package for the Social Sciences (SPSS). Due to the lack of pre-existing data regarding the operational practices of venture philanthropy, the research questions dictated the collection and analysis of a large amount of descriptive data. Frequencies, means, and standard deviations are generally reported.

#### 3.3.5.2 Univariate and bivariate analysis

Research questions 2-4 each asked broad questions about practices and value. These broad questions were then operationalised into sub-questions with hypotheses, most of which were directional. These hypotheses were tested using two univariate analysis types and two bivariate analysis types. One-sample t-tests were used to compare means to a fixed value; in such cases, degrees of freedom, significance level, the relevant fixed value, and the test statistic were reported. Independent-sample t-tests were used to compare data between groups of SPOs based on key characteristics, for example SPO size or whether an SPO had exited a VPO portfolio. Degrees of freedom, significance level, both means, and the test statistic were reported.

Pearson's correlations were used to measure the strength of the relationship between two continuous variables. Degrees of freedom, the correlation coefficient, and significance level were reported. Spearman's correlations were used to measure the relationship between two variables where at least one was ordinal, with the same values reported.

#### 3.3.5.3 Data transformation, missing data, and non-responses

Several standard techniques were applied to facilitate accurate analysis of quantitative data. The techniques were used to address challenges of missing data, to recode survey non-responses, to shift ordinal data to continuous data, and to combine multiple variables into aggregate variables. Missing data were generally not an issue, as I only included results from completed surveys. Within the survey, key questions were forced-answer, further increasing the chance of capturing the appropriate data. The few issues that remained, and the methodologies I used to address them, are discussed in detail in Appendix 4.

### 3.3.6 Reflexive process of data collection and analysis

After concluding my first full round of data collection—interviews, surveys, and desk research—I shared my initial analyses in several venues. This was to accomplish three aims: to ensure that my analysis reflected reality, to collect additional data through reactions and follow-up conversations (including my thoughts on causal mechanisms), and to provide valuable products to my research participants (Mason, 2002).

My analysis and findings were shared in a two-part iterative process that further supported the relevance of my questions, validity of my methods and findings, and provided feedback on my analysis and interpretation. Initial findings were shared with all SPO managers and were made publicly available; subsequent interviews and commentary from VPO managers (including both cases), other industry managers, and other academics provided valuable additional data. Lastly, a near-final version of my data analysis and discussion was shared with a small group of SPO and VPO founders, trustees, and managers (n=6). Subsequent interviews constituted the final aspect of data collection.

#### 3.3.6.1 Public sharing of findings

I shared preliminary findings in academic conferences, industry conferences and meetings, academic and industry publications, and conversations with individuals in academia and industry. Additionally, in December of 2013, some of my research findings were shared in a public report issued by one VPO case. Inspiring Scotland printed and shared *The Practices, Impact and Implications of Inspiring Scotland's First Five Years*. The report supported and improved my work in five ways: first, it allowed me to get feedback from many corners on the questions I was asking, the early results I was getting, and the first analysis and discussion of my work. Second, I was able to share the findings with all of the SPO managers who had been surveyed, which created opportunities for both "sense-checking" and for further conversations. Third, the report—which was explicitly independent and not in any way paid for by the organisations featured in it—was a way to cement valuable access to a key case. Fourth, the report further buttressed my reputation as an "insider" and "expert" on the topic area. Fifth, it created opportunities for additional conversations and interviews; for example, I presented my findings to the trustees of Inspiring Scotland, which resulted in a number of valuable conversations.

Issuing even a subset of findings "mid-stream" was not undertaken lightly. Despite the research advantages that were created, there were several identifiable risks that I took steps to mitigate. First, sharing a subset of my data publicly in a non-refereed venue, including some SPO manager opinions, created the risk of accidentally identifying informants or survey respondents. To guard against this, the report was specifically examined on that issue by three readers prior to publication.

Second, I ran the risk of seeming partisan. This risk was exacerbated by the fact that the data generally reflected well on Inspiring Scotland. However, the external funding sources of the report, a foreword by a highly respected third party, and the author's introduction were all geared to highlight the independent nature of this work.

Third, I risked biasing future response, losing access, or damaging relationships based on findings. This concern was significantly lessened by the fact that I had collected all the data required for both of my cases prior to the report's publication.

Fourth, there was the risk of having my work translated by others—especially the press—in an inaccurate way. This was somewhat mitigated by my authoring a second, 800-word piece in an industry magazine, *Philanthropy Impact*, in March 2014 (Isserman, 2014). Overall, that second piece shared the advantages of the first, but in a much more condensed form that was harder to misinterpret.

Fifth, by publicly committing to at least some forms of analysis, I risked difficulties if I chose to change the analyses I included in this dissertation. These risks were mitigated by the largely descriptive nature of my midstream findings and analyses: this dissertation includes those same descriptive statistics and quotations in addition to more extensive analysis.

#### 3.3.6.2 Sharing writing with key actors and informants

The timeline for this research project permitted multiple interviews with key informants. Their interest in this research translated into willingness to read my analysis of relevant data—including the founding of the two VPOs examined. The founders of both VPOs were first interviewed in 2009 as part of my initial research. They were also interviewed in 2015 to discuss my analysis of their respective cases, including survey and interview data. Multiple conversations raised issues for further data analysis, deepened my understanding of the cases, and created additional data focused explicitly on my findings.

## 3.4 Limitations of Methods and Data

Although I have discussed limitations throughout this chapter and document, there are several foundational methodological limitations worth reiterating. As discussed in each section, there are fundamental challenges in the ability of both interviews and surveys to portray the reality of a situation.

In the case of interviews, I took steps to mitigate these effects: structuring my interviews to ensure comparability of questions and content, conducting extensive pre-interview research to resist being misled, triangulating across interviews, and systematically selecting respondents to avoid sample bias.

I took several steps to verify that my survey questions were appropriately phrased and targeted: I based my methodology on previously validated surveys, included SPO and VPO managers in the design, and conducted pre-survey "test runs" of the questions with selected respondent SPO managers.

In interviews and surveys, there was a fundamental challenge of assuring informants that the confidentiality and non-attributability of their remarks would be maintained. Given that both VPOs and SPOs relied on external funders for support, and that negative data coming from reputable research might influence that support, there were incentives for both groups to portray themselves in a positive light. For VPOs, this was mitigated by a generally positive culture around the value of learning from and sharing failure, broadly held by philanthropic funders and particularly applicable to VPOs given the explicitly experimental nature of British venture philanthropy. Additionally, both VPOs were regarded as effective "pioneers" prior to my research, which likely tempered concerns that sharing negative data would be damaging.

Although high survey response rates remove concerns about representative sampling and provide a buffer against "sour grapes" or pandering outliers, there are potential drawbacks in the steps I chose to avoid a weak or biased sample in SPO manager responses. While being introduced to SPO managers by a VPO funder allowed a significant degree of access, it likely reinforced concerns that reports of negative experiences would be intentionally or unintentionally shared with the VPO—who were potential future funders in all cases. I attempted to mitigate this through communication structure, communication content, and reputation. Every communication from the VPO or me highlighted the independent nature of my research, that it was conducted by reputable institutions, and promised that all data would be anonymised and never shared with the VPO or elsewhere in any attributable fashion. To take the survey, a respondent would see that message no fewer than four times—it was on every web page of the survey. I also conveyed the independence of my research in all communications: that this was a University of Cambridge research project funded by a third party, the Gates Cambridge Trust.

The VPO–SPO interaction and performance data collected via the survey is, of course, imperfect. It relies upon the recollection (and accessible records) of one individual, in a cross-sectional survey, to catalogue aspects of a longitudinal process and its effects. However, managers are well-placed to determine the overall value of actions and services provided. Crucially, regarding my two research questions concerning the efficacy of VPOs, SPO managers likely represent the best source to determine the *additionality* of VPO-provided resources.[14] Furthermore, this methodology created opinions of multiple actors concerning the same phenomenon, which was further supplemented with interviews and document review for triangulation and verification.

Although these steps seem likely to create data of a higher standard than any currently available, a degree of uncertainty remains inevitable for any data based upon the recollections and opinions of individuals. I discuss additional limitations of this research project in Chapter 10. Overall, the potential biases and limitations of this data seem unlikely to shift my central findings and implications.

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[14] For example, objectively measuring changes in SPO capability—even if it were possible to do rigorously—is very poorly suited to determining what shifts are due to any specific support. Measuring additionality is nearly impossible: a shift from 65 to 73 in a nominal 100-point governance score over two years, for example, would still tell us nothing about how much of that shift was due to an individual VPO and its support.

# 4 THE FOUNDING AND EVOLUTION OF AN ARCHETYPAL BRITISH VPO, IMPETUS TRUST

This chapter explores and describes the founding of an archetypal venture philanthropy fund, the Impetus Trust. This case is of particular interest because Impetus Trust was the first venture philanthropy organization (VPO) in Britain and was a central node in creating a network of European VPOs that now consists of over one hundred organisations (Boiardi & Gianoncelli, 2016; Buckland et al., 2013). This case yields insight into the creation of the European sub-industry of venture philanthropy and a distinctively collaborative British sub-industry of venture philanthropy.

I begin the chapter by outlining the development and practices of the Impetus Trust model of venture philanthropy, following the same framework I developed in Chapter 2. I then develop an understanding of *why* and *how* venture philanthropy has emerged in Britain, drawing on interviews conducted with its founders, staff, and the social purpose organisations (SPOs) that it has supported. First, I describe the founding of Impetus Trust, and describe some of the aims and challenges the founders negotiated. Second, I discuss the evolution and growth of the trust as it funded and exited its first SPO, and expanded its aims. Third, I describe the distinctive features of the matured Impetus Trust as it exists today. Lastly, I consider the opinions of SPO managers as to the overall form and fit of the Impetus Trust model.

Chapter 5 will explore the manner in which these concepts are manifested in distinctive operational practices and institutional arrangements. Overall, this case informs all four of my research questions regarding the emergence and practices of the archetypal UK venture philanthropy fund—and this chapter focuses on the first question: how and why are venture philanthropy funds being created in the UK?

## 4.1 The Development of the Impetus Trust Model

Impetus Trust was founded in 2002 in London. It was the first venture philanthropy organisation in the United Kingdom that identified as such; by 2016, there were more than 20 venture philanthropy organisations in the UK (18 of which responded to a survey by Boiardi & Gianoncelli, 2016). Founded by two men with successful careers in the venture capital and private equity industries—Stephen Dawson of ECI Partners and Nat Sloane of Accenture's venture capital arm—it is now a high-profile organisation, and widely viewed to be a pioneer in British and European venture philanthropy.

The founders' professional backgrounds[15] played a central role in their decision to found Impetus Trust—and are typical of European venture philanthropy organisations. According to 2012 industry data, 32% of founders of European venture philanthropy funds (n=59) had professional backgrounds in finance, and 27% had non-finance backgrounds from the private sector (Hehenberger & Harling, 2013). Data on eleven British venture philanthropy funds found that 44% of trustees come from the finance industry, and two-thirds of those from private equity and venture capital specifically (Factary, 2011).

According to Dawson:

> *Most of my career had been spent working with small, dynamic, growing businesses—I wanted to do the equivalent in the charity sector.… I found out about something taking place in the US called venture philanthropy, established by people with similar backgrounds to mine, so it looked like a very good match. —Stephen Dawson (quoted in Shirley, 2011, p. 59)*

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[15] England-born, Exeter-educated Dawson spent 25 years at ECI Partners, a UK venture capital and private equity fund, ending as non-executive chairman. American-born, US- and Swiss-educated Sloane was a partner in Accenture, an entrepreneur and venture capitalist, and currently runs the Asian Venture Philanthropy Network.

The founding of Impetus Trust is also noteworthy because of its clear and direct origins in a management-oriented academic publication. According to co-founder Dawson, a *Harvard Business Review* article (Letts et al., 1997) was central in the founding of Impetus Trust:

> *In 1997, I read "Virtuous Capital", which is arguably the intellectual basis for venture philanthropy. I was not in a position to do anything about it but I filed it away. When I was retiring… I dug out that Harvard Business Review article. —Stephen Dawson (quoted in EVPA Newsletter, July 2010, p. 5)*

Dawson relayed the same story in an interview for this dissertation. Impetus Trust's model was explicitly based on the experiences—both positive and negative—of those American venture philanthropy organisations. In an interview, Dawson stressed the role of contacts in American private equity and the British third sector in learning "what was going on in the States" and "trying to avoid some of those pitfalls" ("Interview—Stephen Dawson", 2009). The largest of these pitfalls involved alienating potential partners by making claims that venture philanthropy was a "reinvention" of philanthropy, which Dawson and others (e.g., Buckland et al., 2013) saw as a strategic error. This was echoed by multiple interviewees in this research.

### 4.1.1 Impetus Trust was typical of privately-funded venture philanthropy funds

Due in part to these lessons and choices, Impetus Trust was typical of European venture philanthropy organisations—it had deep roots in finance, including its founders, staff, and supporters; it explicitly attempted to apply venture capital principles; it worked closely with corporations in finance and management consulting, and often worked collaboratively.

Indeed, I would argue that these features of European venture philanthropy are partly due to the choices of Dawson and Sloane, who also were co-founders of the European Venture Philanthropy Association. As described in the association's 2010/11 membership directory:

> *Two key early steps were to enlist the support of European Foundation Centre (EFC) and the European Private Equity and Venture Capital Association (EVCA). The buy-in to VP [venture philanthropy] of foundations would be crucial if it were to make any headway and private equity firms were seen as having (because of some common ideas and common vocabulary) a natural affinity with VP. (EVPA, 2010b)*

In addition to influencing its practices (to be discussed in Section 4.3.1 and Chapter 5), venture capital concepts in the backgrounds of its founders had a bearing on its staffing choices, corporate partnerships, funding sources, and goals.

Most staff of Impetus Trust had backgrounds in the private sector: of the 20 full- or part-time staff in May 2013, 15 had private sector experience—eight in finance and seven in consultancy. Additionally, nine had worked in either charities or trusts.[16] Only two Impetus Trust staff had worked in government, although two others had been teachers (Impetus Trust, 2013a). These connections were central to Impetus's ability to source private sector funding and pro bono consulting and expertise for the SPOs it supported.

Impetus Trust received much of its support from private sector firms. That support was mostly in the form of professional services donated to supported organisations, but also in direct financing and services to Impetus Trust. The firms that supported the trust were primarily in the areas of finance, management consulting, and professional services.[17] The total amount of pro bono services delivered in fiscal year 2011–12 was valued at £2.7 million—much more than the £1.1 million in direct grants made by Impetus Trust that year (Sayer Vincent Auditors, 2012).

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[16] This does not count volunteer and trustee roles, which most Impetus Trust staff had held.

[17] Financial firms that worked with Impetus Trust include Barclays Capital, Campbell Lutyens, CVC Capital Partners, Deutsche Bank, Goldman Sachs, ISIS Equity Partners [now LivingBridge], and Warburg Pincus. Management consulting firms included OC&C and BearingPoint, and professional services firms included PriceWaterhouseCoopers and KPMG.

Impetus Trust, by collaborating with corporations to provide pro bono support to SPOs, tapped into a venerable, growing, and increasingly formalized practice.[18] Impetus Trust attempted to differentiate the pro bono opportunities it created as being better structured, more goal-focused, and better tailored to the skill sets of volunteers than other venues for corporate volunteering. OC&C Strategy Consultants, for example, worked on at least 22 different projects with Impetus Trust between 2003 and 2013, primarily helping in due diligence and strategic planning (Impetus Trust, 2013b). These standard offerings for OC&C were relatively straightforward to arrange and provide, and likely were otherwise unaffordable for SPOs.

Volunteers, in discussing their experience, often highlighted the learning they gained from working in new contexts, the positive light it put them in professionally, and the personal satisfaction that resulted. Indeed, two Impetus Trust staff members interviewed for this research were former OC&C employees who had previously done pro bono work via Impetus Trust. By providing volunteers the opportunity to apply their professional skills to fundamentally meaningful tasks, Impetus might have also improved the performance and overall satisfaction of those volunteers (Grant, 2008).

Overall, the interactions between Impetus Trust and private sector actors were an ongoing acknowledgment of the creation of both public and private value—with a keen awareness of the incentives for each actor. Not only was public value created through volunteering pro bono services, but within the market logic of professional development and competition, the concept is that volunteering makes individuals more professionally attractive and helps firms build goodwill and retain talent. In general, this intersection was viewed and portrayed as a mutually beneficial arrangement, explicitly shared and viewed as a positive feature of the model.

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[18] Corporate volunteering and other support of the voluntary sector is increasingly reported in annual reports (Waller, 2012) and seen as a publicly reported expectation in legal and other professional service fields (Maute, 2002). And, as Maute points out, there is a long tradition and expectation of pro bono legal work—beginning in Roman times. Beyond the historical antecedents, there is evidence that firms that provide volunteering opportunities might enjoy certain competitive advantages in public profile, staff recruitment and retention, and productivity (Chauradia & Somaya, 2014; Grant, 2012).

However, some cultural frictions and mismatches arose. These are examined in more depth in Chapter 5.

Impetus Trust received and spent relatively little money from its 2004 founding until the time data was collected for this study in mid-2013. Impetus Trust was funded by the same blend of entities that support the broader voluntary sector, and in the same rough order: individuals (and firms), foundations and trusts, and public bodies, as well as interest on reserves. In the 2011–12 financial year, private individuals and firms contributed £1.7 million in cash to Impetus Trust, and foundations contributed most of the remaining £1.4 million. In addition to this £3.1 million of incoming funding, Impetus Trust received substantial in-kind contributions, almost all of which were time from pro bono professionals working with supported SPOs. Impetus Trust's auditors valued these resources at a total of £2.8 million in 2011–12, comprised of: strategy and management consulting (£2.4 million), due diligence (£178,000), legal and professional support (£70,000), and fundraising (£70,000)—with only a small amount of in-kind support for some office overheads (£94,000) (Sayer Vincent Auditors, 2012).[19]

In Impetus Trust's first nine years, it paid out a total of £4.4 million in grants to charities.[20] The annual amounts increased over time—as Impetus Trust expanded its portfolio—to £1.1 million in the 2011–12 financial year (Sayer Vincent Auditors, 2012).[21] To provide context, the 300th largest British trust disbursed £1.2 million in grants in 2012 (Pharoah et al., 2014).

[19] Almost all of these services were provided to SPOs rather than to Impetus Trust directly. Indeed, less than £200,000 of the £2.8 million of in-kind support was used by Impetus Trust (Sayer Vincent Auditors, 2012).

[20] In its tenth year, 2013, Impetus Trust merged with another foundation. This merged organisation had no track record of funding SPOs, so is not considered in this research.

[21] 2011–12 was the final full year pre-merger. In that year, in addition to £1.1 million in funding, Impetus Trust claimed an additional £500,000 in partnership or co-investment grants.

Impetus Trust's £4.4 million in outgoing grants over the years 2004–12 was coupled with an additional £1.8 million in co-investment from other funders, as well as £1.1 million in money that Impetus claimed to have helped charities to access. This yielded a total of £7.3 million over eight years (Sayer Vincent Auditors, 2012).

The amount of grant funding supplied to individual charities varied widely. In the 2011–12 financial year, the average grant amount to the 16 charities and social enterprises actively supported by Impetus Trust was £59,838.[22] This average, though, resulted from a highly varied set of payments: four received less than £15,000, while five received £100,000 or more. The range was £5,000 to £137,800 (Sayer Vincent Auditors, 2012).

## 4.2 Evolution of the Impetus Trust Model

Impetus Trust's model and goals evolved substantially over its first nine years. It began with a focus on SPO-level improvement and an attempt to prove that the venture philanthropy model could work. The goal then shifted from supporting the growth of individual SPOs to focusing on specific social issues. Along the way, confronted with challenges in identifying new SPOs and in exiting existing SPOs, Impetus Trust modified its funding model to include long-term support of SPOs it deemed successful (See Appendix 5 for the evolving ways Impetus Trust represented itself online).

### 4.2.1 Initial focus on proving operational feasibility: The first supported SPO

As noted earlier, Impetus Trust was founded on an operational concept: the idea that venture-capital-style support would benefit at least some SPOs (Letts et al., 1997). As the first organisation of its kind in Britain, it did not have local or regional examples on which to model its practices. Further, its finance-based founders, despite long engagement with charities as donors, had little practical experience with charity management and leadership.

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[22] These analyses exclude two exited organisations and a partnership with the Education Endowment Foundation.

Therefore, the first two goals of Impetus Trust were to learn how to adapt to supporting SPOs and to prove that venture philanthropy worked. This underscored the operational design of Impetus Trust at the time of its founding.

> *Our idea in setting up Impetus was to see if we could demonstrate that a venture philanthropy model—strategic money and expertise, harnessed and managed by an investment director—could make a significant difference to ambitious, innovative organizations. The focus was on helping those organizations through their step change, to grow and do more for more people. —Nat Sloane, Impetus co-founder ("Interview—Nat Sloane", 2010)*

The very different aims of the first three SPOs supported by Impetus Trust highlighted their initial focus to apply the venture philanthropy methodology to organisations rather than focusing on a particular social issue. Those organisations were: a small, four-year-old charity focused on advocacy and service provision for adults with learning disabilities; a decades-old national organisation addressing eating disorders; and a 40-year-old charity focused on reducing homelessness, especially among ex-offenders.

The first SPO supported by Impetus Trust—also the first exited SPO in British venture philanthropy—provides a lens into the emergence of British venture philanthropy at both operational and strategic levels, showing us both what occurred and how the model shifted over time.

The process of selecting the first supported SPO was relatively informal, and was explicitly meant to be a learning process. According to the CEO of that charity:

> *We began the long dance in 2002… basically because they hadn't formed the organisation formally at that time. …[T]hat was useful to me and useful to them because they had someone to play with early on which was, I think, helpful in shaping their thinking as well…. We didn't apply formally. —Manager of the first supported SPO, in interview, 2010*

Over approximately two years, 2003–04, the SPO leader stayed in contact with Dawson and Sloane as the formal organisation that would become Impetus Trust was formed. The combined personal and professional nature of this relationship is not unlike those in early stage venture capital, where relationships between fund managers and venture managers are often close, where the quality of venture managers is assessed as a major criterion for investment readiness, and where personal networks and relationships are used in sourcing investments (Timmons & Bygrave, 1986). As recalled by the SPO manager:

> *I think both of us privately decided quite early on.… I sort of knew in my bones we were going to end up working with them and I think they knew quite early on that they were going to work with us as well. —ibid.*

Despite the confidence felt by the SPO manager with regard to the Impetus Trust relationship, the emerging nature of the venture philanthropy model in the British context posed challenges.

### 4.2.2 Four challenges in an emerging sub-industry of philanthropy

The SPO manager's experience highlighted four difficulties in conveying the potential advantages of venture-philanthropy-style support to his organisation—matters central to understanding how and why venture philanthropy arose and evolved in Britain. Each of the four concerned, to some extent, cultural differences between sectors and the relative novelty of the venture philanthropy approach in Britain.

First, there was uncertainty around the very concept of venture-philanthropy-style support. The central proposition was "value-added" funding in an engaged relationship to build capacity—but that set of private sector jargon was not well-understood to the staff of the SPO. The underlying concept of capacity building was itself viewed with scepticism or uncertainty by British charity managers, based on a contemporaneous study of 16 managers (Harrow, 2001).

Second, there were questions around the operational practices that would underlie an engaged VPO–SPO relationship. These were both practical—it took a lot of interaction even before funding started—and cultural, in that interaction was more intense than had been experienced by the SPO to that point:

> *The involvement of third parties with charities is quite culturally alien and we don't have heavy involvement from outsiders generally—except on our own terms.*
>
> *[The initial engagement] was much, much heavier than any other funder with whom we'd been involved. And because these people had come from a City [of London] or finance background… people were wondering, "Well, what are these guys up to? Have you done your diligence on them? Are these people to be trusted?" —ibid.*

That cultural friction points to the third factor: the people involved on the Impetus side were from a different professional background. Those different backgrounds exacerbated some of the operational frictions, especially around the high level of interaction.

Fourth and finally, there was the general liability of newness: Impetus Trust, and its core ideas, had no track record and a minimal profile in the UK. The SPO manager relied on his personal credibility to argue that his organisation should be the first SPO to work in a new model, with new practices, and with unusual partners with different operational and sector-level cultures.

The due diligence went both ways in this initial engagement. On the Impetus Trust side, the due diligence was carried out by both the founders and a number of pro bono professionals. These professionals were sourced from the networks of the founders, which might have introduced systemic biases in the professionals and firms involved in the model.

### 4.2.3 The first supported SPO: Experiences and learning

The engaged and increasingly close relationship did lead to more openness than is typical in SPO–funder interactions. Such conversations have been memorably characterized, in philanthropy more broadly, as a "dance of deceit" (Carrington, 2007, p. 6) due to a customary lack of disclosure and information asymmetry (Akerlof, 1970). But even with this close relationship, developed over more than a year and explicitly aiming to be unusually transparent, information exchange between the SPO and their prospective funder was not completely free.

> *[We were] talking very openly about everything.… I did manage information a little bit so I was able to pretty much be 90–95 per cent honest about everything. You're never a hundred per cent honest with funders about everything, but… the rule of our relationship was: no surprises, I expect him to be honest with me. And I honoured that. —ibid.*

The due diligence process concluded with the creation of a multi-year plan of support, with continued support based on the achievement of mutually agreed performance targets, most of which concerned growth in services delivered. The funding agreement also involved an expectation that the SPO manager would remain the CEO of the SPO.

That relative openness and high level of engagement continued throughout the six-year funding relationship between Impetus Trust and their first SPO. Impetus Trust staff met with the SPO leader (and his deputy) at least monthly, and were in communication at least once per week. This combination of contingent funding and close monitoring could be expected to lead to a feeling of imbalanced power (Ostrander, 2007). Indeed, grant-based funding, especially with multiple renewals over time, clearly leaves the funder in a position of power, including in highly engaged philanthropy (Letts & Ryan, 2003). The SPO leader, though, indicated that Impetus Trust was careful in using that contractual and financial power:

> *I never felt bullied or anything like that. And then they never, ever misused that power. That's why it worked. And I never felt resentful of them once.... That's quite unusual in a relationship, isn't it? —ibid.*

Over those years, the SPO experienced significant growth, increasing their revenue from £600,000 in fiscal year 2003–04 to £4.1 million in 2008–09, and opening several new branches ("Notes on a charity", 2010). This was the plan outlined at the outset: to grow in size and influence. However, over the course of the engagement (during which learning from other sources was, of course, also taking place), two lessons became clear that informed Impetus Trust's model in its evolution.

### 4.2.4 Evolution of the Impetus Trust model: Shift to societal-level issues

The first lesson concerned organizational growth and its challenges, even in a period of overall success. The SPO leader neatly laid out the initial goal of the engagement with Impetus Trust: growth.

> *I suppose our narrative to them was: We want to spread our innovative ideas, we want to basically set up mini-[SPO]s everywhere... and that by bolting on pretty decent businesses on the side selling advocacy services and that, all these will help us continue to be an innovative, impactful organization.*
>
> *I believe that I said that we could increase our impact by the vector of our scale…. That wasn't the case. —ibid.*

The charity manager felt that the engagement with Impetus Trust had been successful, overall. He relayed some problems in growing the SPO, including the need for larger investments in capacity than initially forecast. He directly attributed the growth in the SPO's service users, revenue, and staff to Impetus Trust support.

Initially, the SPO manager and leaders at Impetus Trust both considered the overall goal to be charity-level growth in the direct provision of services. However, both the SPO manager and Impetus Trust acknowledged that the goal had shifted over time:

> *We've all got more sophisticated over time on this…. Impetus isn't so much obsessed with numbers on growth as I think they [were]. I think it has gotten a much better and more rounded conception of an organisation… that an organization doesn't necessarily have to grow in pounds and pence to increase impact. I think they realized that sometimes an organization growing more slowly is a better way to increasing wider impact because it becomes more of a model. —ibid.*
>
> *We've become more modest, and I'd suggest that's perhaps what the VP industry needs to do. To say that in these niches… VP is having a clearly, rigorously defined, testable, demonstrable impact in those niches, it's the best way of spreading that message to other funders. In that way, we'll*

*have a great impact with a bottom-up approach. —Stephen Dawson, Impetus Trust co-founder, in interview, 2015*

The founders of Impetus Trust reported two major lessons from the first several SPOs that they supported. First, they felt that their model of using venture-capital-inspired methods to help SPOs to grow worked overall. Second, they learned that growth in influence and profile were important along with growth in providing services. These lessons led to a questioning of that original goal—growing individual charities—which led Impetus Trust to reconsider its focus. Satisfied that Impetus Trust could help individual charities grow, co-founder Nat Sloane laid out the issues and outlook for the future:

*We started talking about the idea of picking certain thematic areas where we would try to concentrate more of our resources … engineering system change in an area of significant social importance.*

*…We also need to work in closer partnership with other organizations that do things we definitely don't do and we don't think we would be as good at doing—moving from venture philanthropy 1.0 to venture philanthropy 2.0, so to speak. …With the decision to try to shift to "venture philanthropy 2.0" came the need to focus on a specific social theme. —Nat Sloane ("Interview—Nat Sloane", 2010)*

Sloan went on to discuss an awareness of other funders, potential collaborators, and ability to measure improvements in selecting the social theme: reducing reoffending. Impetus Trust, due to its goal of championing venture philanthropy as a model, exhibited clear attempts to differentiate itself from other funders in both operations and in social theme selection. Choosing a topic that mattered but that was "edgy and not popular" was a conscious choice to enhance that differentiation—provided that the topic still "resonate[d] with a lot of funders" ("Interview—Nat Sloane", 2010).

This attention to the role of external actors was a key shift in "venture philanthropy 2.0". Sloane outlined some of the challenges of working on "wicked problems" like reoffending: the many actors involved, the challenges of working with vulnerable people, and in coordinating that work across different institutional and geographic spaces ("Interview—Nat Sloane", 2010).[23] He identified the need for an "ecosystem" of actors:

> *It's very unlikely that one organisation could do all of that across the country, or even in a large region, because what's involved in reducing reoffending is complex, multi-dimensional and taking place physically in three different places. So it's a question of creating an ecosystem, and this is going to require organizations to work in a much more collaborative way. —ibid.*

In contrast to the sometimes fraught relationships between VPOs and established "traditional" charitable trusts in the emergence of American venture philanthropy (Moody, 2008), Impetus created partnerships with these "traditional" trusts, which were between three decades and nearly four centuries old. And these trusts were much larger: the four mentioned in the following quote are all amongst the 50 largest in Britain, and collectively distribute more than one hundred million pounds per year (Pharoah et al., 2014).

> *We've linked up in the initiative with Sainsbury Family Charitable Trusts, Esmée Fairbairn Foundation, J. Paul Getty Jnr Charitable Trust, and Henry Smith [Charity]. They know a lot more about the not-for-profit organizations that have been working in and around the prisons, so they're providing knowledge of the sector. We are also talking to an organization that could provide monitoring and evaluation support. Then there's a third element: alongside scale-up, which we're good at, and link-up, which our funding partners are good at, there's the speak-up part, which is much more about advocacy and promoting effective tools. — ibid.*

Impetus Trust, as a relatively new entrant to the constellation of actors working on reducing reoffending, highlighted the powerful networks and deep knowledge base of these other trusts, all of which were at least 40 years old.[24] Sloane also underscored

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[23] See Roberts (2000) for more on network approaches to such problems.

[24] Or much older—the Henry Smith Charity was founded in 1628. The Sainsbury Family Charitable Trusts were founded in 1973, Esmée Fairbairn Foundation in 1961, and J. Paul Getty Trust in 1953.

“scale-up” support for SPOs—its core work supporting strategic planning and organizational growth—as the primary contribution of Impetus Trust to the “ecosystem of organisations” involved in the new model of venture philanthropy.

This attention to scale included thinking about the role of the state, the largest single actor in recidivism (and most social issues):

> *[W]e also think that government ultimately is a crucial part of this if we want the model built into every resettlement activity.… [O]ur sector has limited resources, so we need to use those limited resources to best effect. That’s what we’re preaching to the organizations we’ve been working with, and that’s what we’ve got to practise as well. — ibid.*

This seems to indicate a view of the state as the most important actor in successfully scaling up a social intervention, whose role is to be sufficiently impressed by the evidence base of VPO-backed interventions to “buil[d them] into every resettlement activity”. This rather deus ex machina role for the state is not naïve—indeed, many now-statutory services, from almshouses to hospitals to libraries, were (in some places) interventions funded in the first instance by private philanthropists and then expanded to near-universal state provision. An emerging model of state-supported venture philanthropy, however, sees a more active role for the state, and is the second case study in this dissertation.

The Impetus Trust website in 2012 set the VPO’s work in the context of a national poverty rate of 23% with government unable to sufficiently decrease that rate:

> *Government can only do so much to combat this problem. There is an urgent need to build the capacity of the voluntary sector, so many more economically disadvantaged people can be equipped with the skills they need to improve their lives. (Impetus Trust, 2012b)*

Interestingly, two years after Impetus co-founder Nat Sloane discussed “venture philanthropy 2.0” in an interview, and indicated that the state “ultimately is a crucial part” of scaling solutions, the Impetus Trust website still set the VPO’s work as supplementary to or filling the gaps in statutory work. The state certainly was not portrayed as a general collaborator in Impetus Trust’s messaging at that time, although beginning in 2011 Impetus Trust was involved in a partnership between charitable trusts and the UK government, the Education Endowment Foundation.[25] Further, Impetus Trust's leaders remained interested in working with the state and experimenting with financing models:

> *We've had a number of discussions [with statutory bodies]. The [Education Endowment Foundation] was the only one that's come to anything, but we've had similar discussions with other departments with civil servants or government ministers saying, "we really like your model and we'd really like to do something together"…. Not much has come of it, but it has been encouraging, and a boost to self-confidence and part of that general credibility-building, because foundations and other funders are also aware of these conversations, they're not confidential. So it helps to build the credibility of the sector and obviously us as an individual organisation. —Stephen Dawson, Impetus Trust co-founder, in interview, 2015*

Despite interest in working with the state—and awareness of its importance as both a potential partner and source of credibility—as of 2015, Impetus Trust's core venture philanthropy model was funded almost entirely by private giving.

Impetus Trust funded SPOs working in three portfolios: reducing reoffending, providing skills and job training to young people, and supporting early childhood education. All three complex social issues were tied to reducing poverty, the initial broad goal set out at Impetus Trust's founding. Of course, there was substantial

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[25] In 2011, the Education Endowment Foundation was created with a £125 million grant from the UK Department for Education. It was administered by the Sutton Trust as the lead charity partner, with Impetus Trust as the other charity partner focused on SPO support (Department for Education, 2011). The Education Endowment Foundation did not take a venture philanthropy approach to SPO support, and was focused primarily on schools and related SPOs. As of mid-2013, the data collection window for this research, the admittedly interesting project was too new to have meaningful data on SPO interaction and support. Although it was not eligible for inclusion here, it is important to acknowledge the Education Endowment Foundation as further evidence in the trend of increasing interaction between statutory bodies and charitable trusts, including the latter's role as funders.

overlap in these issue areas, and survey results indicated that supported SPOs worked in several related domains (Table 4.1).

**Table 4.1: Social outcome goals of charities supported by Impetus Trust (n=23, multiple selections permitted)**

| Social Outcome Goal | Number of SPOs | Percentage of all SPOs |
|---|---|---|
| School readiness or other early years outcomes | 6 | 26% |
| (Re-)engagement in school (e.g., attendance, behaviour), and academic attainment—focus on primary school age | 3 | 13% |
| (Re-)engagement in school (e.g., attendance, behaviour), and academic attainment—focus on secondary school age | 7 | 30% |
| Successful transition from education to employment | 3 | 13% |
| Sustained employment | 8 | 35% |
| Reduced reoffending | 7 | 30% |

The table indicates some of the areas of overlap. For example, "sustained employment" was a key target outcome for programmes working with both marginalised teenagers and ex-offenders. A list of all supported SPOs by portfolio for FY2012 is appended (Appendix 6).

Supported SPOs preferred direct provision of services to help people. Approximately two-thirds of supported SPOs (15 of 23) worked directly with their service users, with most of the remainder (n=7) working with other service providers via franchise, licensing, subcontracting, consultancy, or training. This preponderance of service delivery SPOs, as opposed to those focused on, for example, advocacy or campaigning, was in keeping with Impetus Trust's goal of supporting the growth of SPOs with measurable social outcomes. The primary mission of Impetus Trust, according to its website, was the application of venture-capital-based principles to "turbo-charge" the growth of such "innovative" SPOs (Impetus Trust, 2012b).

## 4.3 The Impetus Trust Model after One Decade of British Venture Philanthropy

Impetus Trust aimed to "back winners" (Impetus Trust trustee, in interview, 2013). This ethos was evident in the three distinct phases of Impetus Trust's model: planning and development of a growth strategy, implementation ("scale-up" in Impetus Trust's terms) of that strategy, and then provision of additional capital to the best-performing SPOs ("transform"). In all cases, the aim was for Impetus to exit the engagement after the appropriate phase, ideally leaving SPOs on sustainable financial footing. This common aim in strategic philanthropy (Brest & Harvey, 2008) has been argued to be very difficult in the case of philanthropic models with high grantee engagement (Letts & Ryan, 2003).

The first stage of the Impetus Trust model was a high-engagement planning phase, in which little money was provided to SPOs but the trust conducted a very significant amount of due diligence and strategic planning. This usually included a team of three to five pro bono professionals working full-time for up to a month on a strategy review, with a similar amount of time spent on business and strategic planning. This was in addition to reviewing the board governance, financial reporting, management, and other systems of the SPO.

If that planning phase indicated to Impetus Trust that the SPO was a good candidate for further support, the second phase, "scale-up", involved the implementation of a growth-focused strategic plan. This usually included larger grant payments than in the first stage as well as support in marketing, information technology, human resources, and training in how to "pitch" the SPO's concept and services to potential supporters or funders.

The addition of a third stage (discussed in Section 4.2.4) came about as part of Impetus Trust's evolution. To "transform" involved selecting organisations from within Impetus Trust's portfolio that had potential to create greater service delivery impact or influence if they continued to grow. The third stage intended to provide additional funding and support to such SPOs so they might potentially access more external support before Impetus Trust's exit.

Of course, the endgame of the Impetus Trust model was the exit, in which another actor generally took on funding of the SPO—although in a manner very different from the initial public offerings or acquisitions typical of venture capital and private equity (Section 2.6.2). The phrase used to describe the selection criteria for Impetus Trust's largest investment phase clearly indicated the two types of non-Impetus Trust funding that they expected would allow an exit: “social investment and major contracting work” (Sayer Vincent Auditors, 2012, p.7).

The first, social investment, typically denotes funding in exchange for some combination of social and financial return (wherein a grant would constitute investment for purely social return). The second, major contracting work, is a more traditional avenue for SPOs to achieve scale by providing social services in exchange for fees—an increasingly prevalent use of government funds in the context of a shift away from statutory grants to the voluntary sector (Section 2.4).

### 4.3.1 Impetus Trust’s practices and the venture capital analogy

After a decade of evolution, Impetus Trust moved beyond the initial recommendations of Letts et al. (1997). They shifted from simply adapting practices of venture capital in the funding of SPOs to essentially fulfilling the role of venture capitalists wholesale: identifying high-potential models with effective management teams, providing them with (generally) a very substantial amount of professional services and support, intentionally creating links to broaden their networks, sharing best practices through consultants and networks, continuously monitoring the activities and performance of investees, and providing additional rounds of funding to those organisations most likely to achieve increased impact

with continued support. This was nearly always done in conjunction with partner organisations that provided SPOs with professional support services, funding, or both. The close interaction of private sector (especially finance and management consulting) firms, established foundations and trusts, wealthy individuals, and (to a small but increasing extent) government are distinctive hallmarks of the emergence of British venture philanthropy. Table 4.2 compares the operating model of Impetus Trust to that of its “parent” venture capital model as described in Chapter 2.

**Table 4.2: The practices of Impetus Trust compared to archetypal early stage venture capital practices**

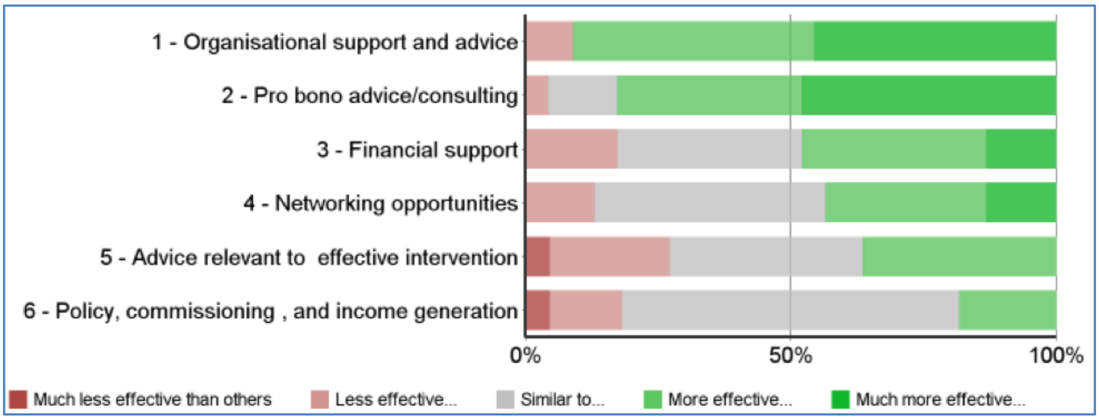
| Practice | Venture capital | Impetus Trust case |
|---|---|---|
| Sourcing and selection | Deals sourced through active search, personal and professional networks. Non-referred applicants less successful. Generally, all investees selected in first 1-3 years of fund life. | Deals sourced through active search, mostly through personal and professional networks. Open application exists but rarely successful. Rolling admissions into fund. |
| Due diligence | Months-long process with substantial contracting elements establishing formal rights. Attempts to mediate information asymmetry and agency challenges. | 12-month period of strategic planning at the beginning of relationship. Costly in time and funding. Aim is to provide value even if SPO is not funded after 12 months. |
| Engaged relationship and monitoring | Provision of advice, management support, and networking. Often via or including board representation. Formal contracting with funding dependent on monitored results. | Frequent and close interaction with VPO staff. More than other SPO funder types. Quarterly in-person meetings to evaluate performance. Shares best practices among SPOs. |
| Provision of funding | Highly variable proportion of total budget, depending on venture stage. Use sometimes restricted by contract. Focused on growth toward eventual exit. | 5% of SPO annual budget, on average. Usually unrestricted. Focused at the organization level and longer-term. Multiple stages of funding possible. |
| Provision of non-financial support | Often involving identification of new team members, especially management. Implicated in removing managers and locating new hires. Support and links for many professional services. | Substantial. Average SPO reports receiving 10.5 different types of nonfinancial services. Approximately half of services from pro bono professionals. Spreads practices across SPOs. |
| Creation of network linkages | Explicit provision of links to professional, and often personal, networks of VC staff. Frequently have professional staff to facilitate intra- and extra-portfolio links. | Most frequent links are with professional service firms, other portfolio SPOs, other trusts, and corporates. Links within portfolio not a core focus. No all-portfolio programs. |
| Intentional exiting of relationships | Exit goal is financial return. External liquidity events required: acquisition by other firms or public offerings. | Exit goal is sustainability of SPO. Exit on a per-SPO basis. Best performers receive continued support. |

These practices are each examined in depth in the next chapter. From a broader perspective, these practices constitute the work of selecting organisations with growth potential and then channelling resources to those organisations—a role some consider to be missing or underserved in the third sector (Frumkin, 2006; Letts et al., 1997).

### 4.3.2 The Impetus Trust model according to the managers of supported SPOs

Survey and interview data reveal that SPO managers strongly believed that the distinctive aspect of Impetus Trust's assistance, relative to other trusts and foundations, lay in organisational support and advice from Impetus Trust staff and pro bono professionals (Figure 4.1).

**Figure 4.1: The effectiveness of Impetus Trust support in six areas relative to other foundations and trusts (n=22)**



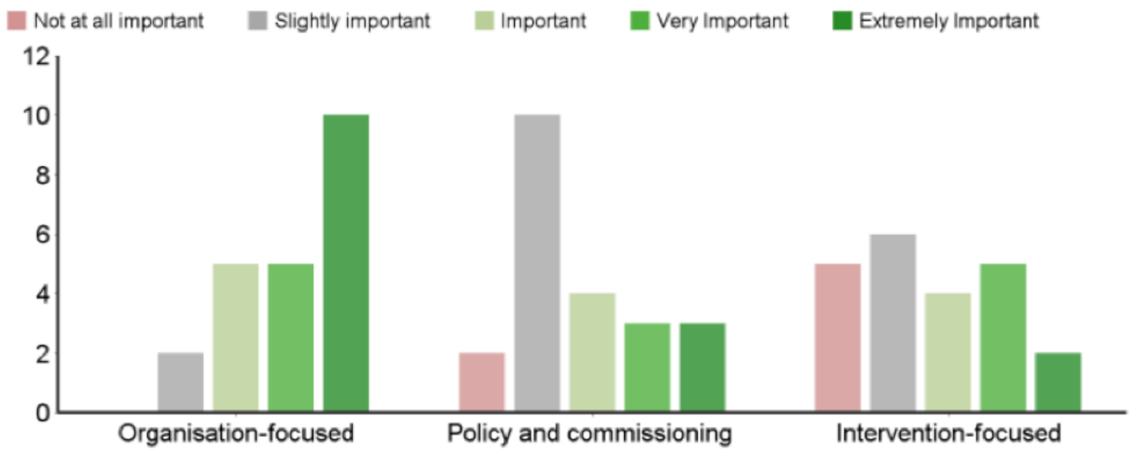

Impetus Trust was also regarded as being more effective than other trusts in providing financial support and networking opportunities—this was a weaker, but still notable aggregate opinion.

On the other hand, Impetus Trust was not regarded as more effective in providing domain-specific advice on the actual work of SPOs, or on the policy and regulatory environment of that work. That said—or perhaps because of that—supported charities regarded advice on organizational support as significantly more important[26] than advice on policy and commissioning or interventions (Figure 4.2).[27]

[26] Organization-focused advice was more highly-valued than advice on policy and commissioning ($t(21) = 3.58$, $p = .002$) or intervention-focused advice $t(21) = 3.63$, $p = .002$).

[27] In the voluntary sector, the word *intervention* is used to describe the user- or beneficiary-focused programs and activities of charities.

**Figure 4.2: The importance of different kinds of support to Impetus Trust portfolio SPOs (n=22)**




This finding seems to indicate a good fit between the areas where grantee SPOs desired support and the focus areas of the Impetus Trust model. It also indicates that the core methods of venture philanthropy put forth by Letts et al. (1997), such as organisational development and longer-term support, were consistent with the needs of this small sub-set of SPOs—which were selected *because* they were identified as being a good fit for the model, so questions remain about how broadly applicable these opinions are.

Despite the clear primacy of organizational expertise and support in the Impetus model on average, the other areas of support were important for some SPOs. Intervention advice was ranked as very or extremely important by 7 out of 22 SPOs, and policy and commissioning advice was so ranked by 6 out of 22, representing a small but important sub-group of SPOs. This highlights the importance of tailored support and advice from funders or other actors working to assist groups of SPOs with broadly varying needs.

The sentiments of SPO managers strongly indicate that the core ideas of venture philanthropy and the organisation-focused approach of Impetus Trust filled a gap in organisational support for at least part of the voluntary sector, and certainly for those organisations that Impetus Trust supported. For example, SPO managers and Impetus Trust managers both indicated that the dedicated time and expertise to focus on strategy was highly unusual and valuable:

> *The challenge of that is that most organisations in the sector kind of never have time to plan for anything, […] or do market research, or even actually just plan what they want to do rather than respond to funder pressures. —Manager, Impetus Trust; Interviewee 30, 2013.*

Many SPO managers focused on the benefits of having an engaged, experienced outsider applying strategic pressure. For example:

> *A very high proportion of charities bumble along, underachieving and badly managed… Impetus really directed us to focus on the area of work where we were doing best, and which had the greatest growth potential. We could have seen for ourselves what we needed to do, but we didn't… not least because the area we moved into was originally such a small part of our work. —Manager, SPO 17 (small, exited). Survey-Q50 and Q61.*

As will be discussed in depth in the next chapter, the highly engaged and unusually transparent relationships between Impetus Trust and its grantees also helped to focus on key issues of organisational strategy. For example:

> *Other funders focus on innovation (which in reality often means dressing up what you are currently doing as something new). Impetus [is] interested in what you are already doing that works and how you can do more of it. I think other funders should look at Impetus and become more like them. —Manager, SPO 5 (micro, active). Survey-Q18.*

In the following Chapter 5, I examine the seven operational practices that undergird Impetus Trust's distinctive venture philanthropy model.

## 4.4 Concluding Remarks

This chapter used the founding of Impetus Trust, Britain's first VPO, as a lens to examine the "importation" and adaptation of a pre-existing, largely American model of venture philanthropy. This case informs my first two research questions, and in particular question 1: How and why are venture philanthropy organisations being created in the British third sector?

To examine how venture philanthropy organizations have been and are being created in Britain, I focused on the choices made by the founders as they introduced a new sub-industry of philanthropy in Britain, especially the evolution of the Impetus Trust model. This was grounded in secondary data and in-depth interviews with the CEO of the first SPO supported by Impetus Trust, an Impetus Trust co-founder, staff, and board members, and informed by survey data from all supported SPOs.

In this case, four issues proved challenging in convincing the first SPO to engage with Impetus Trust—issues that shed light on the problems of introducing a new model. The four challenges were: communicating a new value proposition, establishing new operational practices and expectations, convening people from different sectoral and professional backgrounds, and the lack of a track record or similar British examples.

Impetus Trust responded to these challenges by attempting to establish early evidence of success by exiting its first SPOs. They then significantly shifted their ambitions and model to what their founders referred to as "venture philanthropy 2.0": broadening the work of Impetus Trust from an SPO-level focus to include national-level social impact ambitions, a focus on social themes, the collaboration of multiple funders, and a greater focus on networking and coordination across multiple institutional and geographical spaces. This evolution informs my research question about both *why* and *how* venture philanthropy organisations are emerging in Britain.

This chapter concluded by laying out the three phases of the Impetus Trust model and examining the analogous relationship between the Impetus Trust model and venture capital, including (in Table 4.2) seven distinctive operating practices. These practices begin to inform my second research question: What do venture philanthropists actually do to support organisations they fund, and does this differ from venture capitalists? The next section considered the opinions of supported SPO managers about the focus and fit of this model within the context of the larger SPO funding landscape. Overall, supported SPOs indicated that Impetus Trust's primary focus and effectiveness was organisational capacity-building and expertise provision, with significant but secondary focus on capital provision and networking. The SPO managers also indicated that this offering was in line with the needs of their organisations.

However, the existing academic literature regarding the actual means by which these goals are accomplished—the operational practices and institutional arrangements of VPOs—remains an area that is surprisingly under-researched. The next chapter builds on this foundation to develop a fuller understanding of how venture philanthropy works in practice. It examines each of the seven distinctive practices of venture philanthropy as adapted and implemented by Impetus Trust, the first British VPO.

Chapters 4 and 5 provide a foundation from which to better understand—in evolutionary terms and by contrast with traditional philanthropic models—the emergence of state-supported venture philanthropy, exemplified by the second VPO case, which will be examined in Chapters 6 and 7. These four chapters combine to inform my fourth research question: To what extent does private sector or government funding of a venture philanthropy organisation affect its practices and institutional arrangements?

Taken together—and given the outsized influence of venture philanthropy on a much broader set of philanthropic and public funders—this work deepens our understanding of current and potential shifts in the provision of public services and the roles of the state, charities, and philanthropy in that process.

# 5 The Institutional Arrangements and Operating Practices of an Archetypal VPO, Impetus Trust

This chapter explores the manner in which Impetus Trust's venture philanthropy concepts and model are manifested in distinctive operational practices and institutional arrangements. To address my second research question, I examine each of the seven core activities of venture capital that were intentionally adapted to the third sector: sourcing and selection, due diligence, an engaged relationship, provision of funding, provision of nonfinancial support, creation of network linkages, and intentional exiting of relationships.

In line with my third research question, I also examine the effects and value of such practices according to the CEOs of the organisations supported by Impetus. This chapter creates a better understanding of the actual practices of Impetus Trust, which the subsequent three chapters will use as a baseline to explore the further evolution of venture philanthropy. The data in this chapter comes from a survey of 23 social purpose organisations supported by Impetus Trust prior to mid-2013—comprising 88% of all SPOs supported from 2002 through mid-2012—as well as 17 interviews with nine individuals including Impetus Trust trustees, managers, staff, and supported organisation managers and staff.

## 5.1 Sourcing, Due Diligence, and Signalling Effect

The first two practices of interest are those that begin a venture philanthropy grant process: sourcing potential grantees and conducting due diligence to determine whether they are suitable for funding. As a private foundation operating in the United Kingdom, Impetus Trust had few regulatory constraints in the manner by which it selected and funded SPOs—it was much more like a private sector funder in this regard than a state agency funding service provision.

Analogously to many early-stage venture capital firms, Impetus Trust relied primarily on active search and social networks to find potential grantees (Shane & Cable, 2002; Timmons & Bygrave, 1986). Of the 23 investee SPOs included in this survey, 20 became aware of Impetus Trust through those venues. Thirteen of the 23 SPOs learned of Impetus through professional or personal networks such as funders (n=6), other SPOs (n=2) and other contacts (n=5). Seven were approached by Impetus. Four organisations initiated contact with Impetus themselves in the first instance, learning of Impetus Trust through online search, voluntary-sector-specific press, or at a conference.

Only one organisation had success in applying through Impetus Trust's gated call-for-proposals process. This mix of network-based and proactive deal sourcing is a notable characteristic of Impetus Trust as a case study. According to a manager at Impetus Trust, this was partly due to the relatively new nature of venture philanthropy:

> *The in-house investment team would do the sourcing, largely through referrals.… [The open application process] was never particularly successful. I guess because it is not well known enough about what venture philanthropy is and why you might want it. —Manager, Impetus Trust; Interviewee 30, 2013*

Impetus Trust co-founder Stephen Dawson echoed the challenges of open calls for applicants, also citing the challenges in finding SPOs with "the right characteristics to work with":

> *A difficulty we found is finding enough organisations with the right characteristics to work with.… To start with we were very open… but the*

*quality of those applications was very poor.... The others either came through us stumbling upon them or through an introduction, generally through another funder.*

*One of the benefits of focus is that the population is very well defined… and it's relatively smaller numbers, it's hundreds of organisations.… We work with other funders who know a great deal about these spaces.… It was a natural evolution, [because] as we focused more, it became more and more obvious that we shouldn't bother with big advertising, but we should go out looking, particularly through our networks, to find organisations that fit our criteria. —Stephen Dawson, Impetus Trust co-founder, in interview, 2015*

This network-based search is consistent with private equity or venture capital deal sourcing methods (Shane & Cable, 2002; Timmons & Bygrave, 1986). It is, however, quite different from public spending on service provision, in part lacking the geographical and demographic pressures for equal access that tend to accompany public spending. Impetus Trust, and private trusts in general, are largely free of such pressures.

Due diligence occurred throughout the "planning" phase, which generally consisted of approximately 12 months of scrutiny and strategic planning, during which the SPO was generally granted £50,000–£75,000. The process was typically carried out with a combination of Impetus Trust staff and pro bono consultants, and consisted of an evaluation of all SPO programmes, their impact, a full competitor analysis, and a strategy review. According to an Impetus Trust manager, the goal of the funding was to offset the costs of the first year:

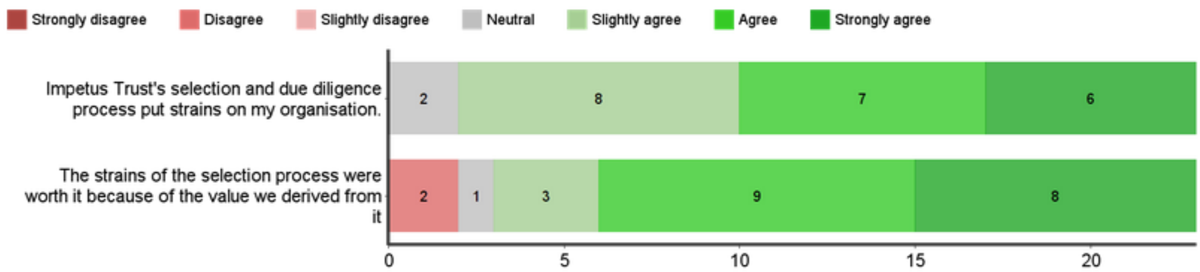
*A one year planning phase… [involved] relatively little cash… but a lot of hands on management support both from the team here and pro bono. We would then decide… after the first year… to either go forward and fund this thing, or let them go and do it on their own. [The goal of the £50,000–£75,000 was to] give the organization enough capacity to be able to spend some time on planning and engage with us. — Manager, Impetus Trust; Interviewee 30, 2013*

This manager indicated awareness of the costs that due diligence imposed upon SPOs, and described Impetus Trust's attempt to offset those costs with funding. The unusually rigorous due diligence process was widely felt to put strains on SPOs, but these strains were almost universally felt to be "worth it" because of the value created by that process (Figure 5.1). For example:

> *Due diligence was exhaustive and intrusive and time consuming but worth it in the end. — Manager, SPO 12 (small, active), Survey-Q82*

The intensity was likely due to both process and culture; working with Impetus Trust was the first time many SPO CEOs had dealt with intensive and focused engagement with external actors—potentially "intrusive" engagement—whether from Impetus Trust or pro bono consultants.

**Figure 5.1: SPO manager opinions regarding due diligence challenges and value (n=23)**




Nearly all SPO managers agreed to some extent that due diligence put strains on their organisations (20 of 23), with managers of smaller SPOs more likely to agree or strongly agree.[28] However, most SPO managers agreed to some extent that the process was worth it to their organisations—and 17 of 23 *agreed* or *strongly agreed*. Due diligence also created a key positive externality.

[28] Of the 13 SPOs that agreed or strongly agreed, eleven were micro or small and two had greater than £2m per year in revenue. Conversely, six of the ten SPOs who slightly agreed or were neutral had greater than £2m per year in revenue.

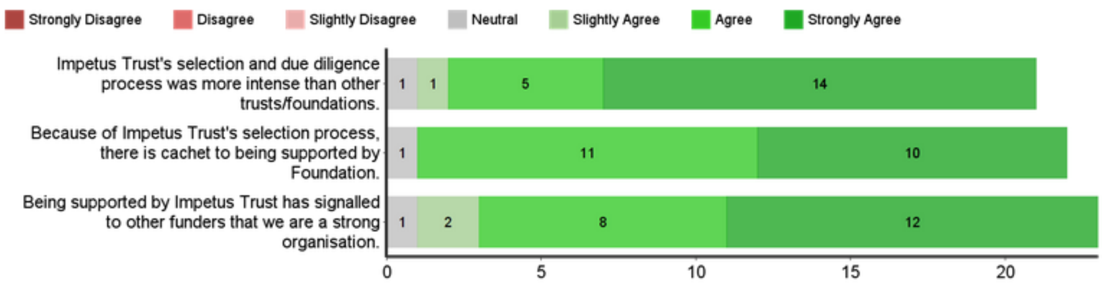
### 5.1.1 Successfully completing due diligence signalled high SPO quality

Many SPO managers commented that sourcing and due diligence had a signalling and prestige effect with regard to investee quality. I argue that this is a key externality associated with venture philanthropy. For example:

> *[I had an] initial negative reaction to very demanding due diligence but later felt ... that the rigour of the process ... acted as a Kitemark[29] for other organisations in regarding us as Impetus grantees. —Manager, SPO 14 (medium-large, exited), Survey-Q52*

These managers believed that an organisation that successfully passed through the planning phase and received Impetus Trust support would be viewed by other organizations as one that was operating well and had the ambition and ability to scale up. As the CEO of a supported organisation put it in interview, "Being an Impetus charity gives you a certain amount of standing" (Interviewee 38, 2009). That claim of signalling was particularly relevant coming from the CEO of a medium-large charity with a significant national profile. The figure below presents survey findings that 21 of 22 organisations supported by Impetus Trust agreed or strongly agreed that due to the "selection process, there is cachet to being supported by Impetus Trust" (Figure 5.2).

**Figure 5.2: SPO manager opinions regarding signalling effects of due diligence and selection (n=23)**




These signalling effects were reported to have considerable benefits for supported SPOs. According to the managers of two investee organisations, Impetus Trust

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[29] The Kitemark is a symbol certifying a level of quality: "An official kite-shaped mark on goods approved by the British Standards Institution" (*Oxford Dictionary of English*).

support provided credibility and access to government, trusts, and foundations—a set of funders they could not otherwise access:

> *Impetus's reputation permits the funders to know their money will be well invested. Having the Impetus award gives us some street cred[ibility] with government but mainly with other funders…. This source of funders is very different from what [our organisation] could attract…. — Manager, SPO 9 (small, active), Survey-Q23, response reordered for clarity*

> *Having the Impetus backing is a "door opener" ... with other funders, it gives us instant credibility. They all know Impetus and what a rigorous process we have been through to be accepted as an Impetus charity…. We seem to be talking to many more potential funders of future projects since we have had Impetus's backing. — Manager, SPO 13 (small, active), Survey-Q12*

## 5.2 Demographics and Geography of Supported Organisations

The processes by which Impetus Trust sourced and selected SPOs to support resulted in a portfolio of 26 SPOs varying social goals, size, location, and geographical scales. (The data here include 23 SPOs, as discussed in Chapter 3.) Most of the organisations supported by Impetus Trust, 13 of 23 SPOs, had annual revenues of between £500,000 and £2 million per year, the range this dissertation and much of the literature describes as small organisations (Figure 5.3).[30]

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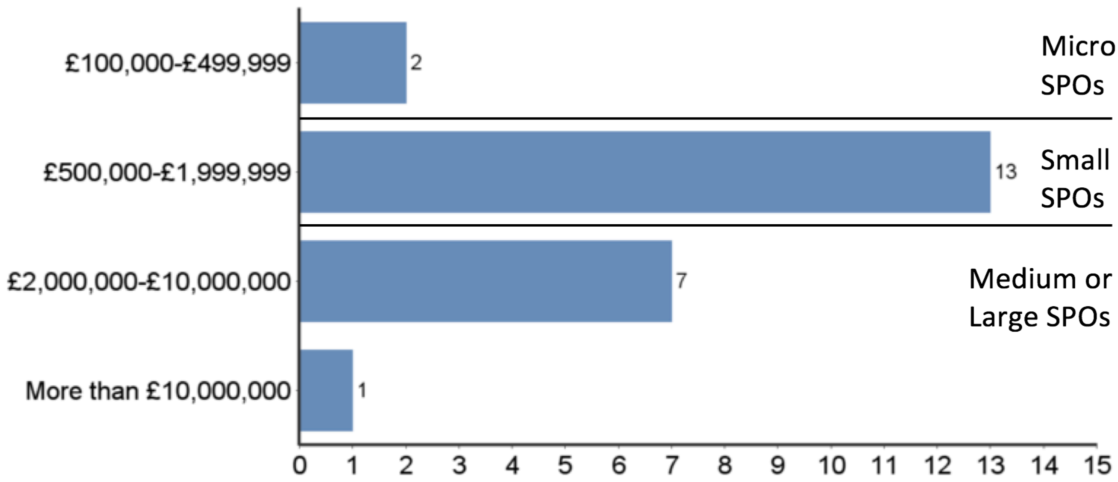
[30] In the voluntary sector of England and Wales at least 86.7% of all charities are micro, with revenue under £500,000 per year. The largest 1.2% of charities, those with incomes above £5 million, earn over 72% of all revenue (Charity Commission, 2016). It is an industry with many small players and relatively few large ones.

**Figure 5.3: Annual revenue of supported SPOs in their most recent financial year, reported by SPO managers (n=23)**




Impetus Trust intended to support small organisations, but ended up with eight SPOs with annual revenues of more than £2 million. Finding small SPOs that fit Impetus Trust's criteria was more challenging than expected, according to an Impetus Trust manager:

> *So the aim I think was £500,000 to a million [in annual revenue for the charities we would support], but we've gone on either side, as the supply of organisations is not quite… [trails off, laughs]. — Manager, Impetus Trust; Interviewee 30, 2013*

The second part of this statement indicated the challenge in finding organisations that were a good fit for their approach. Despite being contacted by over 2000 charities in their first ten years, Impetus Trust had difficulty finding the 23 charities they supported. Impetus Trust had high standards, and few charities had the potential to scale as quickly or radically as Impetus Trust desired. In terms of their staff capacity, supported organisations varied widely: eleven of 22 supported SPOs had fewer than 25 staff, while the other half had more than 25—and five of 22 had more than 100 staff members (Table 5.1).

**Table 5.1: Number of staff in each supported SPO, reported by SPO managers (n=22)**

| Headcount of SPO staff | Bar | Number of SPOs |
|---|---|---|
| 1-3 | | 0 |
| 4-9 | | 2 |
| 10-24 | | 9 |
| 25-49 | | 3 |
| 50-100 | | 3 |
| 100+ | | 5 |
| Total | | 22 |

The organisations supported by Impetus Trust were a mix of newer and more established organisations. Unlike most venture capital-supported firms, which tend to be young (Bygrave & Timmons, 1992; Zhang, 2007), more than two-thirds of supported organisations were more than a decade old, and only three organisations were founded after 2008 (Table 5.2).

**Table 5.2: Age of supported SPOs according to SPO managers (n=23)**

| Years since founding | Bar | Number of SPOs |
|---|---|---|
| 1-2 years | | 1 |
| 3-5 years | | 2 |
| 5-10 years | | 4 |
| 10-19 years | | 8 |
| 20-50 years | | 6 |
| 50+ years | | 2 |
| Total | | 23 |

### 5.2.1 Geographical location and operational areas of supported SPOs

Supported organisations were based primarily in England (n=19), with one in Wales and two in Scotland. Five organisations focused only in the London area. Informants suggested the manner in which Impetus Trust sourced its eventual investees—pro-actively via personal and professional networks—may have been a driver of its spatially concentrated portfolio, especially early in its existence before it had a reputation or its own national networks.

Figure 5.4 shows the scope and areas in which Impetus-supported organisations provided services. It demonstrates that the operations of more than two-thirds of supported organisations fell entirely within England.

**Figure 5.4: Geographical scope of operations of SPOs supported by Impetus Trust (n=23)**

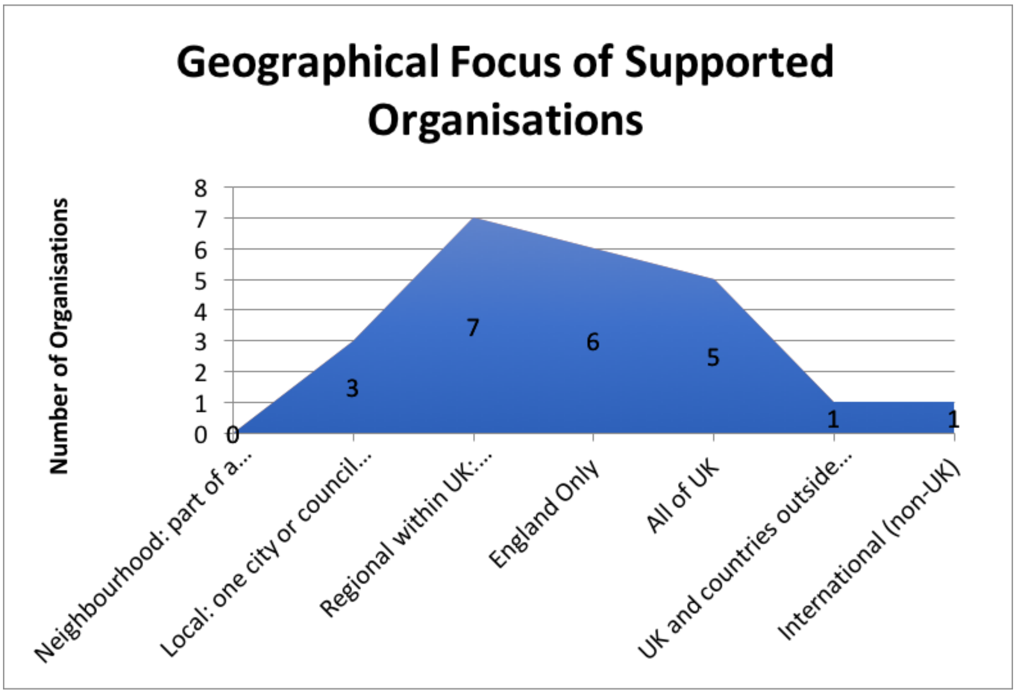
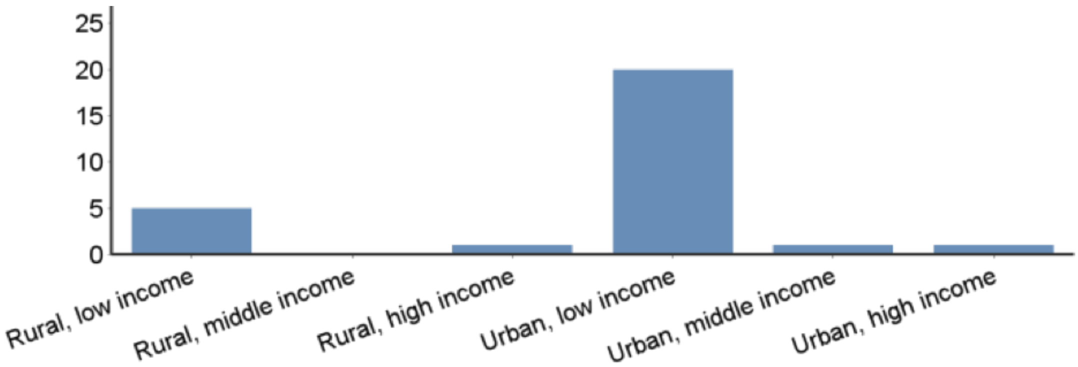



Figure 5.5 represents the self-reported demographic characteristics of the 23 Impetus Trust-supported SPOs. Most (20 of 21) SPO managers indicated that their organisations worked in low-income urban areas. Although there was a strong focus on delivering services in urban areas, nearly one-quarter of SPOs (n=5) also worked in low-income rural areas.

**Figure 5.5: Self-reported demographics of the areas in which SPOs supported by Impetus Trust operate (multiple area types possible, n=21)**




Overall, Impetus Trust's supported SPOs were larger than most UK charities, London-centric, and served low-income communities.

### 5.2.2 How SPOs deploy Impetus Trust support

As I discussed in Chapter 2, the goals of venture capital, taken on by venture philanthropy (Letts et al., 1997), are generally to help expand and commercialise early-stage companies, which involves investments in the development of a firm's staff, services or products, and capability to grow and sell those products or services more broadly (Bygrave & Timmons 1992). Understanding the analogous goals of SPOs in taking on venture philanthropy support is key to addressing my second and third research questions.

Most commonly SPOs deployed Impetus Trust support to build the capacity of their senior management (n=16). They also scaled-up or expanded programmes (n=10), staff (n=9), hard infrastructure (n=6), or provided existing programmes in new service areas (n=4). Only three SPOs used Impetus Trust support to create new programmes or organisations.

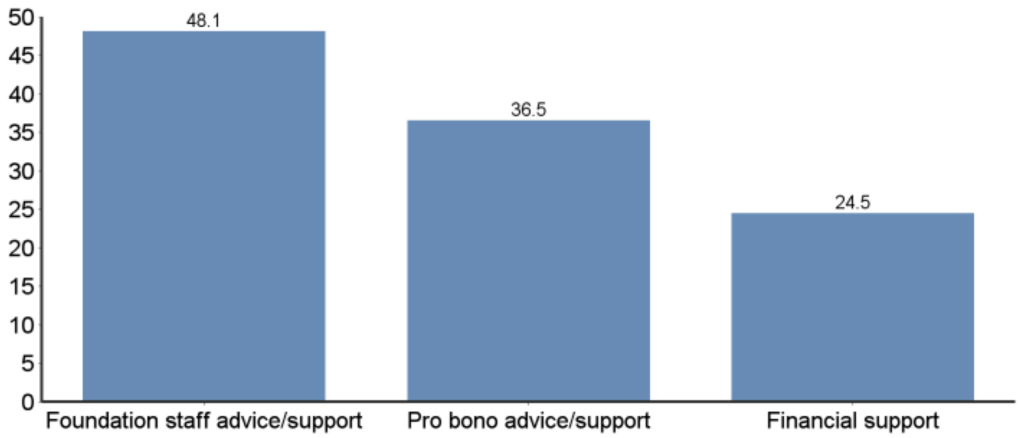
An Impetus Trust manager explained the centrality of expansion—whether programmatic or geographical—in the organisation's model:

> *We have charities that for 20 years were local charities, and in four years became national charities. We help them identify what they're really good*

*at and we help them identify other sources of income they can generate. (Impetus Trust, 2012a)*

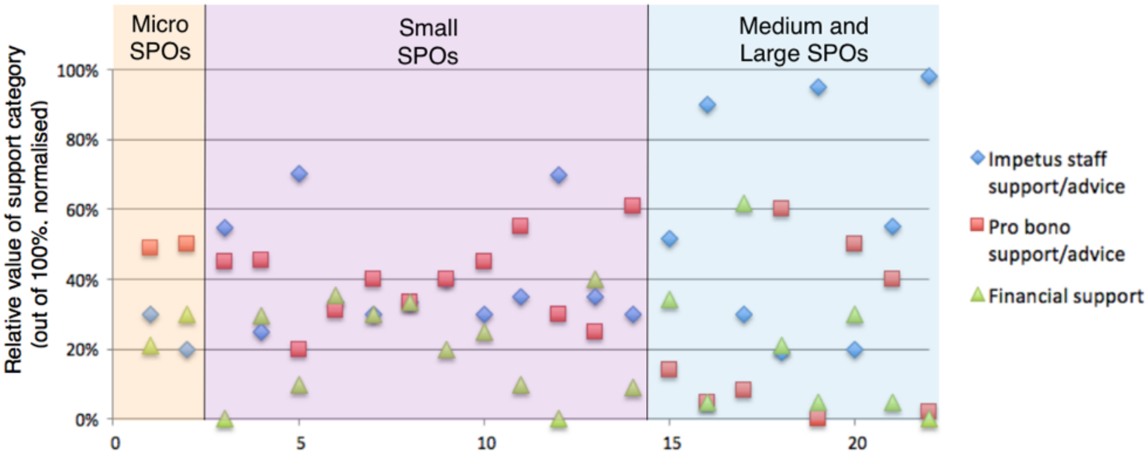
The Impetus Trust model's explicit focus was on expanding the impact of SPOs using high-engagement techniques from venture capital—not just funding. I attempted to isolate the relative contribution of the three broad categories of support: funding, advice and support from Impetus Trust staff, and advice and support from pro bono service providers. When SPO managers were asked to assign a total value of 100% across the three categories based on "the relative importance of the support [they] receive[d] from Impetus Trust in helping [them] grow [their] impact", on average, the managers attributed nearly half of the total value of their engagement with the organisation to advice and support from the staff of Impetus Trust (Figure 5.6).

**Figure 5.6: The relative importance of Impetus Trust staff, pro bono expertise, and funding in growing SPO impact, according to SPO managers (in notional percentages, n=22)**




A further 37% of relative value was assigned to advice and support provided by pro bono professionals, with financial support rated least important at 25% of total value. This finding underscores a critical point of difference between venture philanthropy and traditional foundations: Impetus Trust was designed to provide (what it hoped to be) value-added services—strategic planning, professional services, and networking, among others—and spent the majority of its own funding on those services rather than on direct grants (Section 4.1.1). There was a high degree of variability in which services SPOs rated as most important. Figure 5.7 shows the actual responses of SPO managers, arranged by SPO size.[31]

**Figure 5.7: The relative importance of Impetus Trust staff, pro bono expertise, and funding in increasing SPO impact, according to SPO managers (in notional percentages, by SPO size; n=22)**




Despite the high degree of variability within each size category, the averages indicate that the larger the SPO, the more they valued non-financial support from Impetus Trust and the less they valued pro bono support (Figure 5.8)—likely a function of larger organisations having greater access to professional services (Section 5.5.1).[32]

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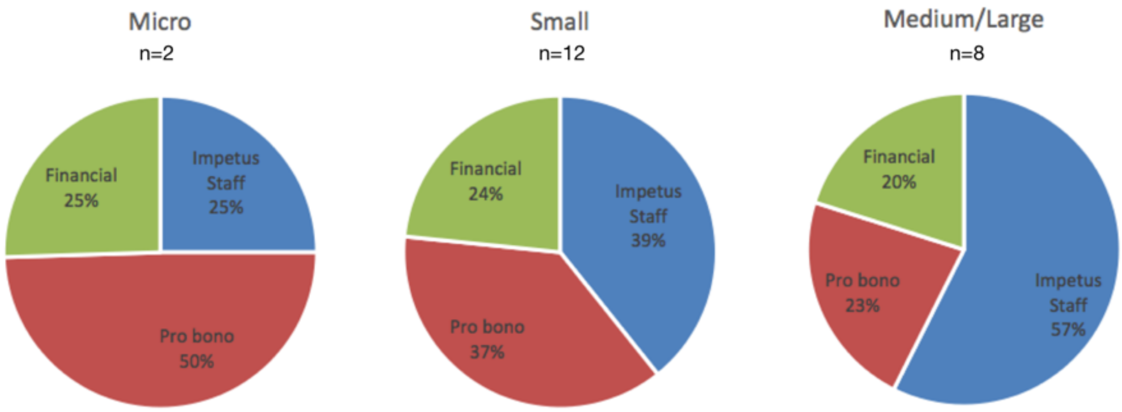
[31] The totals were normalised to 100 to account for respondent error in inputting percentages adding to 100. Additionally, in Figures 5–7, and throughout this work, seven medium SPOs and one large SPO are combined into one category to preserve anonymity.

[32] Although descriptive statistical data, survey free text replies, and interview data all indicated this effect to be robust, the differences are not statistically significant between the three size categories of SPOs.

**Figure 5.8 The relative importance of Impetus Trust staff, pro bono expertise, and funding in increasing SPO Impact, according to SPO managers (in average notional percentages, by SPO size; n=22)**




The issue of SPO size, SPO capacity, and concomitant needs is discussed in Chapters 8 and 9.

## 5.3 Financing

The third operating practice venture philanthropy adapted from venture capital is financing. Impetus supplied financial support to SPOs over multiple years in support of a mutually-agreed strategy. Impetus Trust provided funding to portfolio organisations—always in the form of grants—while tracking agreed-upon performance targets set jointly between Impetus and each venture. Continued support was contingent upon measured performance.

Among the nine exited SPOs, the total grants received varied from £25,000 to over £600,000—and that grant funding was disbursed on a time course meant to ease the challenges of the eventual “exit” of the SPO from Impetus Trust’s portfolio[33]:

> *We didn’t want any question of follow-on funding [being a possibility]…. [O]ur funding tended to taper toward the end, which was an important indicator that exit was coming up. —Stephen Dawson, Impetus Trust co-founder, in interview, 2015*

[33] The topic of exit is examined more fully in Section 5.7.

As demonstrated by Table 5.3, below, Impetus Trust provided only a small fraction of annual income to most SPOs it supported: five per cent, on average. The maximum percentage of income from Impetus Trust was 27% of all income, and the minimum was no funding (all numbers relate to either the 2012 or 2013 fiscal year).[34]

**Table 5.3: Sources of income for supported SPOs in the last fiscal year, in self-reported percent of total income (n=23)**

| Funding Source | Average Value | Min Value | Max Value | Standard Deviation |
|---|---|---|---|---|
| Earned Income: Government Contract | 30.0 | 0.0 | 99.0 | 33.4 |
| Other Trusts or Foundations | 23.3 | 0.0 | 94.0 | 20.2 |
| Earned Income: Non-Government Contract | 13.4 | 0.0 | 68.0 | 19.4 |
| Government Grants | 11.6 | 0.0 | 67.0 | 16.4 |
| Individual Donors and Supporters | 8.0 | 0.0 | 37.0 | 10.8 |
| Corporate and other business funders | 7.9 | 0.0 | 31.0 | 9.6 |
| Impetus Trust | 5.0 | 0.0 | 27.0 | 6.5 |

Table 5.3 also indicates the broad range and substantial variation in the composition of funding amongst supported SPOs. The maxima show the extent to which some charities relied on contracting, or grants from trusts, or public grants. Nearly half of all average income generated by supported SPOs came from the state (42%), mostly through income earned for providing services (30%). With earned income providing an average 43% of funds, and grants from the state, trusts, and corporates providing a further 43%, much of revenue was tied to providing specific services.[35]

Impetus Trust's funding of core organizational costs was found to be highly valuable by supported SPO managers, particularly for enabling growth and risk-taking and building trust. As put by one SPO manager:

[34] Unsurprisingly, SPOs with smaller annual revenues received a greater proportion of their funding from Impetus Trust than those with larger revenues, rho(21)=-.353, p=.049.

[35] This is especially the case because the majority of non-Impetus grants are typically tied to individual programs, making those grants similar to less-specified versions of fee-for-service contracts.

> *The unrestricted income was invaluable at a time when we needed to deploy resources to support core activities to deliver a new strategy. — Manager, SPO 14 (medium-large, exited), Survey-Q50*

The manager of SPO 14 focused on Impetus Trust funding as providing a sufficient financial buffer to take the risk of rolling out a new strategy. Another manager highlighted the prosaic but important role of unrestricted funding in meeting core costs:

> *Their financial investment is unrestricted—a real blessing—we can pay the utilities bills without having to make them sound sexy. — Manager, SPO 12 (small, active), Survey-Q59*

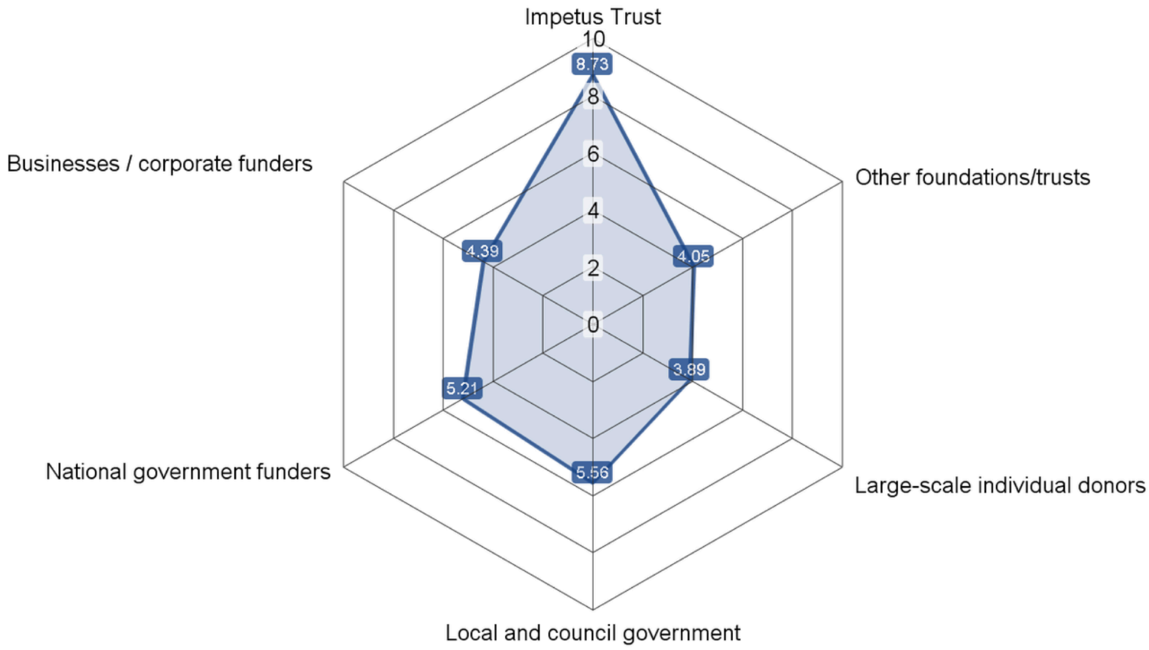
The unusually high levels of VPO–SPO trust and openness indicated by this quotation were a recurring theme in both case studies. This trust was built in the long and intense due diligence process and engendered through ongoing engagement—both made less costly for SPOs because of this unrestricted funding.

## 5.4 High Level of Engagement and Interaction

The fourth of the seven core practices of venture philanthropy is an engaged or close relationship between funders and supported organisations. This section explores the constituent elements of the interaction between Impetus Trust and the SPOs it supported, as well as the benefits and challenges of that interaction. Overall, SPO managers and Impetus staff saw the high degree of information exchange and trust as a demanding but crucial element of the Impetus Trust model.

Supported SPOs indicated that their level of engagement with Impetus Trust was much higher than with any other category of funder, on average (Figure 5.9).

**Figure 5.9: Self-characterised level of engagement between SPOs and Impetus Trust, as compared to other funders (n=22)**




Although this Likert scale approach to measuring the level of engagement between two organisations is somewhat notional, it indicates that supported SPOs felt Impetus Trust to be more engaged than other funders. This effect was statistically significant when comparing Impetus Trust and each of the five other types of funders (all five $p<.001$, table in Appendix 7).[36] As put by an SPO manager:

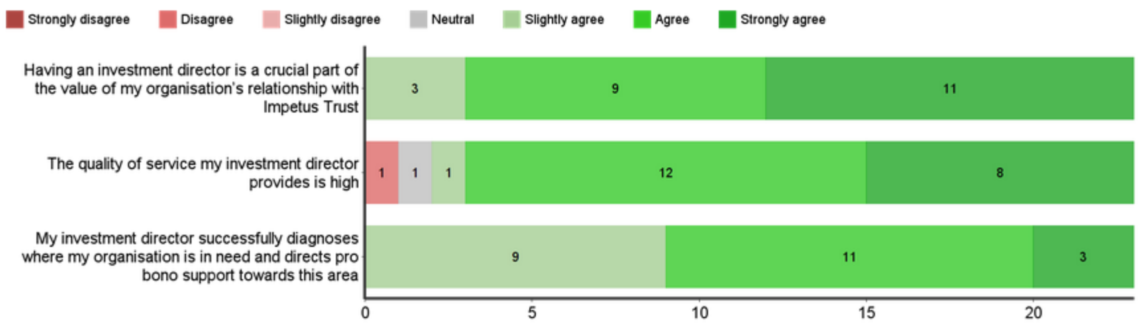
> *Impetus is off the scale in terms of funder engagement—it functions* ***more like a shadow board than a traditional funder****…. In general I found*

[36] Charity managers reported an interesting set of data with regard to their level of engagement with Impetus Trust and other types of funders (Figure 5.9). There was no correlation between the level of engagement with Impetus Trust and other types of funders, supporting the idea that Impetus Trust is different from other funders and that its structured, high-engagement interactions are similar across the charities it supports. On the other hand, there are multiple positive correlations between engagement with non-Impetus Trust funder types, indicating that organisations that have the capacity or access to be highly engaged with one type of funder can do so with others. This effect of size on ability to attract additional resourcing—and the effect of performance measurement in this process—is discussed in depth in this chapter and the other two empirical chapters.

*Impetus involvement very positive.... Obviously this doesn't suit everyone though. — Manager, SPO 17 (medium-large, exited), Survey-Q18; emphasis mine*

The primary Impetus staff who worked with supported SPOs were "investment directors", each of whom was tasked with providing and coordinating support for approximately six charities. The investment director role was the individual that the manager of SPO 17 referred to as a "shadow board" member. Formal or informal access to board documents and participation in board meetings is common in European venture philanthropy (John, 2007), and analogous to the common practice of general partners in venture capital funds taking director roles on the boards of portfolio companies (Bygrave & Timmons, 1992; Cumming, 2006). Overall, investment directors were felt to be a crucial part of the Impetus Trust model, and were seen as highly qualified resources for organisational needs (Figure 5.10), although generally less knowledgeable about specific areas of social need (Figure 5.11).

**Figure 5.10: Opinions of supported SPO managers regarding Impetus Trust investment directors (n=23)**




The manager of SPO 12 described the value of their investment director:

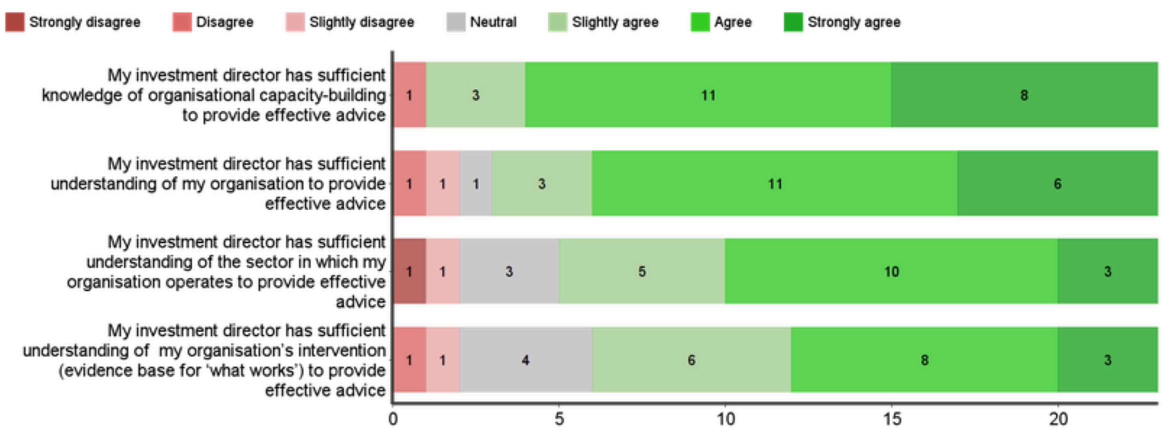
*Support of the ID [investment director] was invaluable... our ID knows our charity inside out and is able to offer practical and wise advice.... Sometimes a tendency for a slant that is Impetus's rather than ours—but overall excellent. — Manager, SPO 12 (small, active), Survey-Q64*

The manager of SPO 12 echoed the feelings of the majority of supported SPO managers in asserting that the investment director had knowledge of organisational capacity building (19 of 23 managers *agreed* or *strongly agreed*, Figure 5.11) and an understanding of the SPO (17 of 23 managers *agreed* or *strongly agreed*).

The manager also highlighted the tension inherent in the investment director role: they were deeply involved with the SPO's strategy and operations but employed by a VPO with (at least potentially) its own "slant" on issues. Having acknowledged that issue, the manager indicated that it was on balance an "excellent" relationship. In a separate interview, an Impetus Trust trustee mentioned the potential risk of investment directors "going native" and focussing entirely on the priorities of the SPO. A single SPO manager disagreed that their investment director provided effective advice; this is discussed in Section 5.4.2 along with other challenges.

The strength of investment directors lay in organizational capacity-building, according to SPO managers (Figure 5.11); this mirrored their broader feelings about Impetus Trust's strengths and weaknesses.[37]

**Figure 5.11: Opinions of supported SPO managers regarding Impetus Trust investor directors and their knowledge (n=23)**




[37] Recalling section 4.3.2, SPO managers felt that Impetus Trust was more effective than other funders in funding and networking, but that two areas where Impetus Trust was strongest relative to other funders were providing pro bono support or consulting and developing general organisational capabilities. SPO managers indicated that the areas where Impetus Trust was weakest were *policy, commissioning, and income generation* (Figure 4.1, previous chapter).

The figure above demonstrates that as the understanding required for advice became more sector- and programme-specific, the effectiveness of investment director advice in that area declined, according to SPO managers. This is unsurprising, since Impetus Trust supported SPO growth, capacity building, and networking more than intervention or policy—but this result highlights a potential gap in expertise within Impetus Trust in shifting to the "system change", "venture philanthropy 2.0" approach discussed by the Impetus Trust founders (Section 4.2.4).

Of the 22 SPO managers, 20 interacted at least monthly with their investment director, with 8 of 22 interacting at least weekly. In addition to monthly meetings, investment directors remained in close contact with SPOs:

> *[The investment director] and I have a fluid and relaxed flow of conversation through email. Where appropriate we switch to a telephone conversation and then on top of this we stick to our monthly formal meeting where six per year are face to face (due to significant distances involved). — Manager, SPO 13 (small, active), Survey-Q79*

This was typical of the other SPOs, which engaged a range of communications including email, phone calls, in-person meetings, text messaging, and Skype, at a frequency negotiated between the SPO and investment director.[38] Overall, the length of the engagement between investment directors and SPOs allowed a degree of negotiation and flexibility in how the relationship was enacted.

### 5.4.1 Results of engaged and quality VPO–SPO interaction

There were four benefits of the highly engaged relationship built between SPOs and Impetus Trust: trust and mutual endeavour, information exchange, monitoring and evaluation, and a virtuous cycle of communication and closeness. Substantial challenges accompanied this engagement, including time demands, reporting demands, and cultural fit.

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[38] Supported organisations agreed almost uniformly that the frequency and means of communication were appropriate, although three indicated that more Skype or videoconferencing would be desirable.

First, SPO managers indicated that the intensity of engagement with Impetus Trust, and the feeling that the investment director was supportive of them, helped create trusting relationships:

> *[The investment director] is able to tell me straight where I am on the wrong track or need to adjust my approach. I always am happy to take any advice she offers, as I know she is 100% working in the best interests of our charity. — Manager, SPO 13 (small, active), Survey-Q64*

> *[Investment directors are] never afraid to hold your feet to the fire. They also genuinely seem to have the best interests of our organisation at heart. — Manager, SPO 4 (medium-large, active), Survey-Q64*

Both comments demonstrate trust and transparency, despite—or perhaps due to—advice or pressure from investment directors. The phrase "critical friend" was used independently by three charity executives, and the theme of partnership was also prevalent.

> *The continuing support of our personal Impetus colleague as a really good critical friend has been vital in helping us grow our impact with her external observation and her financial and business skills. — Manager, SPO 9 (small, active), Survey-Q50*

That SPO managers considered investment directors trusted partners, or "critical friends" was an essential element in Impetus's venture philanthropy model.

Second, the high density of interaction between Impetus Trust and its supported SPOs facilitated the exchange of several types of information. These included best practices in organisational and service practice, information about sector-specific issues, including policy, and organisation-level issues facing both the VPO and the SPO. The CEO of SPO 13 was representative of the cohort of SPO managers in highlighting a relatively transparent information exchange:

> *There is nothing I wouldn't share with Impetus. They are totally on the "inside" of the organisation. — Manager, SPO 13 (small, active), Survey-Q18*

Although the degree of openness in knowledge sharing varied to an extent (recall the CEO who gave a figure of 95% in Section 4.2.3), it was generally considered to be unusually high. This information exchange figured into many of the practices discussed in this chapter, including nonfinancial service selection, networking, and monitoring and evaluation.

Third, the high levels of engagement and interaction facilitated reporting and assessment of supported SPOs. Many SPO managers indicated that, even after the due diligence phase had ended, Impetus Trust continued to receive more information, of a better quality, about SPO performance than was given to other funders:

> *Other funders get bits of paper with words on from us.…We can pull the wool over their eyes if we so choose and hide the realities of what we do and how effective (or otherwise) we are. Impetus sees all our financial reports and trustee papers, we have an open, honest and trusting relationship. This means the advice and guidance they offer is relevant and useful. — Manager, SPO 5 (micro, active), Survey-Q18*

The manager of SPO 5 leads to the fourth benefit: a virtuous cycle in the exchange of formal information and the development of a more engaged and high-quality relationship between the SPO and VPO. S/he noted that formal information as normally shared with funders can be inadequate—perhaps intentionally so.

Formal reporting and information was important, and the manager of SPO 5, above, indicated that Impetus Trust was privy to more formal documents, "all [the SPO's] financial reports and trustee papers", in contrast to "other funders". Indeed, the high degree of formal information sharing was regarded as reinforcing the good relationship between the VPO and SPO. This was noted by many informants, and is central to the additional value that Impetus Trust offers the third sector. Thinking back to the "dance of deceit" in funding allocation in the voluntary sector (Carrington, 2003), Impetus' higher-engagement, longer-term relationships offered an alternative to this dance by creating a higher trust environment, which provided the safety for

SPOs to more fully disclose the true state of affairs, facilitating better advice. However, it is important to note that engagement between SPOs and Impetus Trust, both in terms of formal information exchange and otherwise, is often costly and poses a number of challenges.

### 5.4.2 Challenges of high engagement

SPO managers reported that the high level of engagement between SPOs and Impetus Trust created three interrelated areas of tension: time demands on SPO managers, problems meeting reporting requirements, and cultural friction between SPOs and Impetus Trust.

First, SPO managers expressed frustration meeting the time demands that a high level of engagement with Impetus Trust placed on their organisations. The managers of two small SPOs indicated the difficulties of such engagement for the management of small organisations:

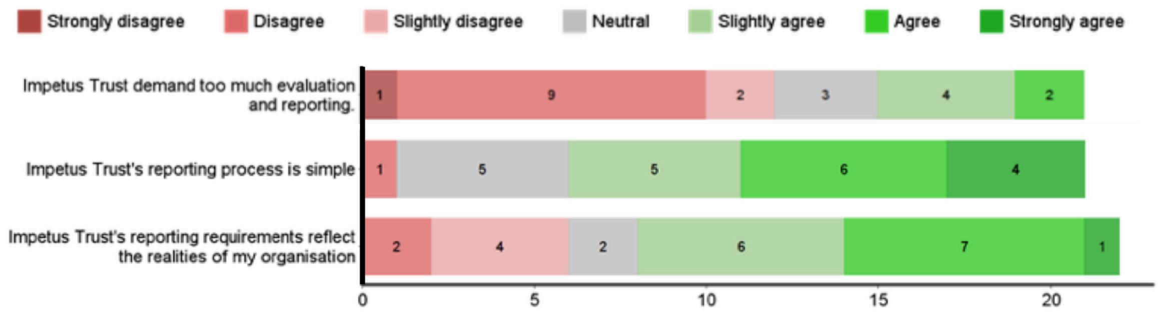
> *Our investment director was skilled, experienced, and well-intentioned. However, there seemed to be a lack of understanding about the pressures and demands on the senior team in a small organisation, which sometimes led to unreasonable requests being made…. — Manager, SPO 21 (small, exited), Survey-Q64*

> *It is difficult to say that engaging with Impetus has had any direct benefits, and the grants they paid us probably only covered the cost of dealing with them (if one considers the opportunity cost of the management time). This is not a criticism of the Impetus staff, who we were very impressed with. —Manager, SPO 8 (small, exited), Survey-Q50*

Both SPO managers underscored the high cost, in human resource, to interaction with Impetus Trust. Additionally, the manager of SPO 8 indicated poor outcomes of the interaction: being unable to identify “any direct benefits” after one year of substantial dealings with a VPO. (And this is not simply an informant with negative views: the manager ended the same line of thought with being "very impressed" with Impetus staff.)

Second, although opinions about reporting and evaluation were generally positive, these requirements were challenging for some SPOs (Figure 5.12).

**Figure 5.12: Opinions of supported SPO managers regarding Impetus Trust and monitoring and evaluation (n=22)**




Processes for reporting were felt, to some extent, to be simple (15 of 21) and reflect the realities of most supported SPOs (14 of 22), and not to be too demanding (12 of 21 disagreeing). However, six SPO managers felt to some extent that Impetus Trust demanded too much reporting. Additionally, six SPO managers felt, to some extent, that the reporting requirements did not reflect their organisations' reality.[39] For example:

> *The weakness of Impetus's approach is in only being interested in growth of outputs. For many organisations improved outcomes is the key strategic objective. —Manager, SPO 8 (small, exited), Survey-Q29*

The variety of potential outputs—much less outcomes—created by a single SPO is hard to monitor without prohibitive expense. This challenge is even more difficult when attempting to determine the degree of change resulting from SPO action, especially when attempting to do so across multiple SPOs in a portfolio, or comparing SPOs for the purposes of selection. This manager raised an important critique of Impetus Trust's monitoring and evaluation: it is possible that in focusing on scale and

[39] In both instances, the six SPOs were of varying sizes; i.e., they were not chiefly smaller SPOs.

output measures, they were selecting for organisational rather than programme or outcome strength.

Third, cultural frictions sometimes arose between Impetus Trust and the SPOs it supported. In Chapter 2, I identified the neoliberal logics of managerialism and financialisation as being representative of a venture capital and venture philanthropy approach. In some cases, friction arose when actors from different sectors—who assign different values to these logic, or may be critical of them—interacted on the same issue. The manager of SPO 10 disclosed:

> *Impetus support is extremely good on the business, not so good with the psychological support a charity needs with all the changes due to the work with Impetus…. Impetus also needs to recognise and respect the expertise a charity has and not patronise if their business skills are lacking. — Manager, SPO 10 (micro, active), Survey-Q29*

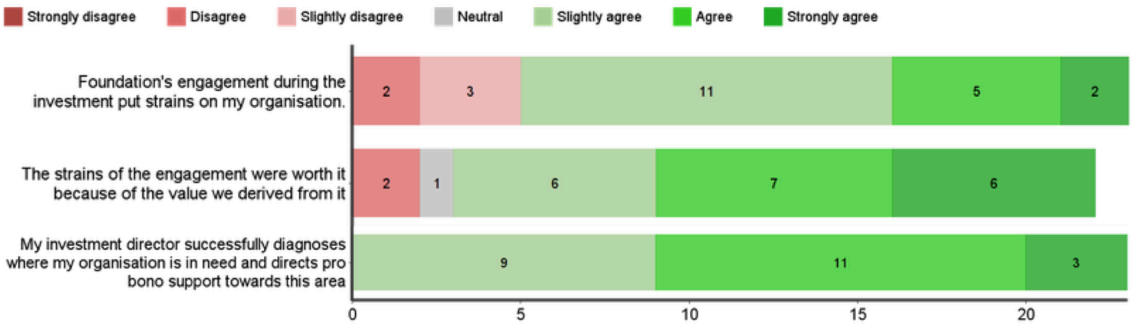
The cultural clashes between sectors flowed both ways. Some supported SPOs had significant trading and contracting operations, where that same managerial and financial logic is certainly at play:

> *Our investment director was new and very much from the charity sector. They did not understand our contracting environment. — Manager, SPO 1 (small, exited), Survey-Q64*

These two comments highlight a final cultural difficulty: the high level of engagement with a single investment director meant that relationships were, to a large extent, made more or less effective based on the personal and professional characteristics of that one person.

The effort required by SPO managers for monthly meetings, frequent contact, and high degree of formal reporting were sometimes perceived as onerous, despite efforts by both SPOs and the VPO to manage them. SPO managers generally agreed to some extent that engagement with Impetus Trust put strains on their SPO (18 of 23) but also that the strains of the engagement were worth it (19 of 22, Figure 5.13).

**Figure 5.13: Opinions of supported SPO managers regarding the strains and value of SPO–VPO engagement (n=23)**




Overall, the high level of engagement was important in enabling the fifth practice of the Impetus Trust model: the selection and provision of nonfinancial services to supported organisations. All 23 supported SPO managers agreed to some extent that their investment directors identified needs and directed nonfinancial support (specifically pro bono in this figure) to those areas.

## 5.5 Nonfinancial Services

Nonfinancial services include any support that is not funding. In this case, the support was provided by Impetus staff, by external experts or consultants funded by Impetus, or by external experts or consultants sourced by Impetus. The most important element of Impetus Trust support, according to the 23 SPOs, was the provision of nonfinancial support services—although it is important to keep in mind that Impetus Trust, in the 2004-2013 time period, provided primarily non-financial support rather than cash grants (Section 4.1.1).

The breadth and depth of interaction between VPO, SPOs, and nonfinancial service providers is unusual in the third sector. Impetus Trust played a role in expanding awareness of and access to nonfinancial services for the SPOs in its portfolio.

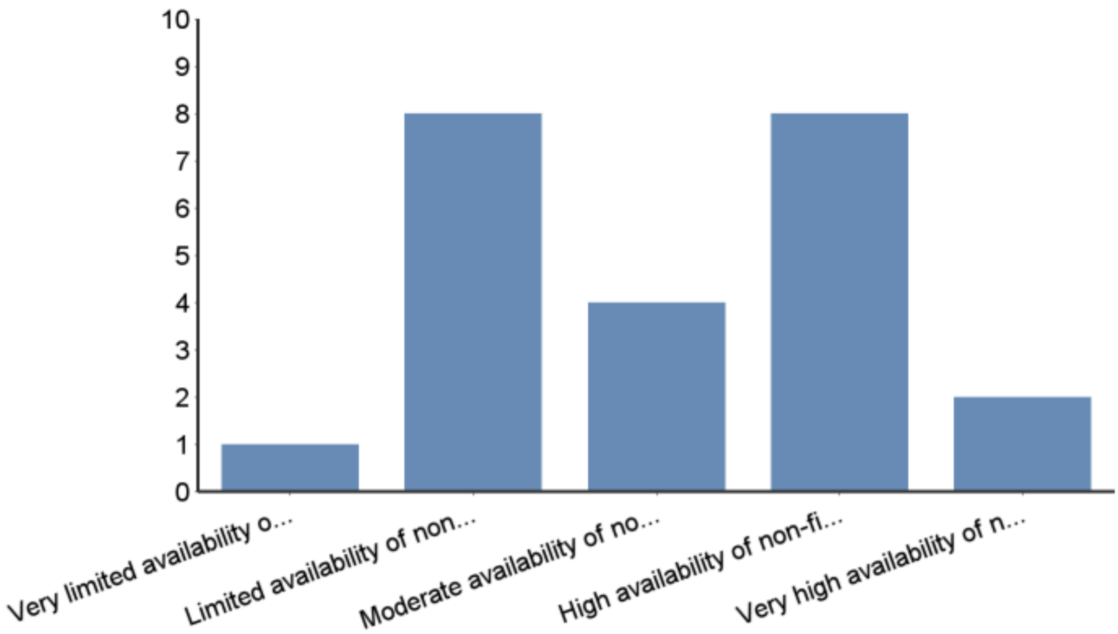
### 5.5.1 Five barriers to accessing nonfinancial services for supported SPOs prior to venture philanthropy support

Before contracting with Impetus, many SPOs, especially smaller organisations, had limited experience receiving nonfinancial services. They experienced five barriers: awareness of the availability of services generally, knowing services exist in the

SPO's geographical area, knowing how to access or select service providers, being able to pay for services, and being willing to pay for services (rather than spend the funds on other activities). Their Impetus Trust relationships lowered or removed these barriers.

The first and second barriers concern awareness: SPOs reported being unaware of nonfinancial service options in general, and then specifically in their areas. By the time they agreed to receive Impetus Trust support, portfolio SPOs were aware of the potential—and the expectation—of utilising nonfinancial services. Figure 5.14 concerns the second barrier: 9 of 23 SPO managers indicated there were limited or very limited nonfinancial services in their local area.

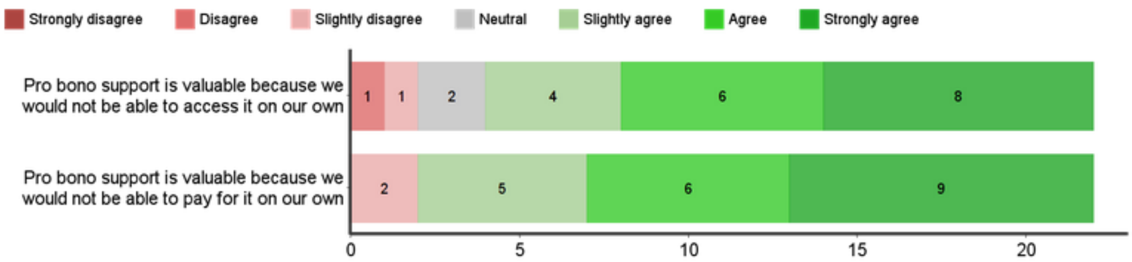
**Figure 5.14: Opinions of supported SPO managers regarding the availability of nonfinancial services in their area (n=23)**




The third barrier was a lack of knowledge of how to access nonfinancial services, including choosing which services were needed and selecting the most appropriate provider. The fourth barrier was the ability to pay for these services. This accessibility issue can be observed in that 18 of 22 SPO managers agreed to some extent that pro bono nonfinancial services were not previously accessible to their organisation, and

20 of 22 agreed to some extent that they would have been unable to pay for them (Figure 5.15).

**Figure 5.15: Opinions of supported SPO managers regarding the value of and their access to pro bono support services (n=22)**




According to the manager of one SPO, Impetus Trust enabled them to access and pay for a range of nonfinancial services:

> *[W]e have had expertise on staff contracts, conveyancing, service contracts, bid writing ... impartial ICT advice ... mentors for two senior staff and more besides. There are very few funders who offer anything along these lines. Without Impetus we would have had to spend a lot of money on getting the advice (or gone without) and been concerned that what we were getting was not impartial or accurate. — Manager, SPO number withheld*[40] *(micro, active), Survey-Q12*

This wide range of nonfinancial services was provided to one SPO with less than £500,000 in annual revenue. The CEO indicated that Impetus Trust removed two barriers: the VPO provided a kind of quality assurance and reassurance to the SPO, removing the third barrier of selecting service providers, and the services were free to the SPO, removing the fourth barrier.

The fifth barrier for SPOs was willingness to spend their limited resources on nonfinancial services, rather than other priorities:

> *When you are a charity CEO focussing on beneficiaries, your priority is those beneficiaries. I don't think I would have been able to justify in my*

[40] The SPO number is not revealed for this quotation to assure anonymity of the respondent.

> *head spending so much money on support. However, this is not the case when it is "free"—having access to the best pro bono support brings with it a driver to get the most from it. — Manager, SPO 4 (medium-large, active), Survey-Q23*

The manager of SPO 4 highlighted a core challenge of social purpose organisations: their focus on their mission and the near-universal scarcity of resources (at least relative to the size of the social issues involved) makes it difficult for managers to justify resourcing anything outside of service delivery. This was one of the core third sector problems discussed by the *Harvard Business Review* article (Letts et al., 1997) that prompted the founding of Impetus Trust. This was the case even though SPO 4 was relatively large, with a budget of more than £2 million per year—and therefore likely had more potential to learn of and access nonfinancial services than smaller organisations.

Navigating these five barriers and creating opportunities for SPOs to receive nonfinancial services appeared to have had several additional effects, some of which endured beyond the period of funding. Beyond awareness of the availability of services both generally and locally, and the actual direct effects of the services, SPO managers reported shifts in their organizational priorities, better understanding of nonfinancial services, increased ability to discriminate amongst providers, knowledge transfer into their organisations, and expanded networks of professional service providers.

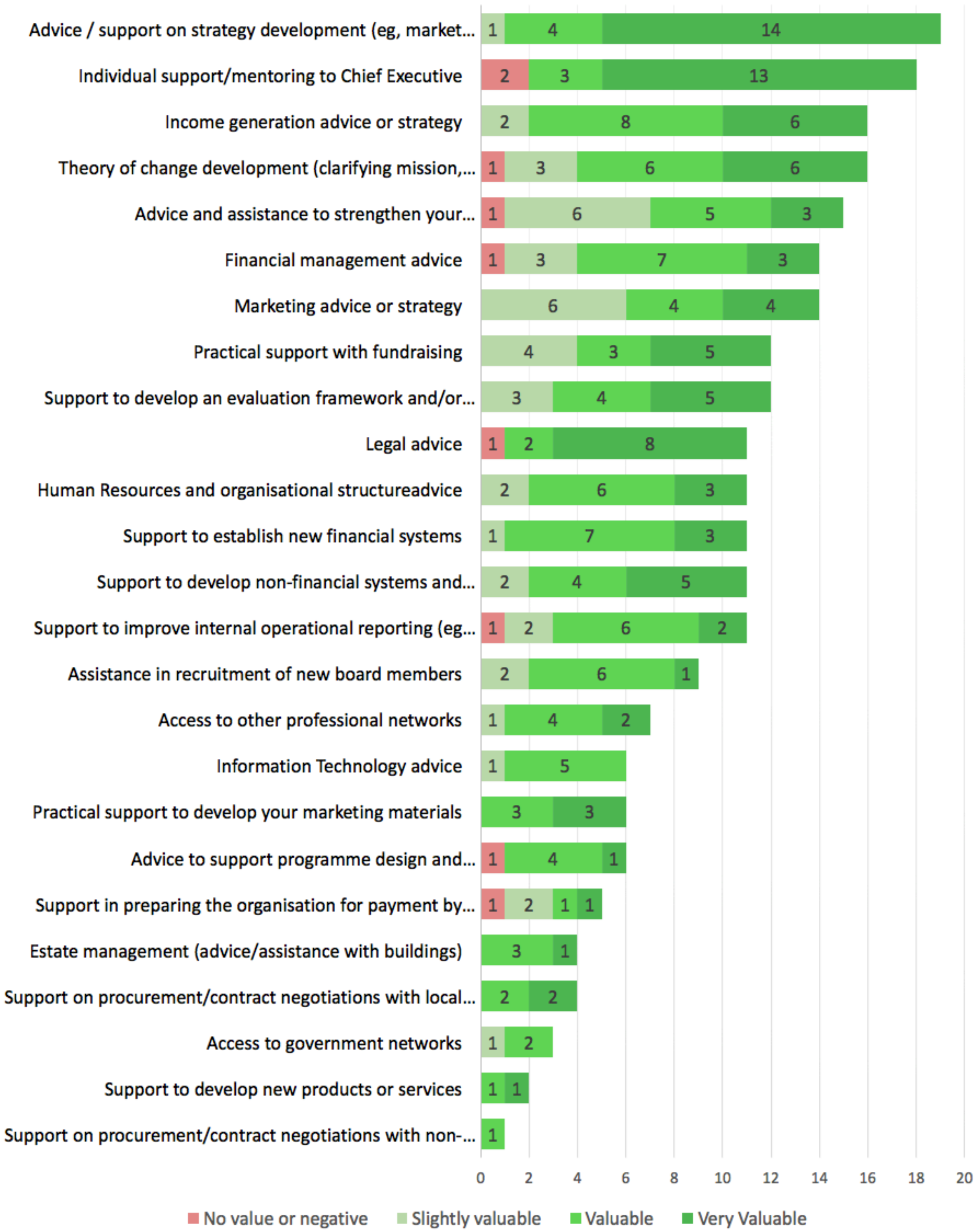
### 5.5.2 The type and value of nonfinancial services provided by Impetus Trust

I now consider data that addresses my second and third research question: what types of nonfinancial services were provided to SPOs, by whom, and to what extent such services were considered valuable by SPOs.

Survey results reveal that Impetus Trust provided a wide range of nonfinancial services: the average Impetus-supported SPO manager reported receiving 10.5 different types of nonfinancial services through its engagement. Of these, 5.8 were supplied by Impetus Trust staff and 4.7 were supplied by external consultants or experts, whether pro bono or (infrequently) paid by Impetus Trust[41]—and were generally deemed to be valuable by SPO managers (Figure 5.16). Overall, Impetus Trust did act analogously to a venture capital firm in providing and arranging for the provision of nonfinancial services.

[41] SPO manager responses are intended to represent the primary providers of each type of nonfinancial service. Of course, within each service type, there was likely some contribution from multiple service providers, especially given that all nonfinancial services were arranged for by VPO staff.

**Figure 5.16: Evaluation by managers of supported organisations regarding the non-financial services supplied by Impetus Trust and the value of those services (n=23)**



Supported SPO managers reported that the most commonly provided services types were advice and support in strategy development (91%), mentoring to chief executives (90%), advice on generating income (76%), advice to strengthen board and governance systems (75%), Theory of Change development (70%),[42] and marketing advice (70%). A further seven service types were provided to at least half of supported SPOs.

The nonfinancial services that Impetus Trust provided SPOs are representative of the operational practices of European VPOs, although it appears to have offered a broader range of services than most. Across 94 European VPOs, 81% supplied strategy consulting to at least some SPOs and 77% provided coaching and mentoring to SPO management (Hehenberger et al., 2014). Like the Impetus Trust SPOs, most of the European SPOs considered nonfinancial support more important than financial support. (Hehenberger et al., 2014). The other services provided by more than half of VPOs were financial management support (65%), fundraising or revenue strategy (61%), and governance support (56%). This demonstrates that nonfinancial service provision is a characteristic feature of venture philanthropy, and also that Impetus Trust's support was consistent with the operational practices of European venture philanthropy.

With regard to my third research question, the perceived value of nonfinancial services amongst the managers of supported SPOs was high: nearly four-fifths of services were characterised as either very valuable (92 of 244 ratings, 38%) or valuable (101 of 244 ratings, 41%). Importantly, though, one-fifth of nonfinancial service type ratings were slightly valuable (42 of 244, 17%) or not valuable or negative (9 of 244, 4%). The single most highly valued nonfinancial service was advice or support for strategy development. This was also the most frequently provided (19 of 22 respondents),

[42] Theory of Change is a popular tool for summarising the mission, goals, activities, and outcomes of a social purpose organisation, product, or service. It is broadly analogous to a business model.

suggesting a good fit between Impetus support and the strategy needs of the SPOs they chose to support.[43]

> *The Investment Manager [provided] excellent support for the CEO and other staff.… Strategic consultant support was hugely significant and successful: three major projects done for us which, at each stage, shaped our growth. [It was] great to be able to request specific support and get it from professionals. — Manager, SPO 10 (small, active), Survey-Q26*

The manager of SPO 10 highlighted the central importance of support for SPO leaders and strategic planning—provided by both Impetus staff and pro bono consultants. Importantly, the manager saw both as sources of specific support that was available by request in the context of an engaged relationship. This provision of nonfinancial services only as needed was reflected in survey results: nearly all SPOs indicated strategy support, but more specific services were provided to only a few SPOs.

The one-fifth of ratings indicating *slightly valuable* or *not valuable* nonfinancial service provision were distributed among nearly all service types. In some services, the quality was perceived as lower, on average: for example, in the frequently provided category of governance support, 7 of 15 respondents indicated finding such support only slightly valuable or not valuable. However, it was not possible to differentiate whether this was a function of the service type itself—it is harder to see the value of improvements to governance than to marketing materials—or the quality, targeting, or provider of the service. Future research should more deeply explore individual types of nonfinancial service provision to SPOs.

Neither the size of the SPO nor its active/exited status had any significant effect on the total number of services received or the average value ascribed to those services by SPO managers. Additionally, the average number of service types reported by active SPOs was only slightly below exited SPOs, 9.9 versus 11.1, indicating that most

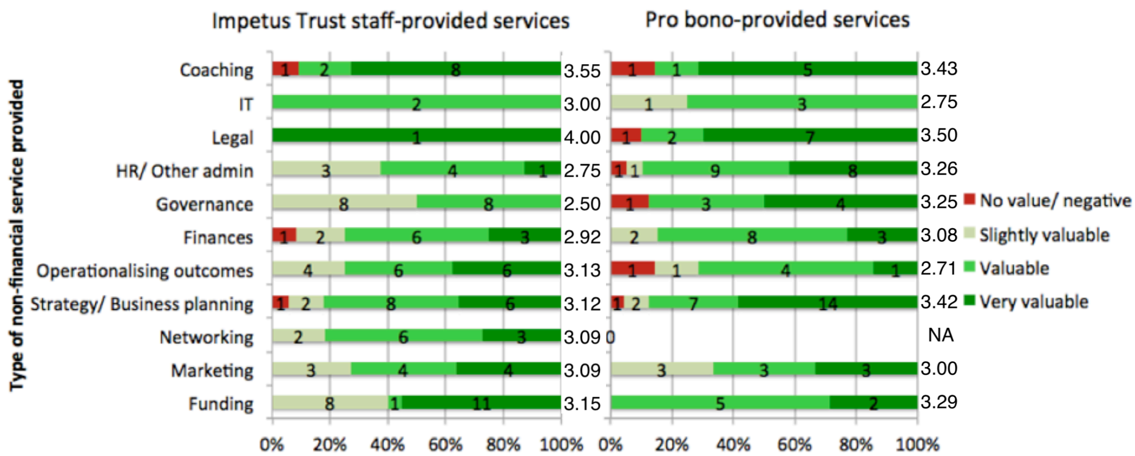
[43] The 19 organisations receiving such advice found it highly valuable on average, with 14 of them deeming the service very valuable, a further 5 deeming it valuable, and the final SPO finding it slightly valuable.

of the active relationships were extensive rather than just beginning, and therefore worth including in my analyses.

### 5.5.3 Impetus Trust relied heavily on pro bono nonfinancial service providers

Impetus Trust's roots in the private sector, including the backgrounds of its founders, board, and most employees, played a role in its choice and ability to provide pro bono nonfinancial services through a network of private firms. This network provided nearly half of all services, and Impetus Trust claimed pro bono associates as a central element of the value they provided to SPOs—nearly half of all value, in cash terms.[44] Some nonfinancial services were more likely to be provided by pro bono consultants than by Impetus Trust staff or paid experts (Figure 5.17). This was especially the case in the domains of legal advice, information technology, human resources, and other administrative support.

**Figure 5.17: Evaluation by supported SPO managers regarding the non-financial services provided by Impetus Trust and by pro bono professionals (n=23)**




Impetus Trust staff provided a much higher proportion of services in categories more specific to SPOs and the third sector: operationalising outcomes, governance, and funding. Figure 5.17 also indicates the value ratings of SPO managers with regard to

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[44] Indeed, their audited report for 2011–12 claimed that of the £20.4 million in monetary-equivalent value provided by Impetus Trust 2004–12 was pro bono support of £9.6 million—more than grant funding of £7.4 million (Sayer Vincent Auditors, 2012).

each service category, as well as the average value by category and provider. The average value ratings for all categories were not significantly different (all $p>.05$) regardless of whether services were provided by Impetus Trust staff or pro bono consultants.

Generally, nonfinancial services provided by pro bono consultants were rated between *valuable* and *very valuable* (3.23 on a four-point Likert scale). The average value of pro bono services was rated slightly higher than those provided by Impetus Trust staff (3.04), although the difference was not statistically significant. There was no statistically significant difference in how highly pro bono engagements were valued according to supported organisation size.

Overall, pro bono services were considered to be a key and unique element of the Impetus Trust model:

> *Impetus pro bono experts are unique to Impetus and provide crucial wisdom that we couldn't afford to buy in and which are essential for growing our organisation. — Manager, SPO 9 (small, active), Survey-Q59*

> *Impetus Trust are the manifestation of their [pro bono] associates. — SPO Manager (medium-large, exited), in interview, 2012*

The process of selecting appropriate services and service providers was a key element of the Impetus Trust operational model. The close interaction between investment directors and SPOs allowed for conversations about the most appropriate services. All 23 supported SPOs agreed to some extent with the statement "My investment director successfully diagnoses where my organisation is in need and directs pro bono support towards this area".

In general, the nonfinancial services provided by pro bono consultants were considered to be most valuable when the projects were very specific and tailored to the needs of the SPO:

*In a nutshell, Impetus provided consultants who were experts in a particular organisational area; they were "humble" in that they knew what they knew and did not promise more than that. Other charity consultants tended to be like jacks-of-all-trades; they also tended to want to wander into other areas of the organisation.… Impetus consultancies were more clearly targeted and specialised. — Manager, SPO 11 (small, exited), Survey-Q59*

Impetus Trust's intermediary role was important, given that most pro bono consultants were not accustomed to working with and for SPOs, nor generally focused on social problems. The fact that 12 of 20 managers considered social-issue-specific knowledge important, but only 7 of 21 felt the pro bono consultants had such knowledge, indicated that this was an area of friction (Figure 5.18).

**Figure 5.18: Opinions of supported SPO managers regarding pro bono services arranged by Impetus Trust (n=22)**


SPO managers felt that pro bono service providers' understanding of their SPOs was more important than their understanding of the social areas and issues in which the SPO worked. The chart above shows that 11 of 21 SPO managers *agreed* or *strongly agreed* that it was important for pro bono consultants to understand their organisations, though only 8 of 22 SPO managers *agreed* or *strongly agreed* that they did so. This is a stark contrast to the opinions of SPO managers regarding their Impetus Trust investment directors—recall that 17 of 23 SPOs *agreed* or *strongly agreed* that their investment directors had a sufficient understanding of their organisation to provide effective advice (Figure 5.11). Overall, SPO managers indicated that organisational and social issue understanding were less important for pro bono consultants than for Impetus Trust staff—understandable, given the shorter timeframes and narrower scope of engagement.

### 5.5.4 Challenges of nonfinancial service provision

Challenges arose in the provision of nonfinancial services: the time commitment from both sides, managing multiple service providers and projects, cultural friction between the private sector and third sector, mediating power differentials between service providers and SPOs, and ensuring quality and timely work from pro bono consultants. Balancing a large number of projects was sometimes problematic, especially for smaller organisations:

> *Much of the pro bono business support has been helpful, although in the first year it was excessive, too many pro bonos coming in, too soon. —Manager, SPO 10 (micro, active), Survey-Q50*

The tension faced by Impetus Trust was to provide enough support to meet their goal of accelerating SPO growth without overwhelming SPO managers. Moving toward that balance was more difficult in some cases than in others, and was sometimes exacerbated by the heavy use of large professional service firms as pro bono associates. There were some cultural and operational issues in pro bono service provision, frequently due to the different size and focus of SPOs compared to the usual private sector clients of pro bono firms:

> *There aren't very many [pro bono] providers out there who know how to coach someone how to plan, because blue chip companies they interface with know that stuff…. [W]e're dealing with a completely different beast, of people who've always worked at a hundred and ten percent capacity, and never had time to think of anything actually big picture and plan how to grow, and have had very little freedom in how to allocate their resources. —Manager, Impetus Trust; Interviewee 30, 2013*

According to Impetus Trust staff and SPO managers, some pro bono providers, accustomed to working with large firms, assumed that SPOs had greater managerial and financial capacity than they actually did. Other pro bono providers struggled to adjusting their usual approach and services to smaller organisations in the third sector. Some SPO managers balanced professional support with an acknowledgement of their own expertise:

> *In practice the help and insights you get from these giants do not relate all that well to charities. That said, the challenge can be useful. — Manager, SPO 7 (medium-large, active), Survey-Q29*

> *We have learnt that we also have our own wisdom and must not always assume Impetus and their advisors know better than us about our own work! ...[A Big Four accounting firm] failed to appreciate our lack of experience. It took us too long to say that the model they were imposing on us didn't work for us. The stress on our whole team was great.... Because of their prestigious name I took too long before raising all our concerns. Our Impetus manager seemed afraid of offending them and we were made to feel very inadequate. — Manager, SPO 9 (small, active), Survey-Q61, Q72*

This is indicative of the power and process differentials of bringing in many (often confident and competent) professionals: in this case, the potentially problematic dynamic of SPO staff assuming that the VPO and its pro bono consultants always had more expertise—and the accompanying backlash of resentment.

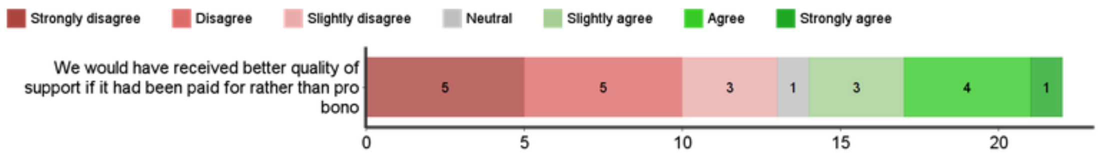
Pro bono service providers were unpaid, respected, and well-compensated in their private sector work—and central to the Impetus Trust model. Despite operational practices of clearly defining the goals and expectations of pro bono engagement, along with explicit commitments from Impetus Trust and the firms from which it sourced pro bono work to acknowledge and learn from failure, pro bono engagements sometimes—but infrequently—failed or disappointed, with 6 of 108 ratings of no value or negative and a further 10 ratings of *slightly* valuable (Figure 5.17).[45]

> *There is an inherent problem with using pro bono volunteers, that some may be of poor quality or culturally out of their depth, but that just needs to be managed on a case-by-case basis. — Manager, SPO 17 (medium-large, exited), Survey-Q29*

> *People doing pro bono work can drop it or not prioritise it at times. — Manager, SPO 7 (medium-large, active), Survey-Q29*

The SPO managers mentioned three reasons for failure "inherent" to pro bono providers. First, they may not have adjusted to the needs and logic of a new sector and were "culturally out of their depth". Second, the providers might simply have been "of poor quality". Third, pro bono providers might "not [have] prioritise[d]" the pro bono engagement, whether because of other paid work or otherwise— 8 of 22 managers agreed to some extent that their SPO "would have received better support if it had been paid for" (Figure 5.19).

**Figure 5.19: Opinions of supported SPO managers regarding the quality of pro bono services via Impetus Trust compared to paid services (n=22)**




On the other hand, 13 managers felt pro bono support was of the same quality as paid-for support. The manager of SPO 21 captured both sides of that challenge:

> *The pro bono support is so effective because the individual or organisation providing the support takes it as seriously as a piece of paid work. Other*

[45] These ratings were with regard to types of service, so they might understate the "failure rate". For example, a failed engagement which was then followed by a more successful one in the same service category might obscure the failure when reported by the SPO manager.

> *advisors can pay lip service to this [but not follow through], thus reducing the quality and speed of their delivery. — Manager, SPO 21 (small, exited), Survey-Q59*

Overall, despite four areas of friction, Impetus staff and pro bono experts provided a wide range of nonfinancial services that were generally considered valuable by recipient SPO managers, especially when applied to organisational, rather than sector or programme-specific, issues.

### 5.5.5 Skill transfer between SPOs and nonfinancial service providers

The processes of nonfinancial support examined here resulted in the transfer of skills amongst SPOs, Impetus Trust staff, and pro bono service providers. Most of this skill transfer was from Impetus Trust and service providers to SPOs. According to managers at Impetus Trust and SPOs, skill development often began with building foundational relationships and skills in order to facilitate strategic planning:

> *It is quite challenging to take even a good organisation from the early phase of building a relationship all the way through to a business plan. It's pretty intense, and it's not just doing the research and coming up with a strategy, which we typically outsource to one of the corporate partners, but it's actually coaching the organisation to learn how to plan and think strategically, and focus. — Manager, Impetus Trust; Interviewee 30, 2013*

Whether the services were provided by Impetus Trust staff or by pro bono consultants, some engagements developed durable skills and processes for SPOs. For example:

> *Process improvement provided by the [large logistical organisation] ... was so successful because ... we could transfer the skill sets into the organisation. We have continued to use the methodology internally ever since. — Manager, SPO 21 (small, exited), Survey-Q71*

While the nonfinancial service engagement discussed by the manager of SPO 21 involved the creation of a tailored system, other engagements involved the intentional acquisition of more general skills:

> *It was successful because the consultant was generous in providing his skills and knowledge but also cascading those within our organisation too—i.e., he built capacity as we went through the process. [It] went extremely well. We learned negotiation skills and lots of practical things too. — Manager, SPO 23 (medium-large, exited), Survey-Q71*

The transfer of skills and knowledge to SPOs through the provision of nonfinancial support services was a central and intentional element of Impetus Trust's model. The managers of supported SPOs indicated that skill development was frequent, and often found it valuable. This VPO model mirrors the knowledge-transfer features of venture capital funds (e.g., Pinch & Sunley, 2009), including locating partners and service providers (Saxenian & Sabel, 2008). In this case, interview and survey data demonstrated that the analogous model of venture philanthropy transferred practices and skills—sometimes specifically described as "private sector" skills but also some knowledge specifically relevant to the third sector—to SPOs.

The next sections of this dissertation examine areas where nonfinancial services have effects on supported SPOs: networking, capabilities, and organisational priorities.

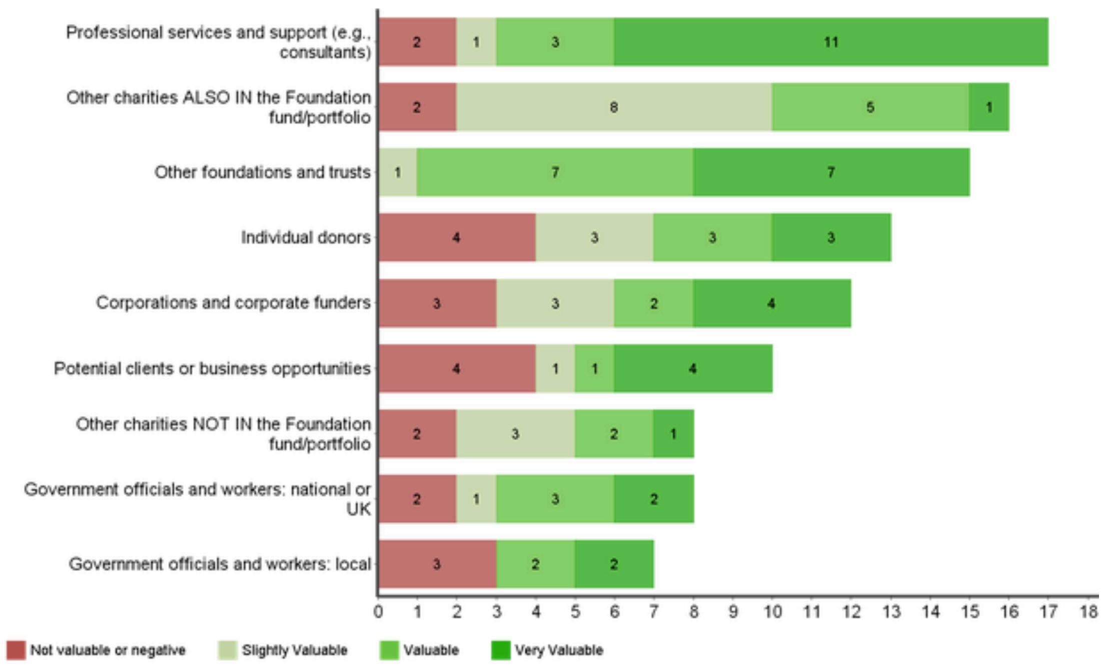
## 5.6 Networking

Impetus Trust explicitly attempted to broaden the networks of SPOs it supported. This practice has roots in venture capital: a central part of the value proposition of venture capital firms is that they create connections among entrepreneurs, professional service firms, financiers, and customers, resulting in increased firm growth and performance (Section 2.6.1).

Venture philanthropy has fundamentally different goals and logic, despite its roots and shared core practices with venture capital. With regard to networking, there are three chief differences that bias the voluntary sector toward readier collaboration among portfolio organisations: the diminished role of protectable intellectual property, decreased relevance of market share metrics and ability to measure success, and the presence of multiple ways of achieving the same social impact goal.

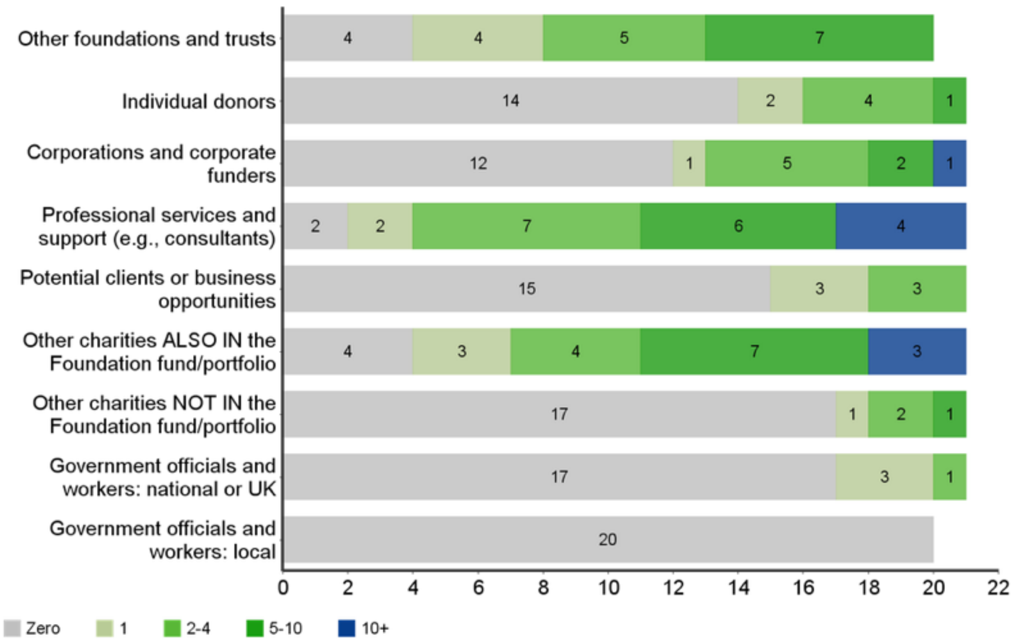
An explicit focus on creating network linkages between supported organisations and others inside and outside (mostly outside) the portfolio was a distinctive element of Impetus Trust's offer. This was supported by my findings: Impetus Trust was rated by supported CEOs as significantly more effective in creating network links than other trusts and foundations (Section 4.3.2, 95% CI = [3.047, 3.822]; where 3 is "similar to other foundations"). Supported organisations were asked to share the number of connections of each type that Impetus Trust provided and rate the value of those connections (Figure 5.20):

**Figure 5.20: Opinions of SPO managers regarding the types and value of network connections created by Impetus Trust (n=21)**




The types of network links most commonly created for supported SPOs were links with professional service firms (90% of ventures), organisations within the Impetus Trust portfolio (81%), and other trusts and foundations (80%). These were also the most densely provided connections—that is, SPOs made more of those links than other types (Figure 5.21).

**Figure 5.21: Opinions of supported SPO managers regarding the number of network connections created by Impetus Trust, per type of connection (n=21)**



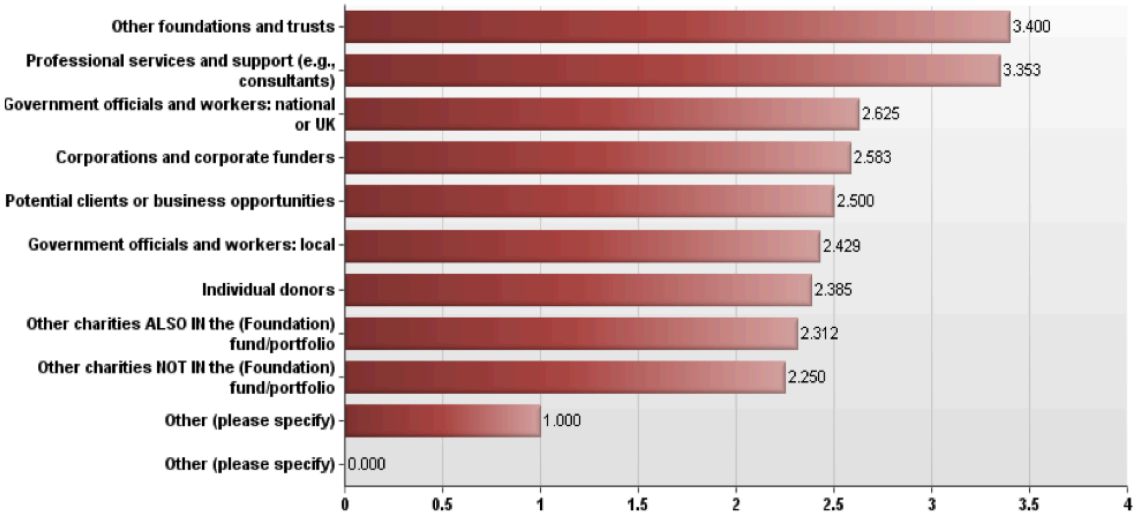

Noting that these three most frequently provided connections made up the bulk of total new linkages, I now explore each of them in turn.

## 5.6.1 Networking: outside portfolio

Connections to organisations and individuals outside of the Impetus Trust portfolio comprised the most valuable types of network additions, according to SPO managers —with connections to other trusts and foundations, and professional services and support providers rated as substantially more valuable than the other seven connections types (Figure 5.22).[46]

[46] Figure 5.22 shows the average value ratings of the connection types provided by Impetus Trust. On this scale, a two equates to *slightly valuable,* a three to *valuable,* and a four to *very valuable.*

**Figure 5.22: Opinions of supported SPO managers regarding average value of network connections (n=21)**




These were also two of the three most commonly provided types of connections, and were central to Impetus Trust's primary purpose of driving more capital and capacity to organisations it deemed as high-potential. Sixteen SPOs reported that Impetus Trust created connections between them and other trusts and foundations (Figure 5.21). These connections were often indicated to include a prestige or signalling effect due to Impetus Trust support (Section 5.1). The professional and personal networks of Impetus Trust staff combined with the VPO's reputation and links provided access to capital providers in the private and voluntary sectors—trusts and foundations, individual donors, and corporations— as well as to government budget holders.

These links to funders were highly regarded: of the 15 SPO managers that provided value ratings, 14 found such links valuable or very valuable. The managers of two SPOs, one large and one micro, explained the value of introductions and the "credibility" or "respect" halo from Impetus Trust:

> *Intros to other trusts were very valuable. The credibility of Impetus helped open doors…. — Manager, SPO 16 (medium-large, exited), Survey-Q12*

> *Venture philanthropy is a very good thing for the Third Sector. Most valuable is the reputation a portfolio charity receives for being in*

> *partnership with Impetus. It opens many doors and generates respect for the charity from both foundations and government. — Manager, SPO 10 (micro, active), Survey-Q23*

These links sometimes outlasted the direct support of an SPO by Impetus Trust. For example, the manager of SPO 21 reported:

> *The identification and introduction to potential new funders was very positive. As a result we still have very strong relationships with these organisations. —Manager, SPO 21 (small, exited), Survey-Q26*

Perhaps the single most important and notable aspect of these links is the matching and certifying role that Impetus Trust played.[47] Impetus Trust also introduced 9 of 21 responding SPOs to corporations. Corporations have different capabilities and resources than charitable trusts, and these were sometimes leveraged by SPOs once Impetus Trust made introductions. For example, the charity Street League capitalised on an Impetus introduction to CBC Capital Partners, a major funder of Impetus Trust. CBC used Street League to run a charitable football tournament for their supply chain, which soon began to raise £100,000 annually for the SPO. In addition to the funding,

[47] For example, one SPO manager memorably explained the importance of introductions, especially the manner and "more subtle" framing of such introductions that Impetus Trust provided:
"We were introduced to a couple of funders in a different way. Partly we were introduced as a pre-approved and interesting organisation, but there was also something more subtle. We were introduced as other grown-ups at the grown-up table. This contrasted with the normal introduction of charity to funder, one feels more like a child in need of more pocket money being introduced to a remote uncle. As a result (for example) one funder got in touch to say—we need to get £100,000 out of the door by the end of the month, tell us what you can do with it." — Manager, SPO 17 (medium-large, exited), Survey-Q39
The manager of Organisation 17 referenced the typical power imbalance in foundation–charity interactions (Ostrander, 2007) and the manner in which Impetus Trust introduced them as equals. This went beyond mere passive certification (though that was significant in its own right) into a shift in the social and cultural framing of interactions between funder and charity. In this example, this connection resulted in a clear financial windfall: Impetus Trust used its credibility and access to elite funding networks to bring a charity closer to powerful funding networks.

the relationship continued to develop as CBC introduced Street League to their supply chain partners—which then offered Street League's service users gym memberships, work experience, and job opportunities:

> *What's lovely about Impetus is that they are not really that precious about CBC or our organization ...all the money [from that introduction] is going to come to us. [Impetus Trust] are very much like, "Well, we're here to make you better, so, you know, off you go." – CEO, Street League, in interview, 2012*

This example underscores the nested and interrelated nature of network formation. In this case, one initial introduction led to a reliable funding stream (the tournament) and had a snowballing network effect. The manager described Impetus Trust as "not precious" in sharing and supporting the SPO's leveraging of its corporate connections. That said, this level of success is not universal: approximately half of corporate introductions were found to be only slightly or not at all valuable. SPO managers were similarly divided in valuing networking links with individual potential donors, government officials, and potential clients (Figure 5.20).

### 5.6.2 Networking: within portfolio

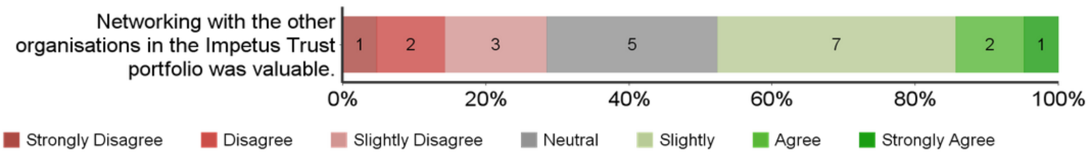
The lack of valuable networking between most Impetus SPOs—with only three of 21 agreeing or strongly agreeing that it was valuable (Figure 5.23), and only six indicating such connections to be valuable or very valuable (Figure 5.20)—indicates that their portfolio structure functioned more to divide labour between investment directors than to facilitate charities working together. In terms of intra-portfolio networking, Impetus was perhaps *less* active than early-stage venture capitalists, despite the relative scarcity of trade secrets and intellectual property concerns in the third sector, which might make such collaboration easier than in the private sector (Section 2.6).

There were indications that there might be substantial potential for interaction and collaboration amongst the SPOs funded by Impetus Trust. The manager of SPO 9 described one such case:

> *A new Impetus portfolio [organisation] and [our organisation] are building a relationship as we are both [city]-based and complement each other in different but compatible areas of early years' work. — Manager, SPO 9 (small, active), Survey-Q12*

This SPO manager described an intentional and complementary working relationship between two portfolio organizations. However, the data suggests that this was more the exception than the rule. Overall, when asked whether "networking with the other organisations in the Impetus Trust portfolio was valuable", the results were decidedly neutral (Figure 5.23).[48]

**Figure 5.23: Opinions of supported SPO managers regarding the value of networking with other Impetus Trust portfolio organisations (n=21)**




Although intra-portfolio networking was not a core feature of the Impetus Trust model, it was central to the structure of the VPO I consider in Chapters 6 and 7, Inspiring Scotland.

Next, I consider the evidence for my third research question: do the managers of supported SPOs believe the operating practices and institutional arrangements of venture philanthropy to be appropriate and valuable? There seems to be a fundamental friction in the process of Impetus Trust "exiting" its support of SPOs.

## 5.7 Exit

In the venture capital industry, firms generally "exit" their investments when portfolio companies either fail or succeed through an infusion of new capital: an acquisition, merger, or initial public offering. Each of these exit events is intended to increase the

[48] On a seven-point Likert scale, the average response was just +0.19 points more valuable than neutral.

rate of growth of the venture while generating financial return to owners, including venture capital investors.

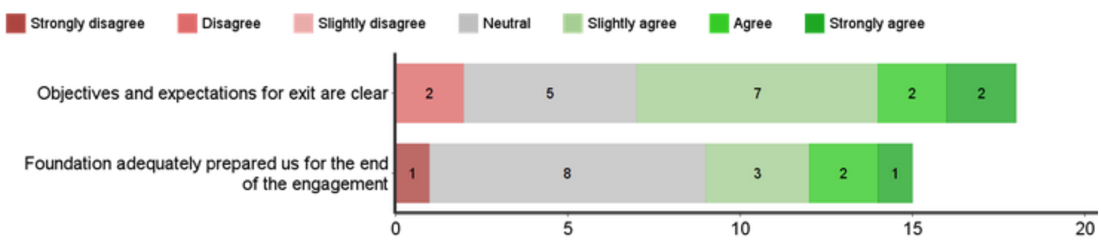
In venture philanthropy, however, exits are fundamentally different in two ways. For the venture philanthropist, exit does not generate cash returns (at least when the supported organisation is a charity, as is the case in this research project). For the supported organisation, exiting from a portfolio generally means losing a funding stream and nonfinancial supports without another, larger investment to follow on. This situation presents challenges for an SPO, and requires significant planning. This section discusses findings regarding the process of exit in a VPO portfolio; overall, exit was a fraught and evolving element of the Impetus Trust model.

Impetus Trust's founders were concerned about it:

> *We were very worried about exit. We were worried about dependence, and we were worried about getting to an exit that was good for the investee.... [W]e wanted to be clear that there was an endpoint and we'll be working toward that endpoint from day one.... It was a very simple message. — Stephen Dawson, Impetus Trust co-founder, in interview, 2015*

Nine responding SPOs had exited an Impetus Trust portfolio at the time this survey was conducted. Six SPO managers agreed to some extent that they were adequately prepared, though three only slightly agreed (Figure 5.24).

**Figure 5.24: Opinions of supported SPO managers regarding preparation for portfolio exits (n=18)**




SPO managers who felt that "objectives and expectations for exit [were] clear" also felt that they were adequately prepared for exit (Figure 5.24; rho(13) = .842, p=.00). Although this seemed an obvious finding, it pointed to a key aspect of venture philanthropy in Britain: the model's relative newness and distinct operational practices required a high degree of communication about expectations.[49]

Despite the focus on exit "from day one" that Impetus Trust co-founder Stephen Dawson discussed in interview, only four of 18 SPO managers agreed or strongly agreed that "objectives and expectations for exit are clear" (Figure 5.24). Several SPO CEOs who were still actively supported by Impetus Trust indicated that they did not think exit planning was relevant to their stage of the relationship. For example:

> *Exit planning [is] not relevant yet as we've just started the three-year post business plan phase. — Manager, SPO 9 (small, active), Survey-Q82*

> *We are early enough in the process not to consider exit planning, but the mention of it fills me with dread! — Manager, SPO 13 (small, active), Survey-Q82*

Although the concept of exit remained worrisome, some of the attendant process improved over time—with SPO managers noting the evolution of Impetus Trust's operational processes around exit:

> *We were involved at such an early stage of Impetus's life—when they were still working out what their processes were—that was mostly why it was such a tortuous time! — Manager, SPO 6 (small, exited), Survey-Q82*

> *[Exit expectations and planning have] become more robust over time. Our exit was handled well. — Manager, SPO 16 (medium-large, exited), Survey-Q82*

The cultural and financial tensions around exit were substantial. The SPO manager who gave the lowest rating of exit preparation explained:

[49] Section 4.2 highlighted this in the case of the first supported SPO.

> *We did not exit in a planned way. The whole engagement was more Impetus centric than focused on our needs. — Manager, SPO 1 (small, exited), Survey-Q82*

The fundamental challenge of exit, exacerbated by high-trust relationships and generally positive interactions between Impetus Trust and supported SPOs, was a feeling that it simply felt contrary to that long-term positive relationship—that exit was about Impetus Trust's venture philanthropy model and requirements rather than those of the SPO. This was especially uneasy when the interaction seemed successful:

> *I don't see why venture philanthropy should be all about the "exit'"—especially when things are moving forward and new growth is possible.*
> *— Manager, SPO 4 (medium-large, active), Survey-Q51*

Overall, exit remained a challenging process for the Impetus Trust model of venture philanthropy—and is perhaps the most difficult of the seven core practices of venture capital to apply to the third sector.

In the face of these challenges—and the structural differences between venture capital and venture philanthropy exits—Impetus Trust modified their model. The creation of a three-tiered model in 2013 (Section 4.3)—nine years after founding—added a potential third stage, which included substantially more funding, as a sort of internal exit event for very high-performing SPOs that Impetus Trust felt still needed support to grow.

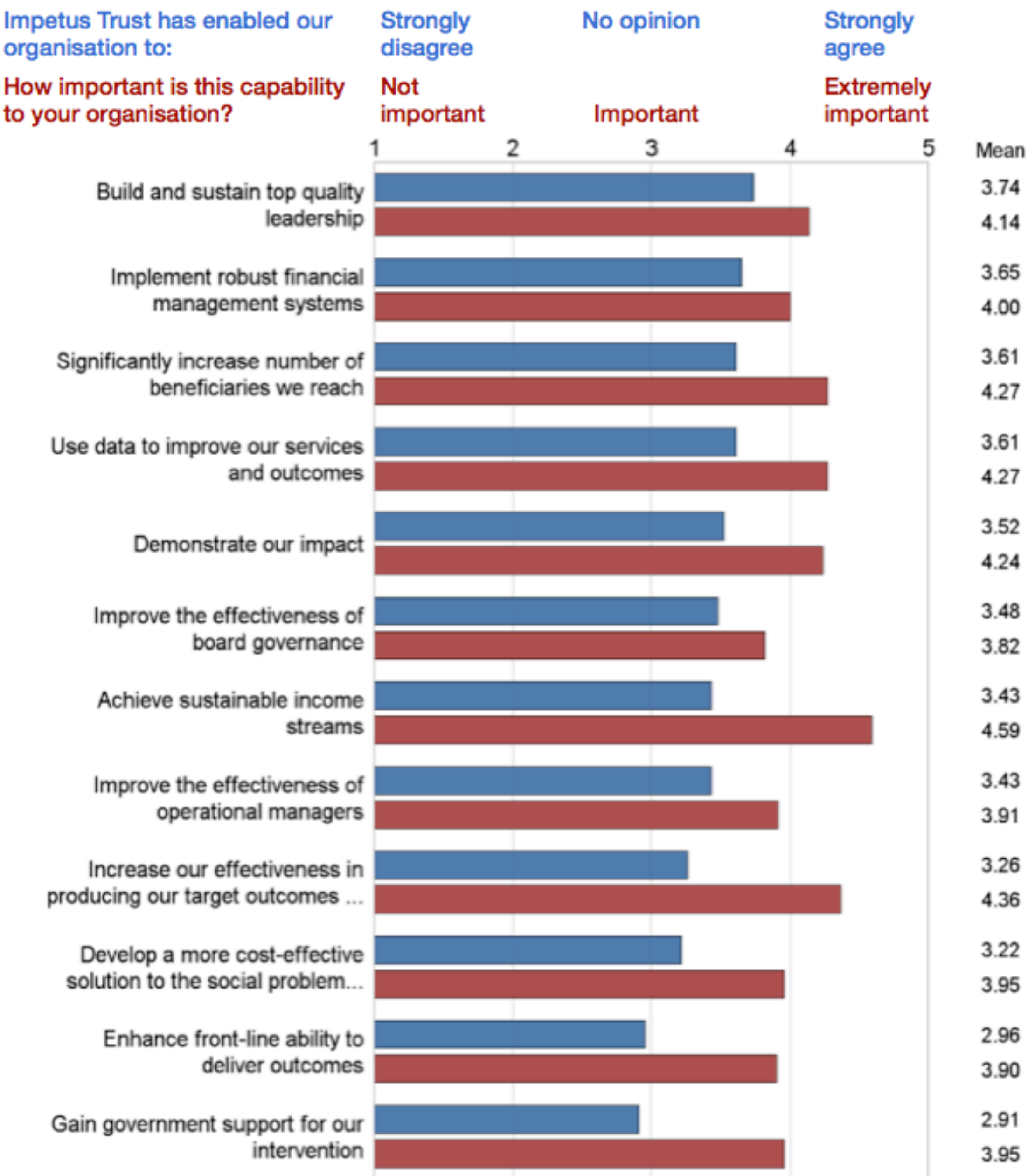
If the aim of this time-limited engagement was to strengthen charities internally, has the model worked as hoped? This chapter now turns to consider the ways in which engaging with Impetus affected SPOs organisationally.

## 5.8 Organisational Shifts in Impetus-Supported SPOs

Improving the capabilities of supported SPOs was the explicit and primary goal of Impetus Trust in its "venture philanthropy 1.0" model, and remained the key enabler of more targeted social change regarding specific social issues in "venture philanthropy 2.0". I examined two areas—whether and how Impetus Trust support changed the organisational or strategic priorities of supported SPOs, according to their own managers—to assess the impact of venture philanthropy support on SPOs. All data in this section is based on the opinions of SPO managers, as attempting to disentangle which capability or priority shifts were due specifically to Impetus Trust support based on more general indicators would be extraordinarily arduous.

Figure 5.25 includes two crucial opinions of charity managers regarding the Impetus Trust model. First, the blue bar indicates the mean level of agreement regarding whether the "relationship with Impetus Trust helped you[r charity] develop" each capability listed. Second, the red bar indicates the importance that charity managers ascribed to each capability, from "not important" to "extremely important", with a rating of three being "important". By comparing the distance between the red and blue bars, we can gain some insight into whether Impetus Trust's support matched SPO managers' assessment of the importance of individual areas of SPO capability.

**Figure 5.25: Opinions of supported SPO managers regarding the importance of various organisational capabilities and the effect of Impetus Trust support on those capabilities (n=23)**




Four capabilities were reported as *not* improved, on average.[50] Three of the areas directly concerned service delivery: effectiveness in producing target outcomes,

[50] The mean SPO manager opinions regarding improvement were not statistically significantly different from neutral.

ability to deliver outcomes, and developing a more cost-effective solution to the social problem. This was consistent with an overall perception that Impetus Trust focused more on organisational rather than social issues. The fourth area where there was no average improvement was gaining government support for the SPO's intervention, an area where networking was also indicated as relatively weak (Section 5.6).

The other eight areas of organizational capability were, on average, all statistically significantly improved due to Impetus Trust support, according to the assessment of SPO managers (see Appendix 8)—and these areas concerned organisational systems and growth. In general, SPO managers rated the importance of each area of capability as high, with nearly all averages near *very important*. Charity managers rated six capabilities as being, on average, between *very important* and *extremely important* to their organisations—these concerned SPO funding, growth, leadership, achieving outcome targets, and proving those targets had been achieved. According to the manager of SPO 11, this fit with what Impetus Trust offered:

> *Basically, Impetus was most helpful in developing improved management and measurement skills and systems at the senior level. It was not particularly focused or skilled in helping with our particular work/service delivery. Most other funders are more supportive in our specific charity work, but less so in the systems that are crucial to ensuring sustainability and demonstrating value/impact. – Manager, SPO 11 (small, exited), Survey-Q61*

This quotation exemplified the most common responses regarding Impetus Trust's relative strengths: a focus on organisational capabilities over delivery- or sector-specific capabilities. Figure 5.25 also represents areas in which there was a gap between the importance placed on a capability and the shift in that capability attributed to Impetus by SPO managers. For example, "achieving sustainable income streams" was considered the most important organisational capability to improve, with a weighting of 4.59. However, the mean opinion of managers regarding the actual improvement delivered was only 3.43: still positive overall, but rated not as strongly in performance as importance. The three other areas of substantial gap between importance and improvement were "increasing effectiveness in producing our target outcomes", "gaining government support for our intervention" and "enhancing frontline ability to deliver outcomes". This is in line with the overall finding that the SPO managers felt that Impetus Trust support was more suited to improving systems and management than it was for improving actual services. Additionally, the lack of improvement in gaining government support is in keeping with Impetus Trust's focus on building SPO capacity and providing links to other potential funders among charitable trusts and foundations. However, government bodies are by far the largest purchasers of SPO services, so the gap in providing access to government bodies and support—access that was frequently provided in the second VPO case, explored in Chapters 6 and 7—may be a substantial gap for at least those SPOs that provide contract services.

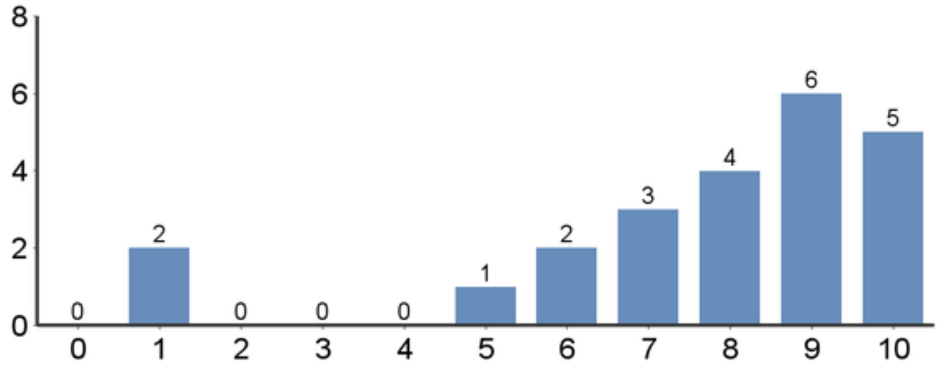
## 5.9 SPO Manager Opinions about Value for Money of the Impetus Trust Model

On average, SPO managers believed that the nonfinancial services in the Impetus Trust model provided value for money. When informed that "it costs ~£75k per annum for Impetus Trust to provide the nonfinancial support (investment team and the pro bono services) to each portfolio organisation", 18 of 23 SPO managers *agreed* or *strongly agreed* that "the 'added value' created by the nonfinancial services outweigh[ed] the cost of these services" (Figure 5.26).

**Figure 5.26: Opinions of CEOs of supported organisations regarding whether or not non-financial services provided value for money (n=23)**


SPO managers also held positive opinions, on average, when asked whether they would "recommend working with Impetus Trust to another charity based on the extent to which they have helped you grow your impact" (Figure 5.27).

**Figure 5.27: Opinions of CEOs of supported organisations regarding whether or not they would recommend working with Impetus Trust (n=23)**




Both sets of opinions correlated with the level of engagement SPO managers had with Impetus Trust. Managers that reported a higher level of engagement with Impetus Trust also reported more significantly more positive opinions on Impetus's value for money (rs(20)=.475, p=.013) and significantly higher scores regarding recommending Impetus Trust (rs(20)=.386, p=.038).

Exited SPOs had lower, but not statistically significantly so, opinions of Impetus Trust in both value for money (mean of 4.4 out of 5 for exited versus 3.9 for active) and recommendation scores (6.7 versus 8.3 for active). There are several possible explanations. These lower scores might reflect decreased response bias in the form of greater honesty amongst exited SPOs no longer worried about current relationships with Impetus Trust—although other data in this case and the next do not show systematic differences. It might also reflect "sour grapes": exited SPOs include those that were exited after only one year. Finally, the category includes the *earliest* relationships, created when Impetus Trust and its practices were still being developed, and might reflect the early stages of the VPO's practices.

Overall, most charities that engaged with Impetus felt that working with a highly engaged funder proved to be valuable. And the more engagement that SPO managers reported, the more worthwhile the managers believed the relationship to be.

The next two sections conclude this chapter by discussing the implications of this first British venture philanthropy fund and the findings of this research. There are two primary questions: how broadly or narrowly applicable is this model? And what are the sector-level effects and implications of its growth?

## 5.10 Bounds on the Growth and Applicability of "Venture Philanthropy 2.0"

### 5.10.1 SPO suitability for Impetus Trust support

It is crucially important to understand that the Impetus Trust model is not suited for all SPOs and all problems. The data in these chapters is entirely drawn from organisations that sought and were granted Impetus Trust's support. This was likely with some level of understanding of and support for venture philanthropic logics and methods. For this reason, there are likely many SPOs unsuited to or uninterested in a venture philanthropy engagement that are not represented here.

For those organisations that did receive support, there were three SPO characteristics that were broadly felt to be necessary for a successful engagement: growth-orientated management, ability to withstand the stresses of high engagement with Impetus Trust, and ability and willingness to engage with managerial and financial logics.

SPO managers broadly felt that Impetus Trust support was appropriate for growth-orientated SPOs with strong management:

> *[Impetus Trust support is suited to] organisations delivering high impact who are ready for a step change. Organisations with a great end product, but a need to "get their house in order" before growth. Organisations with a strong board and senior team. Organisations with a leader who is open to criticism and eager to learn. — Manager, SPO 21 (small, exited), Survey-Q25*

> *It definitely works for an organisation with high aspirations but a small budget, which is what we are. I don't know how it would work if the organisation didn't have high aspirations, or if the team did not include people who were prepared to put in the work required to try to deliver those aspirations. — Manager, SP0 13 (small, active), Survey-Q25*

The managers of organisations 21 and 13 indicated that to be a good fit for Impetus Trust, SPOs needed a strong core service, good management, board buy-in, and the ability and willingness to make significant changes.

Nearly all interviewees and SPO managers felt that supported SPOs needed to be able to tolerate the stresses and demands of high engagement. As discussed in several sections in this chapter, Impetus Trust's model involved substantial effort from SPOs from due diligence through to exit. These efforts were generally thought to be worthwhile, but certainly imposed costs and constrained the set of SPOs suitable for such support. Two SPO managers stressed the centrality of engagement:

> *Not all charities would be suitable to work with Impetus given Impetus's high expectations of engagement. I would be cautious about recommending Impetus without clearly also acknowledging these expectations. — Manager, SPO 11 (small, exited), Survey-Q50*

> *I would recommend Impetus to others, but with the awareness that they are not for everyone. Working with them requires effort and commitment. — Manager, SPO 7 (medium-large, active), Survey-Q50*

Supported charity managers commonly agreed that their decision to recommend Impetus Trust would hinge on the new SPOs' willingness and ability to engage (Section 5.4).

SPO managers also reported that supported SPOs must be able and willing to engage with managerial and financial logistics. In particular, one charity manager discussed the significant role of business principles and practices in facilitating growth of SPOs:

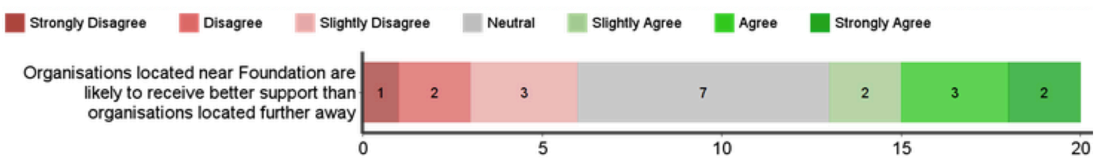
> *Impetus's aim to help translate the visionary aspect of the charitable sector work into a sound, securely business-based approach is crucial. Most start with visionary ideas and leadership but aren't equipped with business, operational, and marketing skills to expand and survive. — Manager, SPO 9 (small, active), Survey-Q25*

The manager of SPO 9 described many of the distinctive aspects of venture philanthropy support—and the constituent expansion of SPO capabilities via funding, engagement, nonfinancial services, and networking. Beyond the SPO characteristics just discussed, access to Impetus Trust and similar funders had spatial constraints.

### 5.10.2 Geographical challenges and London bias

Managers of eight SPOs supported by Impetus Trust believed to some extent that its model worked more effectively for SPOs located in London (Figure 5.28). This is in line with venture philanthropy's "parent" field, venture capital. In several types of early stage venture capital funding in its first two decades, providers were spatially concentrated in major cities (Martin, 1989), and their support and monitoring yielded a spatial proximity bias, in which investors primarily supported nearby firms—this was stronger with newer firms and smaller firms (Cumming & Dai, 2010; Hall & Tu, 2003). In this research, SPO managers on average did not produce a strong opinion on this question, but 7 of 20 of them agreed to some extent that there was a London bias in the support Impetus Trust offered (Figure 5.28). Additionally, some SPO managers reported London-centrism in their interview responses.

**Figure 5.28: Opinions of CEOs of Supported Organisations regarding the Impact of Distance from Impetus Trust on the Quality of Support Received by SPOs (n=23)**




The friction of distance in working with Impetus Trust and spatially constrained availability of services proved challenging in several core areas: networking, pro bono service provision, and engagement with Impetus Trust staff.

Several factors contributed to Impetus Trust having London-centric networking support: its offices and staff are located there, as are the headquarters of many corporations that provide pro bono support, and other trusts that fund SPOs. As discussed by the managers of SPOs 13 and 21:

> *[We received] exposure to London-based business people and [celebrities]…. — Manager, SPO 13 (small, active), Survey-Q53*

> *Networking opportunities could have been even better had there been any activity out of London. It was timely and costly for charities outside London to take full advantage of this. — Manager, SPO 21 (small, exited), Survey-Q59*

Beyond the locations of corporations, trusts, and government, nearly all Impetus Trust staff and both founders were London-based in previous jobs, and brought those networks to Impetus Trust. Those same features: Impetus Trust's location, corporate locations, and personal network density led to a similarly London-centric availability of pro bono services:

> *Not very useful for non-London-based organisations as most pro bono support is there. I have wider networks than Impetus although I met some new people—very London centric again. — Manager, SPO 1 (small, exited), Survey-Q59*

The manager of SPO 1 indicated that pro bono support and networking opportunities, both of which share a reliance on the personal and professional networks of Impetus Trust, were limited outside of London. A trustee of Impetus Trust agreed with many SPO managers that engagement with Impetus Trust staff was more challenging at distance:

> *Impetus [supports an SPO in a city more than 100 miles from London] and it's not gone that badly, but the factor of their being in [that city] I think was a much bigger problem than anticipated. Just in terms of getting the help they need, and they get far less help from associates. They get far less face time with Impetus and I think the relationship is a bit more distant. — Impetus Trust trustee, interviewee 7, 2012*

The manager of that SPO agreed:

> *Our relationship with Impetus did not work well.... We now find our own advisers from recommendation. [Those advisers] are generally more local to us and have direct experience of our type of activity. — Manager, SPO number withheld[51] (small, exited), Survey-Q61*

While SPO managers generally felt like they had a high degree of engagement and interaction, the concentration of Impetus Trust staff and many pro bono providers in London created frictions of distance for some.

## 5.11 Concluding Remarks

This chapter explored the practices of Impetus Trust, the first British organisation to adopt—and adapt—venture-capital-style practices to venture philanthropy. Intentionally, Impetus Trust has played a central role in defining and promoting venture philanthropy as a sub-industry of philanthropy. By collecting and analysing data from the managers of Impetus-supported SPOs, this chapter found evidence that Impetus Trust acts in a manner consistent with its definition of venture philanthropy. Founded by veterans of the venture capital industry, Impetus Trust has translated core practices from private sector venture capital to the third sector: it is seen as an unusually engaged funder, provides substantial nonfinancial support services to the SPOs it supports, provides financial support over a multi-year period, and attempts to provide networking connections to the SPOs it supports.

These findings further inform my first research question regarding how and why venture philanthropy has developed in Britain, and provides the most comprehensive case yet in the literature regarding my second research question: what are the practices of venture philanthropists, and are they similar or different from the practices of venture capital? Lastly, my third research question, whether or not the putatively value-adding services of venture philanthropy are valued by recipients, was informed by the opinions of supported SPO managers. Those opinions indicated a general level of satisfaction with the venture philanthropy model, and indicated substantial value (and value for money) for many but not all of those practices, on average.

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[51] The SPO number is not revealed for this quotation to assure anonymity of the respondent.

Overall, my findings indicate a bounded but meaningful role for venture philanthropy funders in the British third sector. Its limited nature is due to several factors: The VPO model was best suited to a sub-set of SPOs with growth orientation, hard outcomes, and ability and willingness to operate with managerial and financial logistics (recall that it took contact with 2000 charities to select the first 26 that Impetus Trust supported). The SPOs found it challenging to work with a highly-engaged funder; its demands for time and information were deemed substantial and entailed high costs. Despite the increased flexibility of the venture philanthropy funding timeframe in Impetus Trust's model, some SPO managers remained anxious about the process of exit or were critical of the exit process. Impetus's perceived London-centrism, especially regarding the pro bono service providers, limited its reach.

Over the first decade of its existence, the Impetus Trust model shifted in response to the needs and pressures of the third sector organisations—mostly charities—that it supported. One result was the adoption of a 9–12-month first phase to conduct due diligence and set expectations of high engagement. Another was the creation of a third "phase" of funding for highly successful grantees, further increasing support rather than exiting relationships.

Keeping in mind those constraints, my research also finds a meaningful role for venture philanthropy funding. First, Impetus Trust is believed to create evidence of SPO quality for its grantees. This is a costly process, but those signals are rare and valued in the third sector—and numerous SPO managers indicated that other foundations considered Impetus Trust signals in selecting grantees. Second, the fundamental concept of venture philanthropy appears, overall, to function: applying the seven core practices of venture capital to this sub-set of third sector organisations was found to be valuable by those organisations. Third, the unusually high levels of engagement, including monitoring and joint planning, was found to create greater levels of trust and information exchange than is usual in funder–grantee relationships. The resulting information on SPO practices was then shared with other funders and supported SPOs. On the balance, this model of venture philanthropy generates valuable results in signalling and information exchange in addition to SPO-level capability improvements.

Although this project goes some way to addressing the gap in geographers' understanding of the geographical and practical implications of a growing and shifting philanthropic landscape (Hay & Muller 2014), the extent to which venture philanthropy practices can be transferred wholesale to the broader third sector remains an open question. The founders and managers of Impetus Trust joined supported SPO managers in pointing out that Impetus Trust's focus on expanded SPO impact made its support appropriate for only *some* areas of social service provision, generally those with measurable outcomes. I address these issues in my discussion (Chapter 8).

That said, other funders of social services are rolling out individual aspects of the seven venture capital-based practices embodied in Impetus Trust model. This includes trusts and foundations—and government bodies. Many of these practices are in line with those of public management (Section 2.2), and are increasingly prevalent in a British context where government grants to SPOs continue to shrink even as contracting increases. I will now shift focus to examine a second case, which represents a new and emerging model of government-supported venture philanthropy. This raises new questions about the further evolution of methods to fund social services and the roles of private and public resources in that process.

# 6 The Emergence of the First Government-Supported VPO, Inspiring Scotland

Inspiring Scotland, my second case study, is a new model of government-supported venture philanthropy. This chapter explains the context of its emergence, and its close relationship with the Scottish state. I focus here on the origins and distinctive features of such a model, addressing my first and fourth research questions. Chapter 7 then analyses data on the effectiveness and value of this model, and its broader, sector-level impacts, addressing my first, second, and third research questions.

Founded in Edinburgh in 2008 by a banker-turned-foundation head, Andrew Muirhead, and a seconded[52] civil servant, Helen Chambers, Inspiring Scotland has grown to become one of the largest venture philanthropy organisations in the world, having distributed approximately £45 million through 2013. Uniquely, most of that money (£35M) was public money. Like Impetus Trust, Inspiring Scotland was a pioneer, but where Impetus Trust was a geographical pioneer, moving an existing North American model to Britain, Inspiring Scotland pioneered multiple new models within its venture philanthropy funds. This did not occur in a vacuum: Inspiring Scotland was created after studying American, British, and Australian venture philanthropy models.

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[52] A secondment arrangement is the temporary assignment of an employee to a different department, office, or organisation.

Inspiring Scotland is an especially useful case because its government-supported work is unique in degree and design, addressing my fourth research question. This is of interest in a time when, despite austerity measures, governments increasingly provide risk and growth capital to organisations with potential to grow—more than a third of European venture capital investment now comes from public funds, according to data from the European Venture Capital Association (as cited in "Venturecrats", 2012). Inspiring Scotland provides a lens to examine the organisational instantiation of these broader trends as well as presenting novel operational practices.

## 6.1 Overview of the Inspiring Scotland Model with Comparisons to the Impetus Trust Model

Inspiring Scotland differs from Impetus Trust in several meaningful ways: its funding, its founding and context, the design of its funds, and the design of its portfolios of charities. Each of these is investigated in this chapter.

Inspiring Scotland is a civil society sector funder that, like Impetus Trust, is characterised by high-engagement venture philanthropy. At the time this fieldwork was conducted, mid-2013, the organisation's 18 staff members supported 70 SPOs with an annual budget of approximately £15 million. Inspiring Scotland had run four major funds as of mid-2013, each focused on a particular social issue (Table 6.1). Inspiring Scotland created these funds by setting clear social impact goals with the initial investors, including the Scottish Government. These initial goals were then further specified with baseline research conducted by Inspiring Scotland, investors, and commissioned think tanks. Research focused on the scope and location of the social issue, including the other actors and processes involved in the problem.

**Table 6.1: The first four funds created by Inspiring Scotland**

| Fund name | Grants via fund (total £ through 2013) | Years active | Number of ventures | Description and goal |
|---|---|---|---|---|
| 14:19 Fund | £27m<br>(£17m public, £10m private) | 2008–2018 | 24 | Help young people aged 14-19 transition from school into employment, education, or training. Targets approximately 32,000 young people in the most challenging situations. |
| Go Play Fund | £4m public | 2010–2012 | 27 | Build capacity of the Scottish play sector to provide more opportunities for free play to children aged 5–13. Extended 2013-2016. |
| Early Years Early Action (EYEA) Fund | £10.2m public | 2011–2013<br>(18 months) | 24 | Early support and preventative programmes for young children in vulnerable communities: maternal health, parenting support, childcare, and play. Focused on organisational capacity, particularly increasing service delivery volume. |
| Go 2 Play Fund | £1.9m public | 2012–2015 | 8 | Offshoot of the Go Play Fund. Provide free play opportunities to children in disadvantaged communities, primarily one intervention strategy found to be effective during Go Play Fund. All ventures were in the Go Play Fund. Another eight ventures not in fund received capacity-building support. |

The Inspiring Scotland operational model, like those of Impetus Trust and most other European VPOs, involved frequent contact with SPOs, provision of strategy and advice, business support services (from paid and pro bono sources), and close monitoring and evaluation. Of the 18 staff, 10 were “performance advisors” (very similar to Impetus Trust’s “investment directors”) whose primary responsibility was working with SPOs. The remaining 8 staff were managers and administrators. As seen in Table 6.1, there was substantial variation between funds in the average amount of grant funding disbursed to SPOs; there was substantial within-fund variation, much like that seen in the Impetus Trust model, which I discuss in Chapter 7.

There are also important differences in the two VPO operating models, which I examine starting with Table 6.2. I argue the most distinctive operational elements of the Inspiring Scotland model are in-depth initial research into the geography of need and potential interventions, deliberate construction of portfolios around clearly defined service areas to build organisational and regional capacities, the creation of denser networks amongst charities in the same portfolio, set durations for some funds (all SPOs are selected and exited in a group), and the distribution of VPO staff across the regions in which supported SPOs work.

**Table 6.2: The Inspiring Scotland (government-supported) venture philanthropy model compared to that of Impetus Trust**

| Practice | Impetus Trust case | Inspiring Scotland case |
|---|---|---|
| Sourcing and selection | Deals sourced through active search, mostly through personal and professional networks. Open application exists but rarely successful. Rolling admissions into fund. | Funds selected all at once. Sourcing through open application, with active search by VPO and partners. Focus on how portfolio SPOs might interact. |
| Due diligence | 12-month period of strategic planning at the beginning of relationship. Costly in time and funding. Aim is to provide value even if SPO is not funded after 12 months. | VPO-provided consultants assist SPOs during their application to join a fund. Costly in time, some consultant fees. Aim is to provide value even if SPO is not funded. |
| Engaged relationship and monitoring | Frequent and close interaction with VPO staff. More than other SPO funder types. Quarterly in-person meetings to evaluate performance. Shares best practices among SPOs. | VPO staff are organised and based in regions. Frequent and close interaction with VPO staff. More than other SPO funder types. Quarterly in-person meetings to evaluate performance. Share best practices among SPOs in structured, mandatory events. |
| Provision of funding | 5% of SPO annual budget, on average. Usually unrestricted. Focused at the organization level and longer-term. Multiple stages of funding possible. | 15% of SPO annual budget, on average. Usually unrestricted. Focused at the organization level and longer-term. Funding duration set at outset of relationship in most funds. |
| Provision of non-financial support | Substantial. Average SPO reports receiving 10.5 different types of nonfinancial services. Approximately half of services from pro bono professionals. Spreads practices across SPOs. | Substantial. Average SPO reports receiving 9.2 different types of non-financial services. Approximately one-sixth of services from pro bono professionals/firms. Spreads practices across SPOs. |
| Creation of network linkages | Most frequent links are with professional service firms, other portfolio SPOs, other trusts, and corporates. Links within portfolio not a core focus. No all-portfolio programs. | Most frequent links are with other portfolio SPOs, professional service firms, other trusts, and government. Links and collaboration within portfolio are a core focus; all-portfolio programs support this. |
| Intentional exiting of relationships | Exit goal is sustainability of SPO. Exit on a per-SPO basis. Best performers receive continued support. | Exit goal is sustainability of SPO. Exit on the fund schedule, all at once. (First fund was per-SPO exits.) Created additional follow-on fund in one case. |

Each of these seven operational areas are examined in depth in Chapter 7. The remainder of this section will focus on the context in which the model arose, the institutions and individuals involved in its founding, and how those combined to generate several distinctive characteristics.

## 6.2 The Development of the Inspiring Scotland Model: Critical Concepts and Contexts

### 6.2.1 Building on Australian and American venture philanthropy models: A focus on portfolio structure and government support

The design of Inspiring Scotland, as described by its founding CEO and in documents created by both the Scottish Government and Inspiring Scotland, borrowed heavily from venture philanthropy organisations in the United States and Australia. In 2006, the founding CEO of Inspiring Scotland, Andrew Muirhead—at the time CEO of the Lloyds TSB Foundation for Scotland—spent time as a visiting fellow with an Australian VPO; he also visited American VPOs. In an interview, he related a key realisation from his time in Australia:

> *They were supporting 19 charities in their portfolio.... There was no strategic cohesion linking 19 great social entrepreneurs. And they were being supported by a very smart bunch of people... I'm not being critical of that, but I felt that there was something missing.... [I]f you can find 19 organisations or however many organisations that are focused around a single issue, can you get more leverage out of that? Can you find more ways to make that deliver more strategically against the issue? — Andrew Muirhead, Inspiring Scotland chief executive, in interview, 2011*

The founder's reaction was to take the existing venture philanthropy models, with their characteristic seven operational practices, and attempt to add a clearer portfolio-wide goal. The founder's critique of the Australian VPO influenced him to create a fund that was more issue-focused—like some private sector venture capital models—and attempt to build organisational expertise in a focused area. While shifting closer to typical VC levels of area focus, the incipient Inspiring Scotland also departed from private sector venture capital by capitalising on a fundamental difference between the private and third sectors: in the private sector, the successes of similar organisations tends to result in increased competition, and in many VC-supported industries intellectual property and distinctive firm processes are a key source of competitive advantage (Section 2.6.2). In the third sector, though, with the shared goal of a social outcome, there are remarkably few barriers to cooperation. Indeed, being replicated provides a high level of cachet to organisations and their funders. The recognition of that difference was one key element in Inspiring Scotland's conception.

The other most distinctive element was the level of government support. The co-founders had strong feelings about the possibility of combining the venture philanthropy model with public resources: Muirhead had experience managing a partnership with the Scottish Government and Helen Chambers was a Scottish civil servant seconded to Lloyds TSB Foundation for Scotland. There were others in the third sector funding world, though, who disagreed, said Andrew Muirhead:

> *We overcame very significant pockets… of resistance to government being involved, you know, really on the basis that, if you bring in government you'll lose all of the flexibility, when you know, government are probably the most pragmatic and empowering partner, investor you can ever imagine in Scotland. — ibid.*

It is worth noting that Muirhead contrasted the Scottish state with cross-sectoral relationships and power balances in Australia, pointing out the risk of government reprisals towards SPOs considered to be critical of the government:

> *In Australia, I was absolutely appalled by how immature government was at that time. It may be different now. But you know, if a story hit the press where it could be traced back to a charity, even though it had been something quite innocuous, if that story impacted negatively on a senior politician they would just cut the funding line off like that [snaps fingers]. You know, the power imbalance was very poor. — ibid.*

Due to the durable and trusting relationship between the Lloyds TSB Foundation for Scotland and the Scottish Government, favourable economic and institutional conditions, and Muirhead's own high levels of personal relational and reputational capital, the Inspiring Scotland model was implemented in 2008.

### 6.2.2 Scotland, the Scottish Government, and the Scottish third sector

Scotland, as part of the United Kingdom, is governed by a combination of the UK government, the national Scottish Government, and subnational government structures. The UK government is responsible for taxation, benefits, defence, and foreign affairs. The Scottish Government takes on the remaining roles of the state, but does not directly deliver social services. Subnational bodies—32 local governments and 14 health boards—deliver social services directly.

With a budget of £29.3 billion, and serving a population of just over 5 million, the Scottish Government's responsibilities are exclusively in the domestic arena: health, education, transport, justice, and rural affairs (Scottish Government, 2012). In the years of interest here, the government's work was largely dictated by a two-page National Performance Framework that outlined 16 national objectives and 50 national indicators (Commission on the Future of Public Services, 2011; Scottish Government, 2011). For example, the objective of "improv[ing] the life chances for children, young people and families at risk" might be tracked with the indicators that "increase the proportion of pre-school centres receiving positive inspection reports" and "increase the proportion of young people in learning, training or work" (Scottish Government, 2011, p. 1-2).

Since its founding in 1999, the Scottish Government has considered the 23,500 charities and trusts that comprise the third sector as major actors in developing and providing social services (Office of the Scottish Charity Regulator, 2012), an important prerequisite for the creation of Inspiring Scotland.

The Scottish Government has supported the development and expansion of the third sector in numerous ways across most levels of government. In addition to direct contracting of services, the Scottish Government runs a number of programmes aimed at supporting the third sector in delivery of social services, building the capacity of third sector organisations, developing programmes and markets in which these organisations can operate, and consulting at all levels of government.

The Scottish Government has promoted professionalisation, standardisation, and better understanding of the third sector. For example, to explore the challenging issue of whether, how, and to what degree the impact of social services should be measured (discussed in Section 2.6.2), the Scottish Government commissioned the Social Return on Investment (SROI) project in 2008 alongside the UK government's Measuring Social Value project. Both projects aimed to standardise systems for measuring social value creation and to encourage the broader use of those standards. The foreword of a major report on that effort, signed by the UK Minister for the Cabinet Office and the Minister of the Third Sector, typifies the language used by both the British and Scottish governments:

> *Government wants to strengthen the already powerful impact of third sector organisations in our economy.… As we face tough economic times, it is now more important than ever that we allow for better recognition of those who create social and environmental value, leading to more efficient movement of resources to the right people, in the right place, at the right time. (Cabinet Office of the Third Sector, 2009, p. 3)*

The Scottish Government developed several initiatives and tools to support the third sector, including a database of social impact indicators and a series of reports and action plans for social service delivery.[53] This indicates a broad set of policy and funding decisions aligned to support the third sector as a preferred partner in service delivery and contracting, with a focus on evidence.

The language, actions, and programmes of the Scottish Government underscore a shared assumption: the third sector is a desirable element of society that offers benefits in providing effective social services not otherwise available by public or private sector actors at the same quality or cost.

Inspiring Scotland was designed with the intention of delivering effective social services through charities, and doing so by addressing challenges and opportunities created by the constitution of Scotland's voluntary sector, which was (and remains)

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[53] These include: Better Health, Better Care (Scottish Government, 2007); Enterprising Third Sector Action Plan (Scottish Government, 2008); Equally Well (Scottish Government, 2008); Joint Statement on the Relationship at Local Level between Government and the Third Sector (Scottish Government, 2009b); Improving Outcomes by Shifting the Balance of Care (Scottish Government, 2009a); and The Healthcare Quality Strategy for NHS Scotland (Scottish Government, 2010).

primarily comprised of charities that are small scale and locally based. Geographically, 75% of all charities in Scotland worked exclusively domestically. Of those, the majority worked at a neighbourhood-or-narrower spatial scale, and only a small minority work in more than one local council area (Office of the Scottish Charity Regulator, 2012).

As in many Western nations, the vast majority of charity income went to a relatively small number of larger organisations. Total third sector income in Scotland was £9.43 billion in 2011—charities and trusts composed £4.97 billion of that (the remainder went to housing associations and credit unions). The 5.3% of charities with incomes greater than £500,000 per year received 91% of that £4.97 billion (Office of the Scottish Charity Regulator, 2012).[54]

These larger charities were also much more likely to receive state funding, and obtained a greater proportion of their income from statutory sources (such as contracts and grants) than smaller charities. Based on regulatory data, Scottish charities that had incomes greater than £100,000 received 44% of their funding from statutory sources. According to a study of 942 Scottish charities, those with income greater than £100,000 received 57% of all their funding from statutory sources, on average, while smaller charities received 18% of their funding from the state (Office of the Scottish Charity Regulator, 2012).[55]

In addition to different funding relationships with national and local government, size has a major impact on the value organisations place on different types of funding. When asked what makes a funding source important, most (67%) large organisations indicated that total size of the income stream was most important. Smaller organisations had different priorities, likely reflecting smaller organisational capacity: 66% of the small organisations said that the ability to secure the funding with minimal

[54] This excludes 756 charities that operate in Scotland but are registered with the Charity Commission of England and Wales. The excluded organisations contain at least some very large charities: the total income of the excluded charities is nearly £10 billion.

[55] The larger charities received 25% of their funding through fee-for-service contracts with government and nearly one-third through grants and service-level agreements (usually programme-specific grants). The smaller charities received less than a tenth of their income from either source.

cost effort was most important, compared to 1% of larger organisations (Office of the Scottish Charity Regulator, 2012).

In the face of massive variation in size, geographical focus, and capacity amongst third sector organisations, the Scottish Government faced formidable challenges in supporting their growth and development.

### 6.2.3 Five factors contributing to a favourable environment for Inspiring Scotland's founding

This section considers the contextual and institutional reasons for the founding of Inspiring Scotland, with a focus on its novel relationship with the state and the high level of autonomy it exercised. Five factors contributed to the favourable environment in which Inspiring Scotland was founded: an existing high-trust relationship between the Scottish Government and the Lloyds TBS Foundation for Scotland,[56] which was representative of a positive level of cross-sector respect in Scotland; close network links between Inspiring Scotland's founders and leaders in business, government, and philanthropy; the small size of the Scottish Government; institutional incentives for philanthropists and civil servants to support innovative ideas; and the favourable economic and public funding environment at the time.

First, the Scottish Government and Lloyds TSB Foundation for Scotland had developed a strong relationship over the previous decade. That foundation, funded annually by approximately 0.2 per cent of the gross profits of Lloyds Banking Group, began to work closely with the Scottish Government in 1999 on the issue of drug abuse among children and young people. Over the next decade, and continuing as of late 2011, the Partnership Drugs Initiative resulted in increasing levels of trust, operational cooperation, and government funding.

At the launch of the Partnership Drugs Initiative in 2001, all funding came from the Lloyds TSB for Scotland Foundation and the Scottish Government provided a

[56] Recall that Inspiring Scotland's founding CEO, Andrew Muirhead, was previously CEO of the Lloyds TSB Foundation for Scotland.

seconded civil servant as the initial manager of the programme.[57] Within a year, though, the Partnership Drugs Initiative received significant funding from both the Scottish Government and a private charitable foundation, and the government established an "expert panel" with representatives from all three sectors (Paul Zealey Associates, 2006).

That relationship was illustrative of what Muirhead described as a high level of respect between and among the private, public, and third sectors:

> *In Scotland, I think that there are sufficient reservoirs of respect between the three sectors.… You've got a public sector that has got respect for the other two sectors and all the way around that circle. You've got to have the charitable sector not thinking that every bit of wealth creation is inappropriate and without credibility, and you've got to have a private sector that doesn't believe that because it earns profit, it's everything. And you've got to have a government sector that has great humility. — Andrew Muirhead, Inspiring Scotland founding chief executive, in interview, 2011*

Muirhead continued to explain that at a personal level, he came with third sector credibility:

> *I came to this from a philanthropic background, from a voluntary sector background.… I was never a captain of industry.… So I was coming from within, and the organisation I ran previously [Lloyds TSB Foundation for Scotland] had a very high reputation for the work it did, had a very strong track record of capacity building and growth.*
>
> *… I guess I did have a lot of personal relationships that I could start out, you know, working from. —ibid.*

In addition to cross-sectoral respect and cooperation, the co-founders leveraged powerful personal networks within government and among wealthy individuals.

[57] Initially, the Scottish Government provided a "commitment to the concept" of state funding via a requirement for local Partnership Drugs Initiative teams to secure matching local government funds (Paul Zealey Associates, 2006, p. 7).

These personal networks were influential in the government and philanthropists taking risks at a greater level in supporting Inspiring Scotland. A senior civil servant agreed:

> *Scotland's very much a country of networks. I think people know each other. It's quite intimate in that respect, so Andrew's network's a quite powerful force in mobilising support for Inspiring Scotland. —Director-level civil servant, Scottish Government; Interviewee 13, 2013*

Third, the relatively small size of the Scottish Government (at the executive and local levels) helped permit the launch of Inspiring Scotland:

> *What is it that lent itself to the Inspiring Scotland model? Scale, I guess. I mean, [Scotland]'s a complex place, but it's not enormous.*
>
> *With 32 local authorities, it is actually possible to get them all into one room and to have an Inspiring Scotland representative or representatives talk to them. So it is possible to do it, but I should imagine at some point scale makes it rather more difficult. — ibid.*

This scale allowed for a national programme to be proposed by two high-reputation co-founders with networks across sectors and for that proposal to be eagerly received by the then-Scottish Executive,[58] which had itself been exploring multi-sector approaches to social problems.

Fourth, organisational philanthropy as exercised by foundations and wealthy individuals often favours pilots, experiments, and "new" projects and programmes (e.g. Overholser, 2002). This hearkens back, in part, to the concept that civil society is an arena to test and experiment, to find new practices and concepts to be expanded by government (Frumkin, 2006). It is also one of the fundamental justifications for venture philanthropy: that the preference for seed and pilot funding has yielded a systematic under-provision of infrastructure and growth capital in civil society (Letts & Ryan, 2003; Letts et al., 1997). This experience was borne out to a degree with Inspiring Scotland—as a founding member put it:

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[58]The devolved Scottish government started out as the Scottish Executive, but the name was changed to Scottish Government by the Parliament of the United Kingdom in the Scotland Act 2012.

> *Selling a concept in many ways is easier than selling something that's tried and tested. Our early adopters were buying nothing ... a vision, a model, a set of principles, a set of goals, ... something that, you know, hadn't been done before. And that was a more successful fundraising proposition than selling somebody something that's happening, something that's evidenced, something that's real. — Founding senior manager, Inspiring Scotland; Interviewee 20, 2013*

The launch of Inspiring Scotland was facilitated by a problematic bias toward seed funding that Inspiring Scotland hoped to address, in part, through its longer-term funding model. Further, the professional incentives for career civil servants also seemed strongly biased toward trying riskier or novel approaches. Frequent shifts in role and portfolio for Scottish Executive civil servants reduced individual accountability for failed endeavours. Supporters of new programmes in government reaped the benefit of being seen as innovative and forward-thinking, but were unlikely to still be in place when final evaluations of those programmes are complete. In the case of Inspiring Scotland, none of the initial government champions of the first two completed funds were still in a role of direct responsibility for those funds when they concluded after three and two years, respectively.

The decisions to embark on a risky course of action, as many novel or innovative concepts entail, is further aided by a diffuse power structure within the civil service. Decisions are taken in consultation with several layers of government, as laid out by the same early champion of the 14:19 Fund:

> *The hierarchy of the UK civil service and Scottish civil service means it's rather difficult to pin down who takes the decision—and I say that with slight tongue-in-cheek—but nonetheless, I remember promoting this actively to senior colleagues.… [I]t's a bit difficult to define who takes the decision.… Ultimately ministers take the decision about where to deploy public funding. —Director-level civil servant, Scottish Government; Interviewee 13, 2013*

Finally, the timing of the idea for Inspiring Scotland facilitated government support. The 2006–07 formation and founding period coincided with a growing economy and government budget. This, combined with the other factors, allowed for the creation of a new budget item for Inspiring Scotland. According to another director in the Scottish Government at the time:

> *I think at the time ... we were able to cut corners and just say Inspiring Scotland is a brand-new organisation, it was born of Lloyds TSB Foundation. We knew the individuals involved and I think our advice to ministers said back and forth, "It's worth it, it's really exciting. There's some evidence in Australia, blah-blah-blah-blah." And, I don't think we were constrained at all. We said, "Let's just do it, let's seize that moment and just do it." —Director-level civil servant, Scottish Government; Interviewee 14, 2013*

Of course, the favourable economic and public funding conditions that expedited the creation of Inspiring Scotland were not to last. The credit crisis of 2008 likely affected the ability of Inspiring Scotland to raise funds, although the extent of that impact is not measurable here. That said, from 2008–13, Inspiring Scotland's annual funding from the Scottish state increased from £4 million to £11 million. Private funds, though, held relatively steady at £2–3 million per year—not meeting the initial aims of a more equal public–private funding blend. The implications of the financial crisis of 2008 and resulting austerity are considered in Chapters 8 as they pertain to this model; however, Inspiring Scotland was designed and founded pre-crisis in a time of relative prosperity.

### 6.2.4 Priorities of the Scottish Government relevant to Inspiring Scotland's founding

Inspiring Scotland's first fund was the 14:19 Fund, focused on supporting the transition from school into training, education, or employment for 14–19-year-olds. This first fund combined governmental and private priorities with a modified version of the venture philanthropy operational model. I examine the constituent relationships, arrangements, and practices, as the genesis of that founding is critical to understanding the eventual model created by Inspiring Scotland. Similarly, the intellectual and historical drivers for the Scottish Government's involvement in creating the 14:19 Fund is of chief theoretical and practical importance in understanding the extent to which this model might inform or influence broader systems of public management and service provision.

In 2006 and 20007, while the Lloyds Foundation chief executive was developing the Inspiring Scotland model, the Scottish Government was interacting with a cross-sectoral group of experts and philanthropists around the challenge of young people not in education, employment, or training (NEET). A key civil servant involved in this programme—and subsequently in the creation of the 14:19 Fund—became a champion of the Inspiring Scotland concept to ministers:

> *... I began to understand, in the educational field, the attraction of multi-agency approaches and multi-layered solutions ... the government with local authorities, with the third sector, with Scotland's business community. And there was an air of novelty about this work. The government [and] ministers were keen to see things done differently, and so, for example, the team that I was leading straddled two departments. —Director-level civil servant, Scottish Government; Interviewee 13, 2013*

The civil servant's narrative echoed several key themes from Section 6.2.3: previous initiatives built trust and the risk tolerance of politicians and civil servants, there was a readiness and eagerness to try new strategies, and they had a successful recent history of cross-sector approaches. The expert group invited third sector participants and commissioned research, which led the group to several conclusions.

> *We concluded that there are a number of flaws in the government's relationship with local, with the third sector. ... As I watch from afar since then, you can see a number of those approaches being fixed with an attempt to consolidate, help the sector ... with greater certainty over funding. — ibid.*

The government-related group had recognised a clear social problem and had developed a preference for working with the voluntary sector to address that problem. Crucially, the group was aware of existing problems in the relationship between government and the voluntary sector, and wanted to find a way to address those issues. The timing, according to the civil servant, was opportune.

> *Along at that time came in Inspiring Scotland to say, "We've got a solution for all these things. I mean, we'll manage this for you and if you put some money into this it ... will lead to money from others. We're going to run it on the venture capital principles, but, you know, we'll call it venture philanthropy and so we'll be able to secure all of your high net worth people. They'll be interested in it, too. But we're just looking for a problem to solve." — ibid.*

The Scottish Government had a social issue target and a desire for novel cross-sectoral arrangements. The newly founded Inspiring Scotland had not yet found its social issue, but had an organisational model for managing cross-sectoral social engagements.

> *So I say, "... there are, you know, legions of charities.... We don't really know who to pick. How can you manage it for us?" ... I can remember very clearly in the [government] building up the road when I said, "If we do this, we commit our money, can we have this?" Because I really wanted to buy this. — ibid.*

I have examined the narrative and proximate factors for both the development of Inspiring Scotland's model and for the initial decision by the Scottish Government to fund Inspiring Scotland. In particular, fortuitous timing, cross-sectoral trust, personal relationships, clear national social targets and a receptive government with recent experience of cross-sectoral success were critical in founding Inspiring Scotland with such a close relationship with the Scottish state. The next section considers the perspective of Scottish Government officials involved in Inspiring Scotland's founding.

## 6.3 Five Features of the Inspiring Scotland Model that Appealed to the Scottish Government

By bringing together interviews of all the major actors involved, it is possible to clarify and triangulate the reasons that the model was appealing to government actors—critical to answering my first and fourth research questions. There were five features of the model, as initially proposed, that disposed the Scottish Government to support the creation of the first fund: financial leverage, additional ability to support SPO capacity-building, the addition of a political buffer in SPO funding choices, the potential for improved information from SPOs, and the creation of data regarding SPO efficacy that would aid in government decision making.

First, one of the most appealing elements to the Scottish Government was Inspiring Scotland's plan to leverage government money by combining it with private and corporate philanthropic money. Since Inspiring Scotland was focused on a topic chosen by the Scottish Government (and confirmed in conversation with Inspiring Scotland's founders), any leverage increased resources flowing to a government priority. According to one director in the Scottish Government:

> *We had, you know, some pretty solid assurances from Inspiring Scotland on what additional private sector finances they'd attract and the third sector, for its part, would have the guarantee, you know, of continuity of funding over an extended period to allow them to plan all the things they weren't able to do through annualised funding. —Director-level civil servant, Scottish Government; Interviewee 13, 2013*

Overall, as will be discussed, the leveraging of additional private resources by the VPO towards government-chosen social targets was substantially lower than envisioned, approximately £2 million per year for the 14:19 Fund as opposed to the planned £4 million.

Second, Inspiring Scotland developed several capacities that the government did not have (or chose not to develop). Among them are in-depth sourcing and selection of charities in a given area of work, developing long-term relationships with those charities (especially smaller charities), and delivering curated support services to those organisations. These are all, of course, competencies that the Scottish Government possessed to some degree, and in some units, but Inspiring Scotland's offer and "price point" seemed appealing. According to the civil servant:

> *Put crudely, it was sort of an offer of supply chain management to the government and, you know, what could be better? We didn't have to try and broker a deal right over the country. Local government didn't really have to do that. We had Inspiring Scotland doing that.... — ibid.*

Because supporting the third sector was a Scottish Government priority (Scottish Government, 2009b), the government valued Inspiring Scotland's ability to provide direct support services, facilitate inter-organisational support, and connect charities to pro bono and paid consultants.

> *It was the prospect for the very first time really of offering sort of serious long-term investment in the voluntary sector subject to performance. And, wow—how attractive is that? Here's our investment, here's what we want for our investment. ... [N]ot looking at just the monetary value, but actually looking at building that capacity of those organisations ... the potential to sort of really talk the voluntary sector up, and give it its due place, I guess, in the spectrum of services. —Director-level civil servant, Scottish Government; Interviewee 14, 2013*

Third, due to its position as an intermediary, Inspiring Scotland was able to act as a political buffer. Unlike government ministers, who have the political concerns of elections and popularity to consider, Inspiring Scotland did not answer to an electorate for its decisions. The Scottish Government set social goals and priorities, but was removed from the responsibility of allocating resources, instead using Inspiring Scotland as an intermediary. According to government officials, there were two potential benefits of this difference: first, allocations were done more on merit or according to broader goals, and second, politicians had political cover for any decisions made by Inspiring Scotland. As put by two officials in the Scottish Government,

> *…[W]e work for ministers and so you'll get a lot of decisions taken for political reasons.… Inspiring Scotland is not beholden to that.… They don't have a minister to interfere saying, "No, you can't fund that, you've got to give them some money." … And if we do we get political flak, if they do it, we say they did it. [Laughs.] —Director-level civil servant, Scottish Government; Interviewee 15, 2013*

> *… [T]here are very large organisations who get money because they are very large organisations.… [There is] political influence in funding these*

> *organisations so they've had money for years and we cannot stop it now because it's—there'd be heads rolling over that. —Director-level civil servant, Scottish Government; Interviewee 12, 2013*

This relative separation of resource allocation and politics—as a source of friction and of benefit—is a defining characteristic of the Inspiring Scotland model, to be revisited in the subsequent two chapters.

As a non-governmental and (relatively) non-political body, Inspiring Scotland was not bound by the operational strictures that apply to statutory bodies. As put by a Scottish Government official working in the early years area:

> *Well, they're not constrained by government rules, are they? It can be procurement rules, finance rules, you know just stupid stuff like, you know, if we don't spend the money by the end of the financial year, it's gone. —ibid.*

Scottish Government officials also expressed the understanding that despite the degree of separation that created a desirable buffer from politics—and reduced the influence of the "political field"—Inspiring Scotland was ultimately answerable to the government:

> *You've got different drivers. Inspiring Scotland are driven by their investors and their objectives, and I suppose ultimately that's us. We are still politically motivated after a point and Inspiring Scotland can move away from that and they can certainly make their networks and their connections away from that political field. —Director-level civil servant, Scottish Government; Interviewee 15, 2013*

Of course, being "away from that political field" potentially reduces the accountability that is built into democratic governance. This was not seen as a significant issue by any of the five civil servants interviewed, who—in keeping with core features of new public management (Section 2.2.5)—pointed out that governments routinely contract out tasks, including some decision making. The potential challenges of contracting out resource allocation choices are further explored in Section 8.4.

Fourth, this intermediary position improved relationships and information-sharing between government and SPOs (discussed with additional data in Section 7.6.3). Characterised by the Director of Young People and Social Care as "close but not too cosy",[59] the relationship between government and Inspiring Scotland allowed SPOs to be given negative feedback on performance without the government issuing the judgment (and thus alienating constituents). This relationship worked both ways: Inspiring Scotland acting as an anonymising filter allowed feedback from SPOs, particularly on issues relating to government, to be channelled back to local and national officials. This close relationship also facilitated informal and formal consultation between Inspiring Scotland and its primary contacts in the Scottish Government.

Finally, Inspiring Scotland played a key role in conducting or coordinating research that aimed to determine the scope of social problems or the efficacy of a given action to address a problem, particularly in its later funds. For example, in developing the Go Play Fund, Inspiring Scotland created—and commissioned from third parties to avoid conflicts of interest—research to show the impact of play[60] on children as part of development. According to the official overseeing early childhood interventions at the Scottish Government:

> *Through the Go Play programme we developed an outcome evaluation which helped the sector to articulate why what they do is important.… And I think that has helped the sector with simple things like funding applications, for example. All [the charities] have to do now is demonstrate the value of their particular activity. —Director-level civil servant, Scottish Government; Interviewee 15, 2013*

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[59] In public conversation at Inspiring Scotland's office during a European Venture Philanthropy event in 2012.

[60] Defined in the Go Play Fund baseline report as "activity done freely by children for their own interest and enjoyment. In its widest sense, this includes whatever children do because they want to—from riding a bicycle or climbing a tree to building a den or drawing a picture. Children can play indoors or out, alone or with others. Play can be physical, creative, tactical or imaginative, and may be undirected or follow rules. Further, 'free play' is play with no prior rules." (New Philanthropy Capital, 2009, p. 6)

This research analysed primary outcome data from multiple SPOs as well as secondary sources, creating a body of evidence for the efficacy of particular interventions (New Philanthropy Capital, 2009). In turn, that evidence helped effective organisations promote themselves and their work and secure additional funding. Notably, free play is *not* an area where outcomes are easy to measure—recall that the founders of Impetus Trust indicated such areas were ill-suited to venture philanthropy support (Section 4.2.4)—but was still chosen as an area for venture philanthropy support after research indicated the efficacy of at least some interventions.

## 6.4 VPO and Government Collaborated to Create New Funds

I consider Inspiring Scotland's close and reciprocally beneficial relationship with the Scottish state to be a unique model of government-VPO co-development. The next section describes the first two funds of Inspiring Scotland, with particular reference to the way Inspiring Scotland and the government collaborated to create new organisational practices and institutional arrangements for venture philanthropy, especially evident in the second fund.

### 6.4.1 The 14:19 Fund

The first major element in structuring the work of the 14:19 Fund, designed to help young people aged 14-to-19 transition from school into employment, education, or training, was a baseline research report commissioned by Inspiring Scotland. The research was carried out by the consultancy New Philanthropy Capital, a London-based organisation that specialises in advising donors in funding work on social issues.

The report defined the scope of the social problem (32,000 at-risk young people), the cost to government of that problem (£340 million per annum), outlined six approaches used by charities to support young people not in employment or training, outlined a four-step "ladder" to getting those young people into the labour market, and suggested ways to measure progress (New Philanthropy Capital, 2008a).

The baseline report also set the spatial parameters of the programme. Among the constraints in providing funding with "value-adding" professional support services and close monitoring, geography is perhaps the most fraught. For Inspiring Scotland's goal of national impact, simply investing in areas with pre-existing professional infrastructure and personnel, as was often the case in early-stage venture capital and private venture philanthropy, was neither politically nor operationally feasible. For the 14:19 Fund, Inspiring Scotland took a three-factor approach in its selection process based on geographically defined social need, the “pathway” of interventions involved in moving young people from at-risk status to employed or in training, and the risk of failure for each potential investee organisation.

First, to determine areas of concentrated social need, Inspiring Scotland examined the research they commissioned and government data:

> *We identified eight ... “hot spots,” which [are] areas where there was a significant need, either because of the sheer volume of young people or because of the percentage of young people who were having difficulties.*
> *— Founding senior manager, Inspiring Scotland; Interviewee 4, 2011*

The results of the analysis demonstrated a diversity of areas nationally with clear need. The eight council areas[61] that were selected contained 80% of the 32,000 at-risk youths who were targeted in the 14:19 Fund. In structuring its resource allocation and application process, Inspiring Scotland chose to spend 80% of its funding within those eight local authority areas, with 20% allocated more flexibly.[62]

In addition to identifying areas with high relative or absolute numbers of young people with need, the second criterion was focused on whether a potential area had organisations working at the three stages of what Inspiring Scotland had deemed the “pathway” from childhood to stable employment (New Philanthropy Capital, 2008a).[63]

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[61] Scotland is subdivided into 32 council areas.

[62] This funding was available to other programmes, “including responses that are Scotland-wide, that demonstrate true innovation and provide new models for delivery, or that will build additional knowledge and assist Inspiring Scotland’s 14:19”, according to the prospectus shared with potential applicants (New Philanthropy Capital, 2008b).

[63] The pathway began with the acquisition of basic literacy, numeracy, and soft skills, then to more job-oriented “hard skills” gained through training or education, to employment (New Philanthropy Capital, 2008a).

*We identified as well this pathway and we had plotted our charities that we were considering investing in on this pathway and found that some were really sitting at one end of the spectrum and some at the other. — Founding senior manager, Inspiring Scotland; Interviewee 4, 2011*

Inspiring Scotland began to target or search out different SPOs that, together, could form a coherent set of services for young people at risk of being NEET. By plotting potential ventures along that pathway, the founding team sought to create scope for cooperation among ventures.

With the population defined both demographically and spatially, and the targeted areas of programming clear, Inspiring Scotland opened the 14:19 Fund in January of 2008, and began the process of selecting organisations—based partially on the risk of failure for each potential investee organisation. The application and selection process took more than ten months. One hundred and seventy organisations submitted outline proposals to be considered for the 14:19 Fund. Those were reviewed by Inspiring Scotland staff, along with outside experts in the area of improving young people's life chances. Those 170 were reduced to a group of 44 that were invited to submit full proposals. Like many other VPOs, careful selection and due diligence was an important part of their model.

The process of submitting full proposals was, by design, involved and intense. In recognition of this, Inspiring Scotland provided external consultants to each organisation to help them structure and execute their applications. This type of application and due diligence process, with consulting support from Inspiring Scotland and substantial demands on applicants, is a hallmark of venture philanthropy and is considered in detail in the next chapter.

In reviewing applications, Inspiring Scotland staff and consultants "considered not only individual proposals but also how they would fit together in a portfolio that took into account geography, working with different age groups and providing a continuous pathway of support for the young people the organisations would be working with" (Inspiring Scotland, 2012). Twenty-four SPOs were invited to join the 14:19 portfolio. All accepted. The first fund of Inspiring Scotland utilised many of the accepted practices of venture capital, such as due diligence, nonfinancial services, and portfolio structuring towards a goal set by the Scottish Government. These practices will be explored in depth in Chapter 7.

One of the most interesting approaches taken by Inspiring Scotland began in its second fund. This approach featured the strengthening of a specific service area within the voluntary sector, fully funded by the government via Inspiring Scotland, with the explicit aim of making charities in that area better able to compete for government funding.

### 6.4.2 A shift to public funding: The next three Inspiring Scotland funds

The second fund that Inspiring Scotland launched was entitled Go Play. This fund is particularly interesting because it represented an extension of the highly-structured approach of the 14:19 Fund, with its baseline research and attempts to construct a portfolio of related charities that worked on different aspects of the same social issue, to the validation of a set of social service interventions that were, at the time, minimally supported by government: in this case, the provision of free play opportunities to children. The explicit goal was to identify if such services were worthy of government support based on the outcomes they generated, and, if so, to identify providers of play services and help prepare them for subsequent public and private funding. This meant creating SPO-level performance data and sufficient SPO capacity to compete for funding—key goals of the "standard" venture philanthropy model.

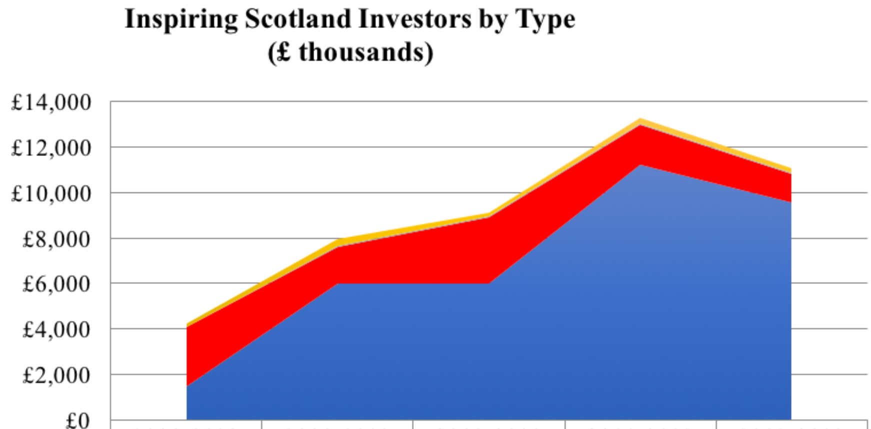
Structured in 2009, the fund was shorter-term than the 14:19 Fund, with a duration of 24 months. The Scottish Government was the sole source of funding for Go Play, providing £4 million over 2010 and 2011.[64] Overall, Inspiring Scotland adapted the practices and arrangements of its first fund in two significant ways. First, the initial baseline and outcomes research (New Philanthropy Capital, 2009) was an important deliverable for the government—but in this case the research was focused on the concept and efficacy of a specific type of social service rather than mapping known needs, as in the 14:19 Fund. Second, the VPO learned not to disperse funds too

[64] The Go Play Fund was continued in a subsequent fund, Go 2 Play, and extended over five years total.

quickly or completely, rather to keep funds ready for unforeseen capacity building needs. The process by which the fund was conceived and launched is explained in more detail in Appendix 9.

In the years 2009–13, the large majority of new money channelled through Inspiring Scotland came from the Scottish Government, with individual, foundation, and corporate support broadly constant over the years 2008–13. Figure 6.1 shows the change in funding over time.

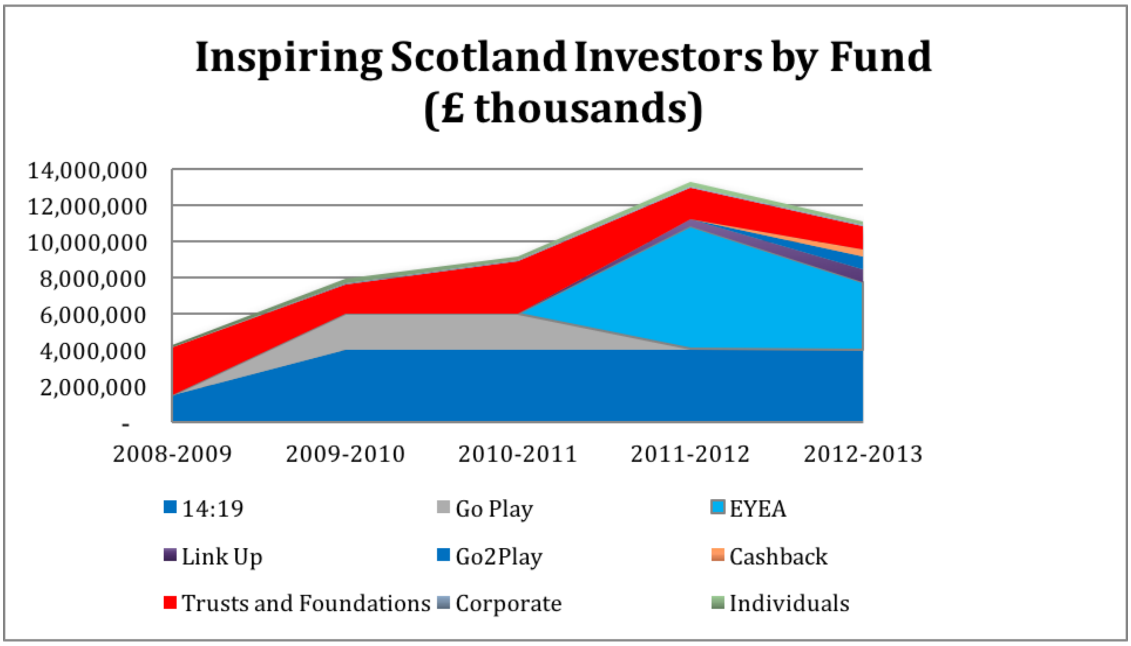
**Figure 6.1: Inspiring Scotland investors by type, 2008–13**




| | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 | 2012-2013 |
|---|---|---|---|---|---|
| Individuals | £141 | £300 | £161 | £236 | £197 |
| Corporate | £0 | £50 | £50 | £50 | £50 |
| Trusts and Foundations | £2,628 | £1,601 | £2,915 | £1,764 | £1,271 |
| Scottish Government | £1,462 | £6,000 | £6,000 | £11,205 | £9,544 |

When Inspiring Scotland was first conceived, one aim was to wean SPOs from government funds by exiting them with a larger proportion of private sector philanthropic funds. As the financial crisis hit, this aim was not met, and, at the time of data collection, was no longer an explicit aim of any of the funds after the first 14:19 Fund. (The leveraging of networks, pro bono financial services, and other human resources remained an explicit part of the model.) Figure 6.2 breaks out the public support of Inspiring Scotland by fund (public funding appears in shades of blue):

**Figure 6.2: Inspiring Scotland investors by type with statutory funding disaggregated, 2008-13**




Notably, the public money that supported each of the funds (described in Section 6.1) came from several different government units. Each had its own funding stream, goals, and contracts. So while Inspiring Scotland was primarily funded by units of the Scottish Government, it involved many smaller contracts rather than a single, unitary relationship. This diversification amongst multiple statutory bodies demanded additional relationships, contracting, and reporting, and also mitigated some funding risk to Inspiring Scotland compared to a single large contract.

## 6.5 Conclusion

This chapter focused on the emergence and evolution of a VPO with a uniquely close relationship to the state. In particular, I examined the founding influences and concepts—and the context in which they were expressed.

Five contextual factors created a favourable environment for the creation of this government-supported venture philanthropy model: a pre-existing working relationship between the founders and public managers; close network links between Inspiring Scotland's founders and leaders in business, government, and philanthropy; the relatively small size and number of Scottish Government units; institutional incentives for philanthropists and civil servants to support innovative ideas; and the favourable economic and public funding environment at the time of its inception.

Further, interviews revealed the factors that led the Scottish Government to be willing to test this model. Namely: financial leverage; additional capacity to support SPO development; the potential distancing of politics and SPO funding choices; potential for improved information from SPOs; and the creation of data regarding SPO efficacy that would aid in government decision making.

Inspiring Scotland developed a targeted, structured approach to baseline research and creating portfolios of organisations to meet government priorities, such as linking SPO services to strengthen "pathways". It focused more clearly on the geography of need, and aimed to meet national-level outcomes by building service area and organisational capacities. This included basing most of its staff in the regions where they supported SPOs.

Inspiring Scotland experienced rapid growth in its first five years, disbursing nearly £50 million from 2008–13. This included the launch of six subsequent funds focused on different social issues, all of which were entirely or almost-entirely publicly supported, contrasting with a substantially lower level of private philanthropic funding than planned in the design of the first fund.

Having examined the emergence of this first government-supported venture philanthropy model, informing my first research question, I now focus on the seven core operational practices by which Inspiring Scotland attempted to instantiate that model.

# 7 INSTITUTIONAL ARRANGEMENTS AND OPERATING PRACTICES OF A STATE CO-CREATED VPO, INSPIRING SCOTLAND

The previous chapter outlined the constellation of factors that allowed for the emergence of government-supported venture philanthropy, and explored the resulting model in some detail. These factors were examined at the level of individuals, firms, and national context. This chapter examines the seven elements of the venture philanthropy model as employed by Inspiring Scotland, with data and quotations selected to be representative of supported charities.[65] It also includes an examination of how this unique government-supported model influenced each element, as well as further exploration of the government-VPO relationship.

## 7.1 Sourcing, Selection, and Signalling Effect

Inspiring Scotland's model consisted of specifying social service targets, designing portfolios of charities, evaluating applicants, and supporting the charities selected

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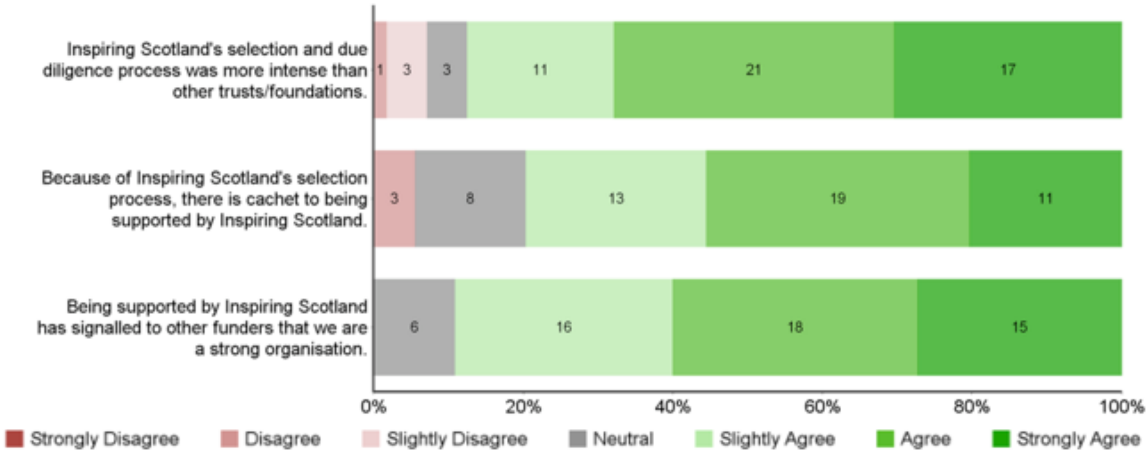
[65] Although the scores of comments included in this chapter are a tiny fraction of the survey and interview responses, they are very representative of prevailing sentiments. The majority of the responses from charities in this chapter were positive, many glowingly so. The balance of the responses presented here is slightly more negative than the overall set of responses to highlight exceptional but strongly held views that yield additional insight into the practices of this emerging model of supporting the voluntary sector.

(Section 6.1). As discussed in Chapters 2, 5, and 6, the unusually rigorous processes of SPO selection were expected to have a secondary effect of signalling the quality of supported charities. Survey and interview data indicate that supported charities agreed the Inspiring Scotland selection process was more intense than that of other funders (Figure 7.1).

**Figure 7.1: Opinions of SPO managers regarding sourcing, selection, and signalling effects of Inspiring Scotland funding (n=56)**




The second element of the chart illustrates one of the positive externalities of a rigorous selection process: most charities agreed that such a process provided cachet to those charities that were selected. In combination with the third element, this data suggests that additional positive signalling was created by the funding and support services provided to charities over their period of support.

## 7.1.1 Sourcing and due diligence

The first operational practice of Inspiring Scotland, sourcing SPOs to support, involved an intense and unusually interactive application process that took local coordination—including with statutory bodies—into account. The application process fed directly into due diligence, the second operational practice I examine.

During the process, Inspiring Scotland directly communicated with applicants in addition to providing them with the services of a consultant to help craft and complete their application (Section 6.4.1). Pre-application support was evaluated by 47 of the

59 survey respondents. All 47 indicated it had some value: 25 indicated it was *very valuable*, 19 *valuable*, and 3 *slightly valuable*, with zero organisations indicating it had no or negative value.[66]

As recalled by the executive of a mid-sized SPO based in Glasgow, the application and due diligence processes were very challenging but support from Inspiring Scotland's consultants was helpful.

> *I think a lot of organisations probably dropped out [early because applying] was quite an onerous project to get through. It was over several months.… It was very much a full-on relationship. We were helped through the process by independent consultants … and they provided us with support to make sure we put in the strongest application that was realistic and achievable.… — Manager of supported SPO; Interviewee 3, 2011*

The SPO manager acknowledged the considerable demands and disincentives of an onerous application process, but reported, like many Impetus Trust-supported managers, that the effort was valuable to her organisation:

> *[W]e had to look at the organisation very very thoroughly from top to bottom, not just what we said we were going to deliver, but also do we have the capacity, do we have the infrastructure, to support that frontline delivery, [areas] where the policies or the governance of the organisation might need more administrative support.… Prior to that we were so busy doing, we didn't always take the step back to allow ourselves that distance. — ibid.*

This rigorous and "full-on" application process, with expensive consulting support from a VPO and substantial demands on applicants for both organisational audit and strategic planning, is a hallmark of venture philanthropy. It was found to be

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[66] It was not possible in this study to also examine the opinions of SPOs that did *not* receive funding after completing the application process. Further work should consider the impact and perceived value of this facilitated application process for unsuccessful applicant SPOs.

particularly useful in helping SPOs set, plan, and meet strategic goals. The provision of support in developing applications for funding was an intentional attempt to counteract a sector-level vicious circle of limited capacity: smaller charities, regardless of quality, are often focused on organisational survival and immediate resource acquisition or lack professionals with experience in grant writing—and, as a result, are unable to compete for the type of funding that would enable them to hire such expertise (Isserman & Markusen, 2013).

Given Inspiring Scotland's "hotspot" approach to identifying social need, in which multiple charities in geographical proximity were selected as a group, the local authorities in that area were crucial collaborators. They were made part of the application process:

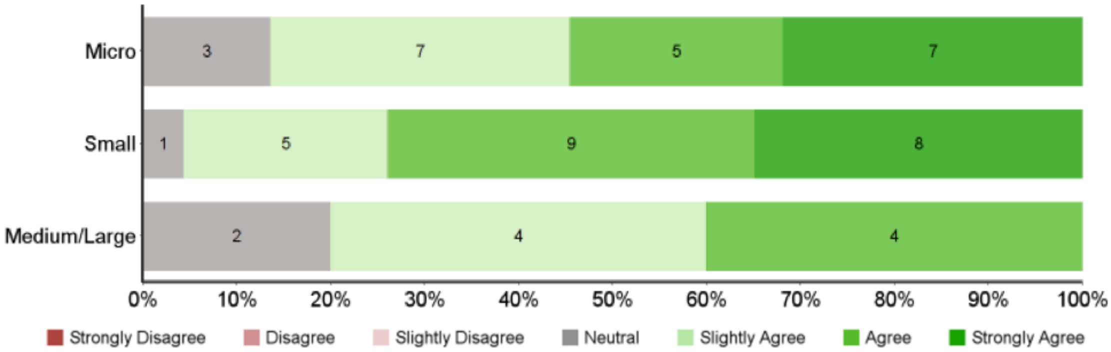
> *Structurally, when people made applications, it had to be signed off on at the local level by local strategic officers to say that it was a good strategic fit. The thesis was that it has to be embedded locally. —Manager, Inspiring Scotland; Interviewee 20, 2014*

This robust application process was an element in creating signals that supported SPOs were of high quality.

### 7.1.2 Signalling effect

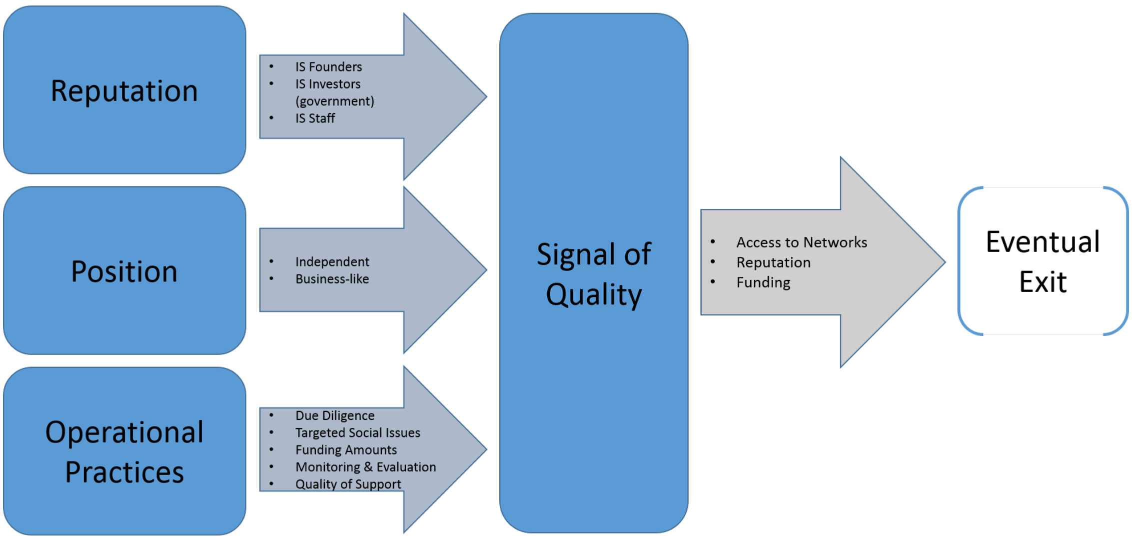
Supported SPOs generally felt that Inspiring Scotland's support was a signal of organisational quality. For example, nearly all supported charities indicated that "being supported by Inspiring Scotland has signalled to other funders" that they are strong organisations, with 49 out of 55 respondents agreeing to some extent, and 33 agreeing or strongly agreeing.

**Figure 7.2: Opinions of SPO managers: "Being supported by Inspiring Scotland has signalled to other funders that we are a strong organisation (n=55)**




Three elements of the Inspiring Scotland model provided or strengthened signals of SPO quality: the reputation of Inspiring Scotland, its funders, and its staff; the positionality of Inspiring Scotland as an independent body; and several of Inspiring Scotland's operating practices (Figure 7.3).

**Figure 7.3: Signalling effect of support by a high-reputation funder like Inspiring Scotland: causes and impact**



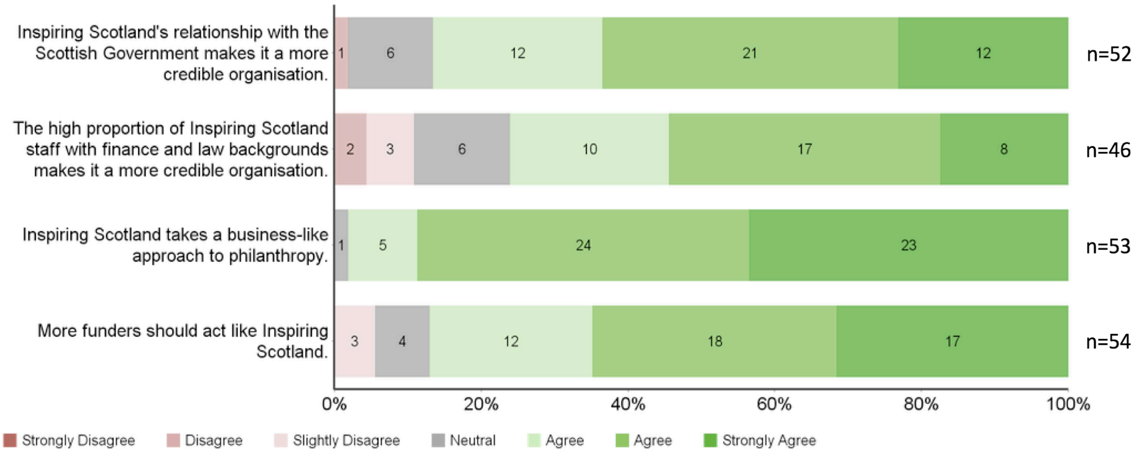

The resulting signals of organisational quality had three interrelated effects for SPOs. Such signals enhanced their reputation, provided greater access to networks, and, resultantly, allowed charities to access additional funding and resourcing. As put by one manager:

> *Inspiring Scotland has definitely raised the profile of our organisation. There is kudos to the Inspiring Scotland logo on our documents and certainly over the past four years our work has been recognised on a national level, so much so that we are now working with three larger charitable organisations. — Manager, SPO 61 (14:19 Fund, small, active), Survey-Q23*

As discussed in the second chapter, the literature on venture capital—the explicit theoretical and technical foundation upon which venture philanthropy is based—finds an important role for venture capital funders in signalling the quality of funded organisations. Some of these causes for the signalling effect—due diligence and monitoring of the organisation and management team (Gompers, 1995) and expectation of improved venture performance due to venture capital support (Timmons & Bygrave, 1986)—align clearly onto the analogous model of government-supported venture philanthropy exemplified by Inspiring Scotland. These and several additional causes were revealed and supported by survey and interview data.

The first underlying cause of a positive signalling effect springs from the reputation of Inspiring Scotland. Its founders and staff were well-regarded and well-connected within philanthropic, voluntary sector, private sector, and policy circles. Indeed, more than three-quarters of responding supported SPOs (n=46) agreed to some extent that "the high proportion of Inspiring Scotland staff with finance and law backgrounds makes it a more credible organisation" (Figure 7.4).

**Figure 7.4: SPO managers' opinions regarding contributing elements to Inspiring Scotland's reputation**




The organisations that funded Inspiring Scotland lent it additional credibility as a signalling agent. Foremost among these funders was the Scottish Government. As asserted by a senior civil servant in interview:

> *It's got kudos and standing and recognition, not least because the government has invested in it. —Director-level civil servant, Scottish Government; Interviewee 14, 2013*

Supported charities agreed, with 45 of 52 charities agreeing to some extent that "Inspiring Scotland's relationship with the Scottish Government makes it a more credible organisation" (Figure 7.4).

The other high-reputation trusts, foundations, and individual donors that supported Inspiring Scotland also lent it credibility. These included the Esmée Fairbairn Foundation, the Lloyds TSB for Scotland Foundation, the Monument Trust, the Paul Hamlyn Foundation, and the Wood Family Trust, all of which were well-known within voluntary sector and government circles.

The second broad cause for Inspiring Scotland's credibility was its position as a "business-like" entity and as an independent, non-political distributor of funds and support. As one charity manager put it:

> *The third sector needs commercial input to improve efficiency and achieve better results. Inspiring Scotland achieve a good balance of public*

*spirited values and business approaches which are robust and sufficiently demanding. — Manager, SPO 55 (14:19 Fund, medium-large, active), Survey-Q23*

The feeling that Inspiring Scotland "takes a business-like approach to philanthropy" was shared by an overwhelming majority of supported charities, with 52 of 53 agreeing to some extent, and 47 of those *agreeing* or *strongly agreeing*. While merely being "business-like" as a funder might not have indicated or contributed to Inspiring Scotland's role as a signaller of charity quality, the manager of SPO 55 highlighted the elements that did lend credibility to Inspiring Scotland: the perception that it was efficient and results-oriented and that its approaches were "robust" and "demanding".

The fact that Inspiring Scotland was seen as independent from government—despite receiving the credibility of government funding—also contributed to its reputation and signalling effect. One charity manager remarked on the de-politicised nature of funding allocation choices made by Inspiring Scotland:

*The Inspiring Scotland selection process transcends local favouritism, which means agencies are selected on merit rather than who they know in the local authority or political arena. Also a more productive approach than throwing money at an area of deprivation or flavour of the month idea. — Manager, SPO 54 (Go 2 Play Fund, small, active), Survey-Q23*

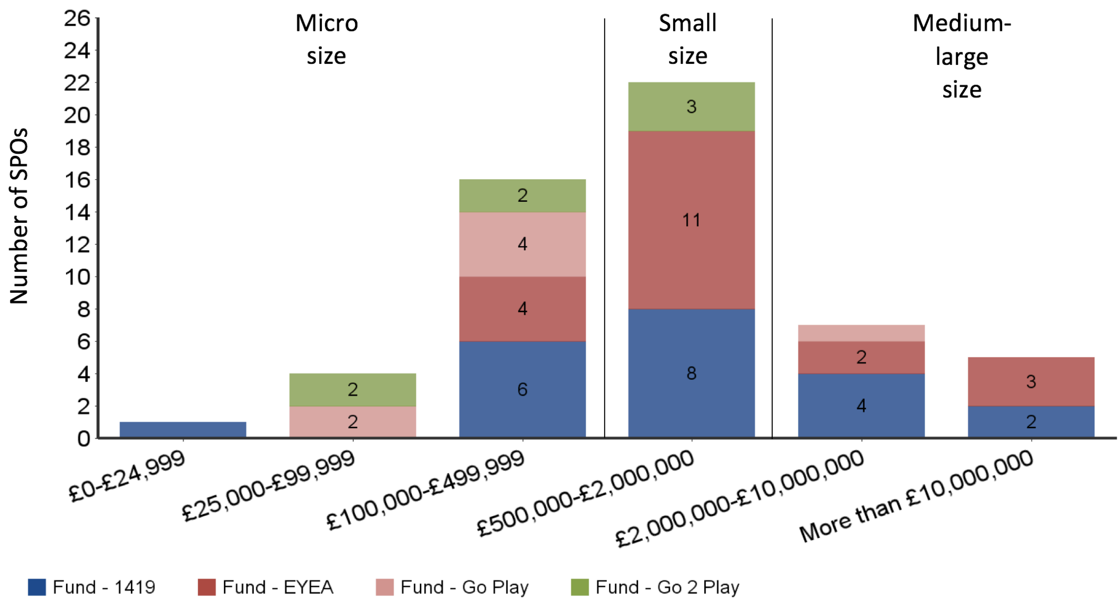
The perception by the manager of SPO 54 that Inspiring Scotland transcends local favouritism is one of many data points relevant to the Inspiring Scotland model's interaction with democratic and governmental institutions at both local and national scales, discussed in Chapter 8. Overall, signals of SPO quality sent by Inspiring Scotland's funding decisions were strengthened by faith that the process was rigorous, "business-like", and based on underlying charity quality rather than political connections or popularity.

The third and final broad cause for Inspiring Scotland's signalling effect was based in its actual processes and practices, each of which is examined in depth in this chapter. Most significant were: the targeting, selection, and due diligence processes already examined; the large amounts of funding awarded to supported organisations; ongoing monitoring and evaluation by Inspiring Scotland over the lifetime of the grants they awarded[67]; and the high perceived quality of the support provided to charities.

## 7.2 Demographics and Geography of Supported Organisations

Inspiring Scotland's sourcing and selection processes resulted in four funds comprised of a total of 70 funded charities (59 of which are represented in the survey data shared here). Figure 7.5 shows the breakdown of charities by annual turnover and by fund.

**Figure 7.5: Annual turnover of SPOs supported by Inspiring Scotland by fund, as reported by SPO managers (n=55)**




Most supported SPOs were micro or small: 23 were *micro*, with revenue less than £500,000 per year, and 24 were *small*, with revenue of £500,000–£2 million per year. Twelve *medium-large* SPOs had annual revenues above £2 million. On average, these SPOs are smaller than those supported by Impetus Trust. Like the SPOs supported by Impetus Trust, most were not young organisations: 49 of the 59 SPOs were more than a decade old. All of the SPOs in the Go Play and Early Years Early Action (EYEA)

[67] The relatively substantial reporting requirements and monitoring systems that Inspiring Scotland required of its grantees provided signals of organisational quality, but this effect was more a function of Inspiring Scotland's support helping (or forcing) charities to show their own intrinsic quality and less a function of the Inspiring Scotland support itself.

funds, approximately half of all represented in this data, had exited at the time of data collection.

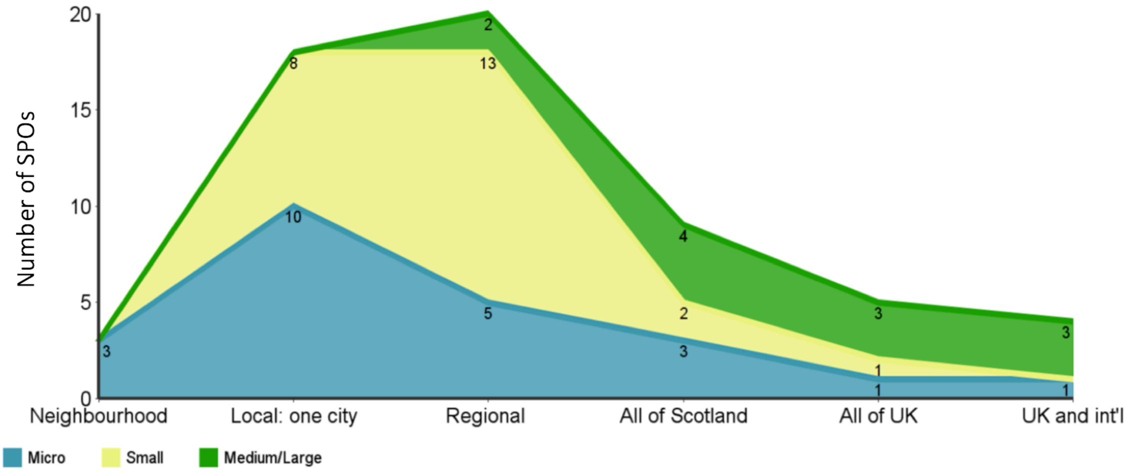
In terms of employee headcount, charities supported by Inspiring Scotland employed between one person and more than one hundred (Figure 7.6). Approximately half of supported SPOs had fewer than 25 staff in mid-2013.

**Figure 7.6: Headcount of SPOs supported by Inspiring Scotland (n=58)**


Given the very different goals of Inspiring Scotland's four funds, it is unsurprising that they contained different sizes of charities, on average. The two funds focused on building the capacity of the play sub-sector contained smaller organisations, on average, than either of the other two funds, which focused on the much broader issues of youth unemployment and support of very young children, respectively.

Although this research project uses the size categories *micro, small, and medium-large*, it bears repeating that the charities included, though often small in economic input terms, could be large both relative to the voluntary sector and in terms of their social and economic effects. The size of organisations by annual revenue and by headcount are very strongly correlated.[68]

**Figure 7.7: Geographical focus of SPOs supported by Inspiring Scotland, by SPO size (n=59)**




Supported charities for the most part worked at the local or regional level. More than one-third of supported charities worked in one neighbourhood or council area, and another third worked regionally (in multiple council areas but not nationally). Larger SPOs generally worked across larger geographical areas.

Managers of supported SPOs characterised the areas in which they conducted their work primarily as "low income". Approximately half of all Inspiring Scotland charities worked in rural areas—substantially more than the approximately one-quarter in the Impetus Trust case—and four indicated that they worked in both rural and urban areas at all income levels (Figure 7.8).

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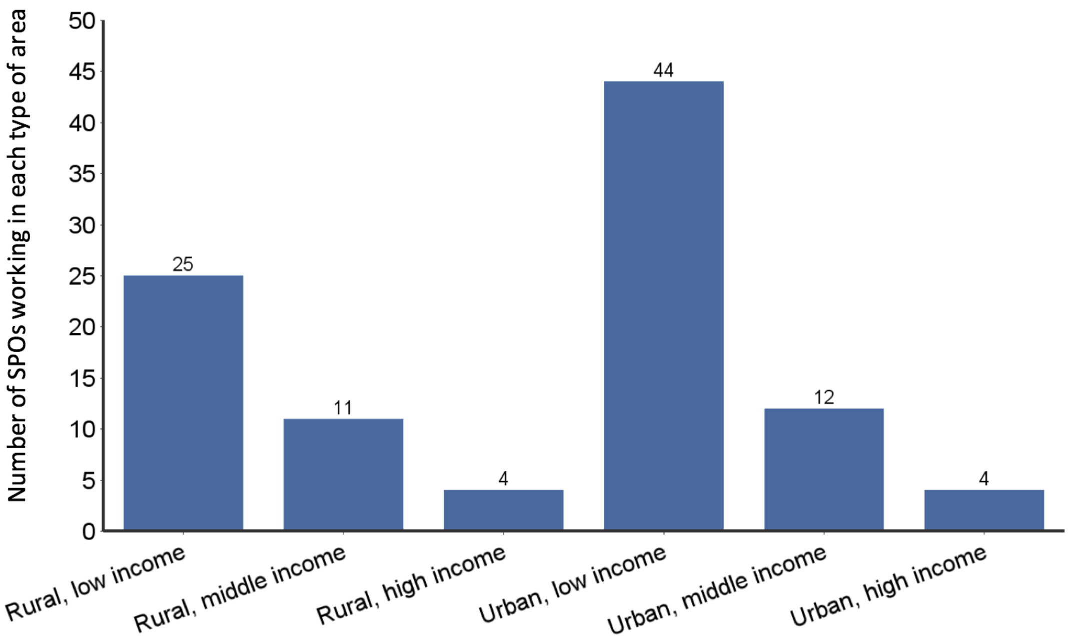
[68] This research uses annual turnover to locate organisations within the categories of *micro*, *small*, and *medium-large*: measuring size by employee number would yield a very similar categorisation (rs(56) = .869, p=.000).

**Figure 7.8: Characterisation of the areas in which supported SPOs worked, according to SPO managers (multiple answers allowed, n=54)**




There was no relationship between SPO size and areas of operation. The large majority of charities, 83%, agreed to some extent that Inspiring Scotland provided them access to services and networks they could not have otherwise found in their location.

## 7.3 Financing

It is important not to lose sight of the centrality of providing funding to SPOs in the Inspiring Scotland model—the third operating practice adapted from venture capital. Inspiring Scotland's support was used, most frequently, for investing in new staff (41 organisations of 59), starting new programmes (39), expanding existing programmes (38), adding new service areas or locations (28), and strengthening infrastructure or information technology systems (17).

Inspiring Scotland provided millions of pounds per year to SPOs in Scotland, most of which was focused at the organisation level and delivered over multiple years. Although this practice was similar to that of Impetus Trust, approximately four-fifths of all funding received by Inspiring Scotland was passed on to SPOs as grants (as compared to approximately one-quarter in the case of Impetus Trust). As was the case with Impetus Trust, SPO managers supported by Inspiring Scotland found value in organisation-level funding:

> *It is a real strength that [Inspiring Scotland] will fund things which really matter to a charity's effectiveness and success but which are usually very hard to secure external funding for. It shows a realism about some of the challenges the third sector has to deal with. — Manager, SPO 66 (EYEA, small, exited), Survey-Q23*

The manager of SPO 66 was far from alone in commenting that the provision of organisation-focused funding showed "understanding" or "realism" about the challenges of charity administration. This was one of many areas where trust and mutual respect were built between charities and Inspiring Scotland.

Inspiring Scotland provided, on average, 21% of the annual budgets of the charities it funded during the 2013 financial year. This was higher than the average percentage provided by Impetus Trust (5%), and is not just a function of Inspiring Scotland funding smaller SPOs: the higher percentage of funding holds across all SPO sizes (Figure 7.9).[69]

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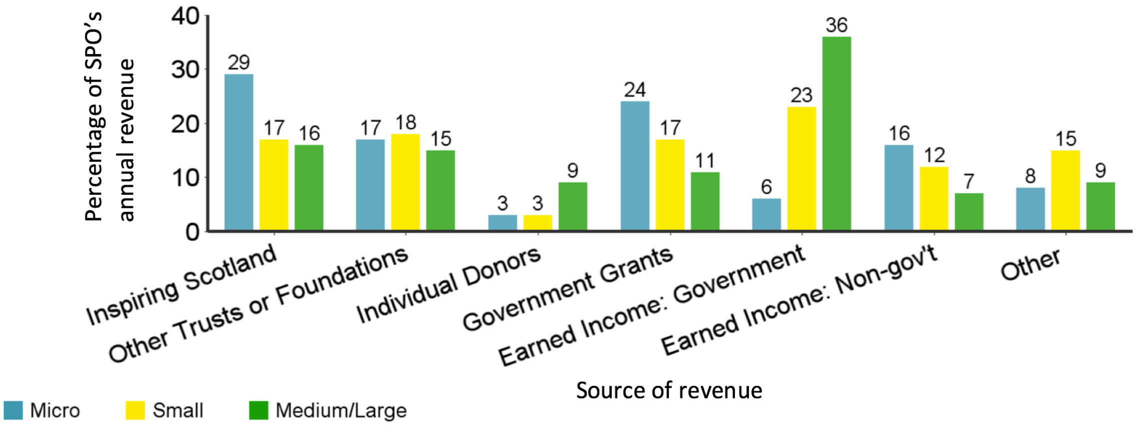
[69] For micro SPOs, Inspiring Scotland provided an average of 29% of their annual revenue, whereas Impetus Trust provided 17%. Small SPOs received 17% of their revenue from Inspiring Scotland as compared to 5% from Impetus Trust. The largest difference was for medium and large SPOs: 16% of revenue in the Inspiring Scotland case versus 2% for Impetus Trust.

**Figure 7.9: Sources of annual revenue for supported SPOs, by SPO size, according to SPO managers (n=59)**




This figure captures the wide variety of revenue sources and balances amongst supported SPOs, and indicates that the SPOs relied on many sources of revenue. For micro SPOs, Inspiring Scotland provided a greater proportion of funding than all other individuals and trusts combined. For all other sizes, Inspiring Scotland provided approximately as much funding as all other trusts combined, on average. Note that as the size of SPOs increased, statutory grant funding fell and statutory earned income rose (discussed in Section 2.4).

### 7.3.1 Wide variety in funding provided to charities

Although Inspiring Scotland's funding was always provided over multiple years, there were significant differences between and within funds. In the first and largest, the 14:19 Fund, Inspiring Scotland provided financial support for periods of 5–10 years, and the average charity in the 14:19 Fund was slated to receive approximately £2 million in total (though there was wide variety). The other three funds all had shorter lifetimes of 18 to 30 months, and both the Go Play and Go 2 Play funds distributed smaller amounts of grants, £4 million and £1.9 million, respectively, although the processes and support services remained similar.

The amount of funding Inspiring Scotland provided to organisations also varied widely within each portfolio. In the 2013 financial year, for example, the amounts within the 14:19 Fund ranged from a £30,000 grant to a youth work centre in Dundee to a £700,000 grant to an organisation that provided wilderness experiences to disengaged young people.

SPO managers stressed the importance of flexible and longer-term financing:

> *The opportunity given by Inspiring Scotland to scale and replicate our service delivery model, through their sustained funding across a meaningful period, has allowed our organisation to consider and work towards diversification of income streams.… [S]ustained investment as opposed to "pilot" funding allowed our organisation to leverage their investment and develop our own portfolio of services. — Manager, SPO 78 (14:19 Fund, micro, active), Survey-Q16*

> *[L]arge-scale financial support with sufficient flexibility to respond to organisational or programmatic need has far outweighed the nonfinancial benefits because it supported us as an organisation to develop the areas we had long prioritised but not had the financial or staffing capacity to fully address. — Manager, SPO 88 (14:19 Fund, medium-large, active), Survey-Q26*

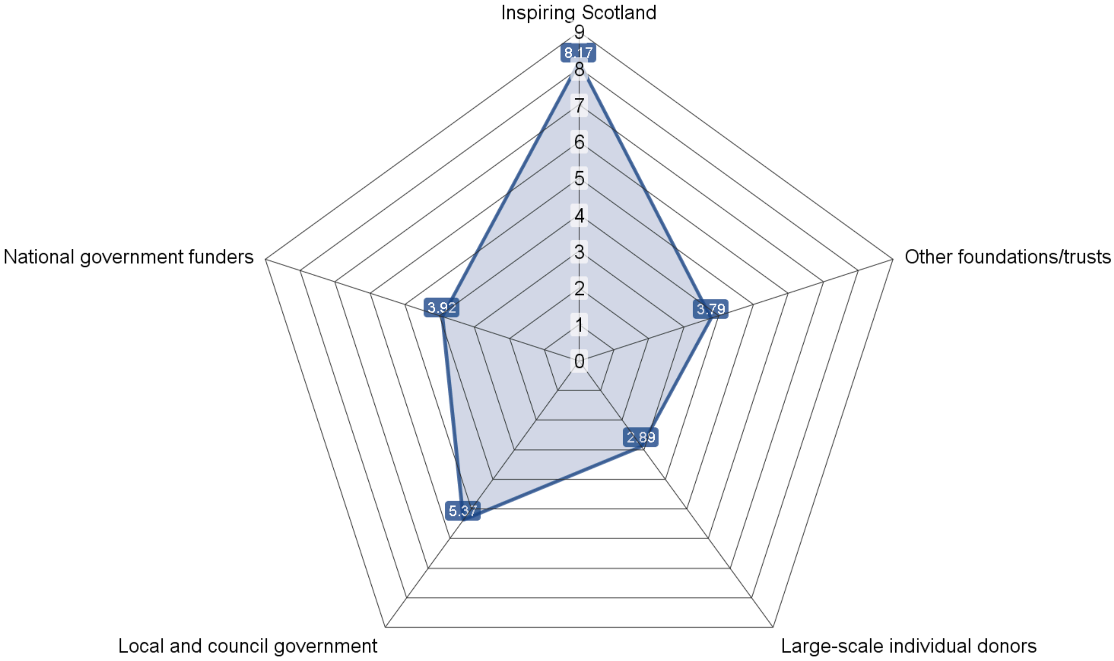
Both managers highlighted the importance of Inspiring Scotland's third operational practice, providing flexible and longer-term financial support. The manager of SPO 88 was something of an outlier in explicitly describing it as more beneficial than the fourth and fifth practices: the provision of nonfinancial services in the context of an unusually engaged and trusting relationship.

## 7.4 Engagement and Interaction

The fourth operational practice of venture philanthropy, close engagement between VPOs and SPOs, was strongly evidenced in the Inspiring Scotland model. This section first examines data about that engagement. It then describes six factors that supported engagement: many interactions; ongoing disclosures of SPO performance; structured quarterly and semi-annual meetings; geographically dispersed staff; an SPO-wide scope of engagement; and the intermediary position of Inspiring Scotland. It concludes by examining data on the challenges of such practices.

SPOs rated their level of engagement with Inspiring Scotland significantly higher than that reported for any other type of funder, on average: 8.7 on a 10-point Likert scale (Figure 7.10) (paired-sample t-tests, all p <.001).

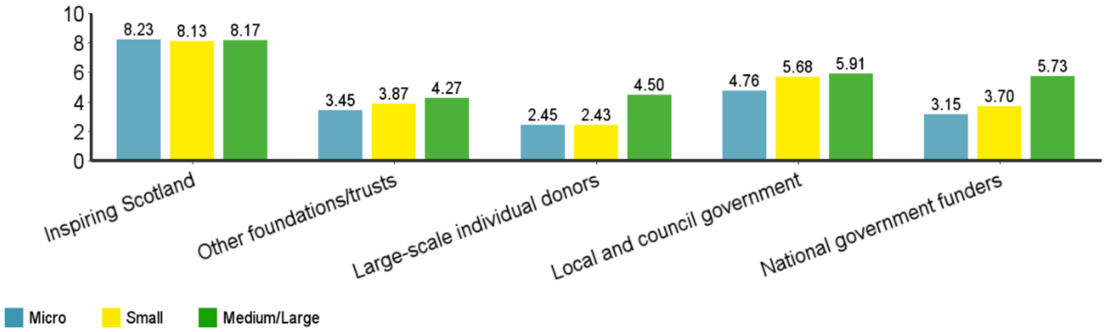
**Figure 7.10: Level of engagement between supported SPOs and their funders, according to SPO managers (n=58)**




Although SPOs of all sizes reported similarly high levels of engagement with Inspiring Scotland, their level of engagement with other funders scaled with the size of the supported organization—the larger the venture, the more engaged their relationships with some funder types, on average (Figure 7.11).[70]

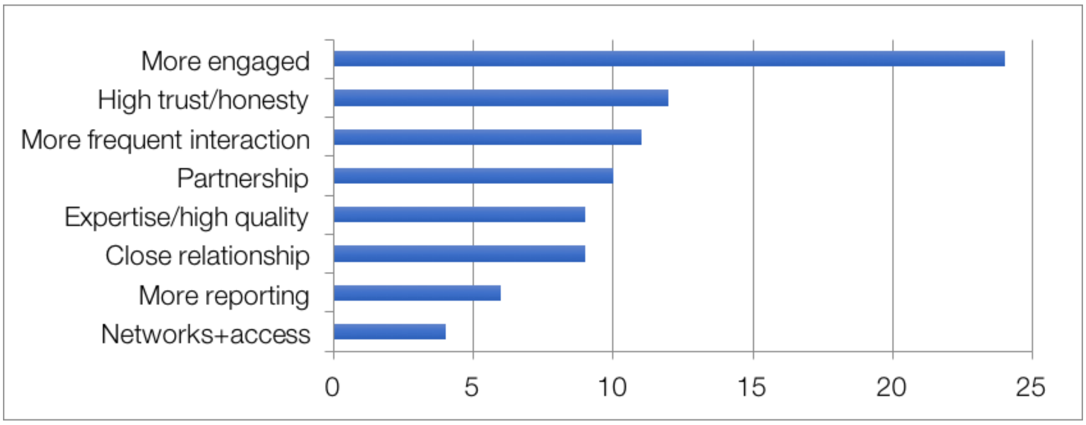
[70] Most of these differences were not statistically significant in a one-way ANOVA, with the small n within each size group providing limited statistical power. That said, in the case of engagement with national government funders (F(2, 48)=3.62, p=.034), post-hoc tests revealed that the only statistically significantly difference was medium and large SPOs reporting higher levels of engagement than micro SPOs. In the case of individual donors (F(2, 52)=3.043, p=.056), post-hoc tests showed that medium and large SPOs reportedly marginally significantly higher levels of engagement than either micro or small SPOs.

**Figure 7.11: Level of engagement between supported SPOs and their funders as reported by SPO managers on a 10-point scale, by SPO size (n=58)**




In extensive open-ended survey responses (n=40, Survey-Q73), SPO managers characterized their interaction with Inspiring Scotland as engaged, supportive, close, and trusting (Figure 7.12).

**Figure 7.12: Distinctive aspects of Inspiring Scotland relationship with charities compared to other funders: Frequency mentioned in open-ended survey responses (n=40)**




Nearly all charity managers discussed at least one element concerning the frequency, openness, closeness, or high quality of interaction. For example:

> *We were so used to funders trying to "catch us out" or "looking for mistakes" that the high engagement aspect of their support was a bit disconcerting. After a couple of months however, we turned a corner and realised that it was 1) okay to ask for support without being judged as "failing" in some way; 2) not seen as weak to admit you didn't know something (such as spreadsheets or evaluation jargon), and 3) a fantastic*

> *opportunity to try out new techniques with support, access training (some we didn't even know we needed) and make contacts with new people. – Manager, SPO 64 (EYEA Fund, micro, exited), Survey-Q18*

> *[Inspiring Scotland] demanded a high level of engagement, from the project manager right up to the board. We have seen huge benefits from having engaged and developed a very open and supporting relationship with our [performance advisor]s. – Manager, SPO 95 (EYEA Fund, small, exited), Survey-Q18*

Nearly all of the managers who provided opinions agreed that engagement was close and on-going. The comfort with disclosing challenges—and particularly with sharing information that might reflect negatively on the charity or its programmes—was seen as unusual and was very highly valued by managers. A similar feeling was shared by Inspiring Scotland performance advisers:

> *Originally it was all venture this and venture that ... now they're my organisations. Because you have that closeness, and I think we've all transferred over time.... [Y]ou're with them, you know their ups and downs, you know if something's happening there, that that personality is going to react a certain way and therefore you need to deal with it this way. —Performance adviser, Inspiring Scotland; Interviewee 9, 2011*

The performance adviser indicated that close relationships provided both organisational and personal information, guiding strategies to influence charity managers. This helped create the same virtuous cycle of disclosure and trust seen in the Impetus Trust case. Further, the level of engagement that SPO managers reported with Inspiring Scotland was correlated with whether they believed Inspiring Scotland provided value for money—the closer the engagement, the more SPOs asserted that Inspiring Scotland was valuable ($r_s(55)= .335$, $p=.005$).

### 7.4.1 Broad scope of engagement supporting entire charities

As in most venture philanthropy relationships, the scope of engagement between Inspiring Scotland and supported charities was broader than most third sector funding approaches. This breadth was a natural outgrowth of attempting to support organisational growth and expanded capabilities and networks, but it also helped undergird close relationships:

> *Compared with all other funders (of which there are more than 12) Inspiring Scotland are by far the most pro-active and supportive, and have looked at our organisation as a whole and not just the activity they are funding. — Manager, SPO 80 (Go 2 Play Fund, micro, active), Survey-Q18*

Many SPO managers indicated it was rare—and appreciated—for a funder to take interest in an SPO's entire operation. In addition to the broad scope of engagement, the geographical model of operation chosen by Inspiring Scotland also contributed to building close and transparent relationships.

### 7.4.2 Spatial organisation: Key staff distributed regionally

Inspiring Scotland adopted an unusual geographical model of supporting charities. The performance advisers were not based in the central Edinburgh office. Rather, performance advisers were each responsible for six to eight charities within a given fund within a given region. This allowed most meetings to occur at the offices or programme sites of the ventures rather than in Inspiring Scotland's offices. Indeed, many performance advisers lived in the regions where they supported charities and only spent one or two days per fortnight in the Edinburgh office. This approach was reported to be appreciated by charities; for example:

> *We had two different PAs during the project, both of whom were very helpful and supportive. They were also always prepared to travel to us for meetings, which is refreshing! — Manager, SPO 71 (Go Play Fund, micro, exited), Survey-Q26*

The use of the word "refreshing" hints at the manager's understanding of the power imbalance between funders and charities, in which charities generally need to satisfy the needs of funders. This is not to judge funders—it takes resourcing to visit charities, especially if a foundation supports many of them—but to indicate that this is another norm to which the Inspiring Scotland model runs counter.

The spatial model employed by Inspiring Scotland and the face-to-face interactions it enabled at the offices of supported SPOs decreased the friction of distance. SPO managers were asked whether they believed that "organisations located near [foundation name] are likely to receive better support than organisations located further away". Inspiring Scotland charities (n=45) responded, on average, with 2.18 on a five-point Likert scale—that is, they *slightly disagreed* that proximate charities received better support from Inspiring Scotland. By comparison, charities supported by Impetus Trust were between neutral and *slightly agreeing*, with an average of 3.2 on the five-point scale. This difference was statistically significant ($t(63)= -2.290$, $p=.025$).

An Inspiring Scotland performance advisor indicated a general goal of providing the same level of interaction to all supported SPOs, regardless of location:

> *We had [a charity] in the Highlands, which I worked with, and they did get the same number of meetings as everybody else. I think I did one or two by Skype … during bad weather.… [W]e had one from Galloway that we also made sure that they got the same kind of attention as well. — Performance adviser, Inspiring Scotland; Interviewee 1, 2011*

That said, the format and frequency of interaction was largely based on SPO needs:

> *At one stage I was going down there on a weekly basis for nearly two months last year, because it was the intensity of support required. Other ventures I will see maybe once between the quarterly reviews because they are more highly functioning, but I may have twenty or thirty phone calls in that time instead. — ibid.*

While Inspiring Scotland's model encouraged such flexibility in some VPO–SPO engagements, all SPOs had the same, standardised quarterly and semi-annual interactions.

### 7.4.3 Quarterly and semi-annual structured engagement

The most standard element of engagement between Inspiring Scotland and the charities it supported was the "quarterly review" meetings between performance advisers and charity managers. These meetings used a standard tool, the balanced scorecard, to measure progress against goals mutually agreed upon by the charity and Inspiring Scotland—and to consider problems and select appropriate resources to support SPOs.[71] The manager of SPO 93 explained:

> *The quarterly review reports and discussions, although hard work to prepare for, are hugely beneficial. They promote accountability with Inspiring Scotland and our own board, they increase our sense of achievement, and they help identify current trends in youth work which then shape our practice. Inspiring Scotland has very high standards and is demanding as a funder but, in our experience, in a good way.… [In a crisis] Inspiring Scotland would be one of the first places we would turn for advice or support. — Manager, SPO 93 (14:19 Fund, micro, active), Survey-Q18*

The role of "very high standards" and "demanding", structured engagement practices from the VPO—given a clear and mutually understood rationale and process—created the foundation for a strong relationship.

The other structured venue for contact were mandatory semi-annual portfolio days, specific to each fund. While the primary focus was interaction between and among SPO managers, portfolio days provided another opportunity for face-to-face interaction and clarification of common portfolio-level goals:

> *The venture days offer a great amount of information and remind you of why we are on-going and engaged with the demographic. The information*

[71] In monitoring progress in several areas, the status of each constituent element was examined—for example, the "financial" area included indicators like the charity's planned spending versus its actual spending, the amount of income generated versus the forecast, the number of months of operating costs held in reserve, and the amount of non-Inspiring Scotland income received versus a goal.

> *bank Inspiring Scotland have at their fingertips— you can't do without it!*
> *— Manager, SPO 75 (14:19 Fund, micro, active), Survey-Q23*

Structured events—quarterly reviews and portfolio days—helped to build trust and a sense of common goals, which in turn reduced communication errors and costs. (Section 7.6.1 discusses the important networking and information-sharing aspects of portfolio days.) The positionality of Inspiring Scotland as a funding intermediary further contributed to a sense of shared endeavour between SPOs and Inspiring Scotland.

### 7.4.4 Funding structure and power: Inspiring Scotland was also beholden to others

Charity managers often used language of partnership, teammates, critical friends, and family to describe their relationships with Inspiring Scotland. This was attributed, in part, to the structure of the Inspiring Scotland model: just like the charities it supported, Inspiring Scotland had funders to satisfy. The primary funder, the Scottish Government, was one that the charities were generally very familiar with, which added to SPO managers' feelings that they and Inspiring Scotland were working "alongside" each other or "in partnership" to satisfy the demands of an external body.

The changes in power dynamic here are significant, and perhaps unique to a government-supported foundation. Whereas a few organisations funded by Impetus Trust indicated that they felt that the VPO was a potential competitor for funding from certain large trusts or wealthy individuals,[72] Inspiring Scotland's large contracts with government bodies were seen as a collective goal, acting as a unifying force rather than as a source of friction:

> *There's a considerable strengthening of the resolve of ventures to deliver because of the investor population—which we refer up to often. It's other people's money. To an extent, I look up on myself as the sort of trustee of*

[72] This potential competition was mentioned by a few SPO managers in the Impetus Trust case; however, several SPO managers shared militating sentiments, explicitly mentioning that Impetus Trust freely introduced SPOs to its own VPO funders (see Section 5.6.1).

*other people's money in terms of spending it. That features largely in conversations that we have at quarterly reviews. Because [charity managers] are always very interested to know that the money is continuing to come. —Performance adviser, Inspiring Scotland; Interviewee 17, 2013*

Two elements of the structure of Inspiring Scotland's government-supported venture philanthropy model helped further build trust with charities. First, most supported SPOs and Inspiring Scotland had separately interacted with the Scottish Government beyond its role as the ultimate "client" in each fund—and therefore had a shared understanding of such a relationship. Second, the contracts between the Scottish Government and Inspiring Scotland were of a different size and nature than the contracts that government would make with most supported charities—this further obviated competitive friction between Inspiring Scotland and SPOs.

The intermediary role of Inspiring Scotland acted to align incentives and create a common goal for SPOs and the VPO. This resulted in power relationships that were less imbalanced than typically found between foundations and the charities they support (Ostrander, 2007).

### 7.4.5 Challenges of high engagement

There were challenges associated with such a high-engagement approach. The two primary problems, according to SPO managers,[73] overlapped with those in the Impetus Trust model: time burden and monitoring of performance. Cultural frictions were less frequently mentioned in the Inspiring Scotland model. SPO managers discussed the time-intensive processes of engagement, monitoring, and evaluation:

*Contact with Inspiring Scotland was very high compared to other charitable trust funding. For the most part this was of a positive nature—however it did feel at times [like] "micromanagement". There was a great*

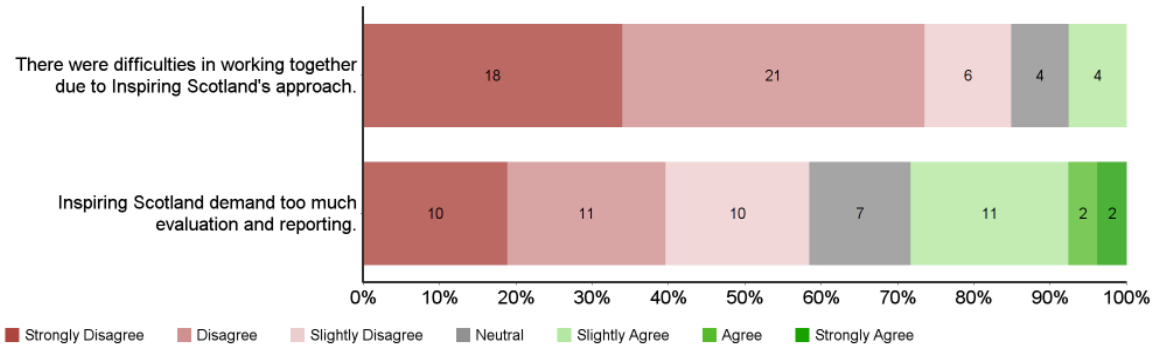
[73] In addition to interview data, nine SPO managers mentioned each challenge in the survey, specifically the free-text response question 49: "Please tell us more about your answer above: describe your relationship with Inspiring Scotland, comparing it with other funders wherever possible."

*deal of examination of budgets and items of expenditure. — Manager, SPO 98 (EYEA Fund, small, exited), Survey-Q18*

*The relationship with Inspiring Scotland is extremely close. Inspiring Scotland is our single largest funder and as such has high expectations in terms of regular reporting. Inspiring Scotland also make additional requests for information on a regular basis, which we try to respond to if possible. At times these additional requests can be quite demanding in terms of resources and time… — Manager, SPO 76 (14:19 Fund, small, active), Survey-Q18*

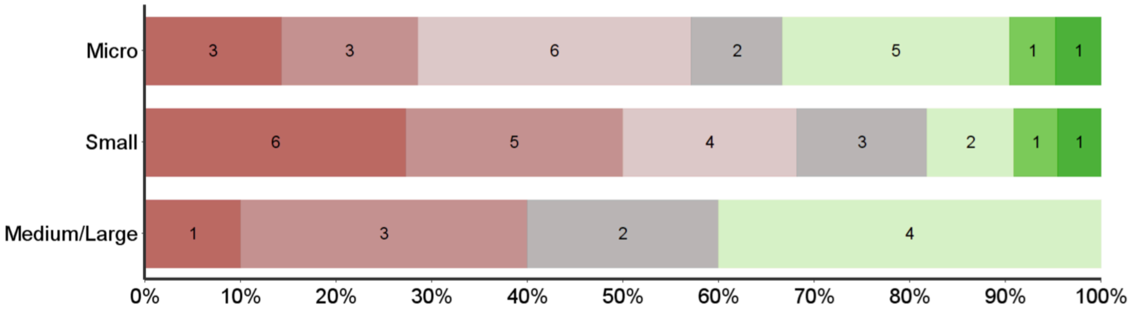
The demands of high engagement were often noted, but only a small minority of supported organisations believed Inspiring Scotland's approach posed difficulties: 45 of 53 of SPO managers *disagreed* that there were difficulties working with Inspiring Scotland, with only 4 *slightly agreeing* that there were challenges.

**Figure 7.13: Opinions of SPO managers regarding difficulties due to Inspiring Scotland's approach and monitoring (n=53)**




A larger minority of SPO managers (15 of 53) agreed to some extent that Inspiring Scotland demanded too much evaluation and reporting (Figure 7.13), although only four—all micro or small SPOs— *agreed* or *strongly agreed* (Figure 7.14).

**Figure 7.14: Opinions of SPO managers regarding difficulties due to Inspiring Scotland's monitoring, by size (n=53)**




Some SPOs felt that their limited capacity—often but not always correlated with small annual budgets—exacerbated the challenges of reporting and interaction:

> *The approach taken did present a number of challenges, particularly for a small organisation with limited capacity for implementing fairly complex financial and performance monitoring systems, which also frequently changed during the lifespan of what was a relatively short project. — Manager, SPO 99 (EYEA Fund, micro, exited), Survey-Q23*

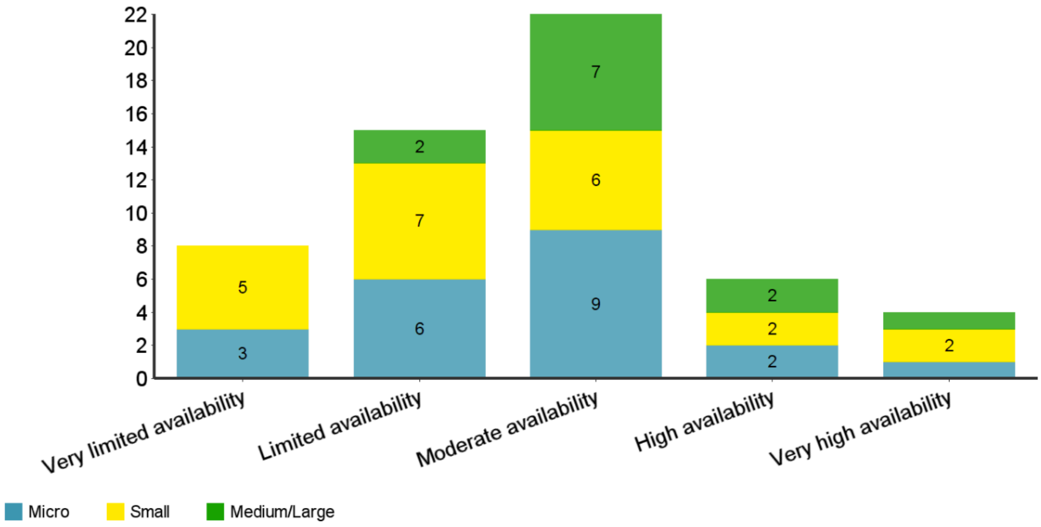
Some SPOs that received relatively small amounts of funding questioned whether there was too much reporting effort required relative to the amount of funding—especially for Inspiring Scotland's shorter-duration funds.

Perhaps the single most important aspect of the engaged, high-trust relationships just explored is the manner in which they facilitated the fifth core operational practice of the Inspiring Scotland model: selection and provision of nonfinancial support services. The next section examines this dynamic in detail.

## 7.5 Nonfinancial support services provided to SPOs

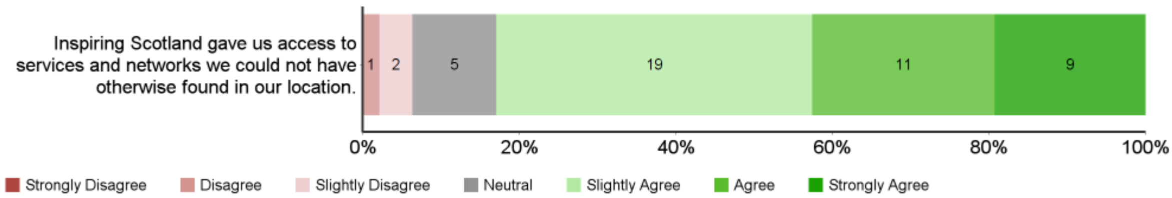
Like those supported by Impetus Trust, SPOs reported five barriers to accessing nonfinancial services on their own: awareness, availability in their area, selection ability, ability to pay, and willingness to pay (discussed at length in Section 5.5.1). SPO managers also indicated greater limitations on the availability of nonfinancial services in their area, with 23 of 55 SPOs indicating *limited* or *very limited* availability (Figure 7.15).

**Figure 7.15: Opinions of SPO managers regarding availability of nonfinancial services in their area, by SPO size (n=55)**




Although managers of smaller SPOs appeared more likely to believe that there were limited nonfinancial services available in their areas, it is outside the ambit of my research questions to disambiguate the extent to which this was due to the location of those SPOs or the size of those SPOs. Additional data about the role of Inspiring Scotland in expanding access to nonfinancial services informs this issue (Figure 7.16).

**Figure 7.16: Opinions of SPO managers regarding access to services and networks (n=47)**




Micro and small SPO managers were more likely to indicate that they received access to services or networks they could not otherwise find in their location, $f(2,44)=4.55$, $p=.016$ (Figure 7.17).[74]

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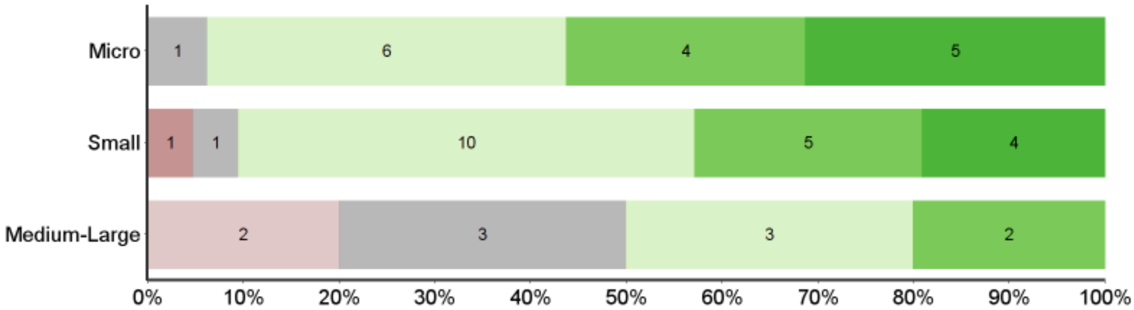
[74] Bonferroni post-hoc analyses following the ANOVA indicated that the difference between *micro* and *medium/large* SPOs was significant (p=.041), while the difference between *small* and *medium/large* was marginally significant (p=.095).

**Figure 7.17: Opinions of supported SPO managers regarding access to services and networks, by size (n=47)**

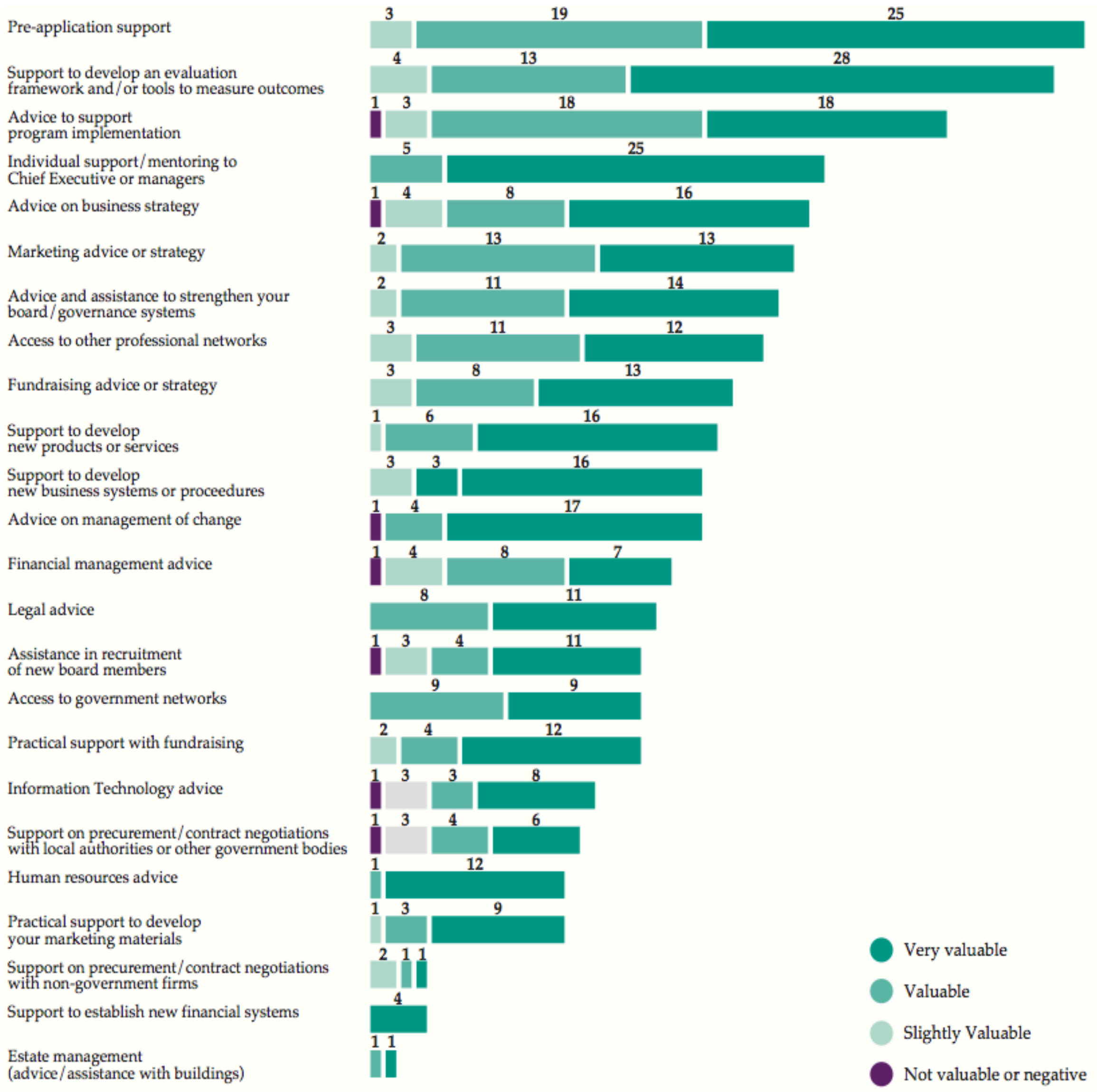



This role of Inspiring Scotland in expanding access is worth exploring. Based on this survey's dataset of 58 charities reporting 522 instances of service types received—across 24 categories such as executive coaching, support to develop financial systems, human resource expertise, or legal advice—the average charity supported by Inspiring Scotland received support in 9 categories.[75] Beyond reporting whether or not they received a given type of service, charity managers indicated how valuable they found that service to be (Figure 7.18).[76]

[75] These elements of the survey were based loosely on the work of Cosh et al. (2001) and John (2007).

[76] Figure 7.18 includes all SPO manager responses that included both receiving that type of nonfinancial service *and* rated the value of that type of service. In 7 cases, SPO managers asserted that they had received a given service type but did not indicate either a value rating or a provider. This data is included in the in-text discussion regarding the frequency of service provision, although not, of course, in Figure 7.18 or Figure 7.19.

**Figure 7.18: Nonfinancial services provided to charities by Inspiring Scotland and the value of those services (n=58)**




Five types of non-financial service were provided to more than half of SPOs, according to SPO managers: pre-application support, support to develop an evaluation framework, advice on programme implementation, support and mentoring to chief executives or managers, and general business advice. A further thirteen service types were provided to at least one-quarter of supported SPOs.

One of the most striking aspects of the data on nonfinancial services provided is the high average ratings regarding their value. The majority of services, 304 of 522 (58%), were rated as *very valuable*, with a further 165 (32%) rated as *valuable*. Extremely few instances of nonfinancial service provision (7 of 522) were found to be *not valuable or negative,* and 46 of 522 were rated as *slightly valuable*.

Lastly, Figure 7.19 shows that approximately two-thirds of all services were provided by Inspiring Scotland staff, with the remaining third coming in approximately equal shares from pro bono professionals and external consultants paid for by Inspiring Scotland.[77]

**Figure 7.19: Average number of nonfinancial services received by supported SPOs, in total and by service provider (n=58)**

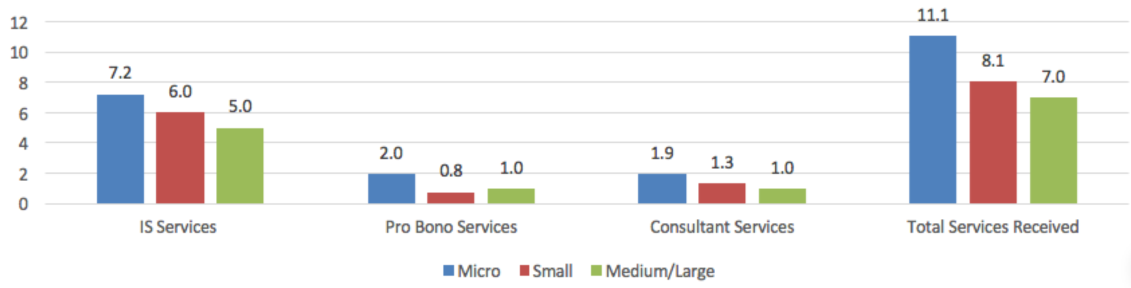



Figure 7.19 also indicates that larger organisations received fewer types of services, on average. Interviews and long-form text responses indicated that larger charities tended to have access to at least some of the nonfinancial services that Inspiring Scotland provided. For example, an in-house legal team and human resources team decreased the need for, and perhaps value of, access to such services via Inspiring Scotland.

Importantly, the perceived value of individual nonfinancial services was high for all sizes of organisations. Average ratings for the value of services were high and nearly identical for all three charity sizes: 3.4 out of four, an average rating between *valuable* and *very valuable*. Overall, these ratings were similar to those from SPOs supported by Impetus Trust.

[77] These opinions represent the *primary* providers of each type of nonfinancial service. Of course, within each service type, there was likely some contribution from multiple service providers, especially given that all nonfinancial services were arranged by VPO staff.

Overall, pro bono support was not central to Inspiring Scotland's model, though it was viewed as a valuable supplement that Inspiring Scotland planned to expand, according to their managers and documents. The only category of nonfinancial services provided more often by pro bono associates than by Inspiring Scotland staff was legal support. Importantly, though, SPOs reported receiving pro bono services they could have not have accessed otherwise:

> *In most of the above categories Inspiring Scotland have also supported [us] alongside pro bono support. The role of the performance advisor is of particular importance.… [P]ro bono support has been invaluable to the development of [SPO 74] into a more business-like organisation. [SPO 74] would never have been able to pay for the support we have had from very experienced and highly qualified business people. — Manager, SPO 74 (14:19 Fund, micro, active), Survey-Q26*

> *We have no experience of any other funder providing the level of support and advice provided by IS [Inspiring Scotland]…. Their role as a critical friend was invaluable. The benefit of the pro bono was very much appreciated as we could never have afforded to purchase what was offered. So even if the same level of support was available locally it would presumably have a cost attached. — Manager, SPO 81 (EYEA Fund, small, exited), Survey-Q26*

Despite the overall high level of value ascribed to pro bono services by supported SPO managers, there were some challenges. They paralleled those discussed by Impetus Trust-supported SPOs in Section 5.5.4: challenges around the quantity, quality, timing, and location of services, and some frictions around organisational cultures.

### 7.5.1 Pro bono support and geographical constraint

Supported SPO managers sometimes felt that pro bono support services were limited outside of Scotland's Central Belt:

> *To be honest, we haven't requested much pro-bono support from IS. In part I think this is because much of the pro bono support was available in the Central Belt, however we tend to look for local support as we always have. — Manager, SPO 90 (14:19 Fund, small, active), Survey-Q26*

> *[Our SPO] is geographically distant from the central belt where most of the in-kind support from mentors, pro bono has been located. [Our SPO] also has a strong board and good local networks so our need for this type of support from IS is low. — Manager, SPO 77 (14:19 Fund, medium-large, active), Survey-Q26*

Pro bono support was seen as a valuable, supplementary aspect of the Inspiring Scotland model—which faced several of the same challenges seen in the Impetus Trust case: occasional incidents of poor work and some cultural frictions, often involving consultants accustomed to working with large, corporate clients. Taken together, these data indicate that the types of nonfinancial services provided via Inspiring Scotland were highly valued across all sizes of charities.

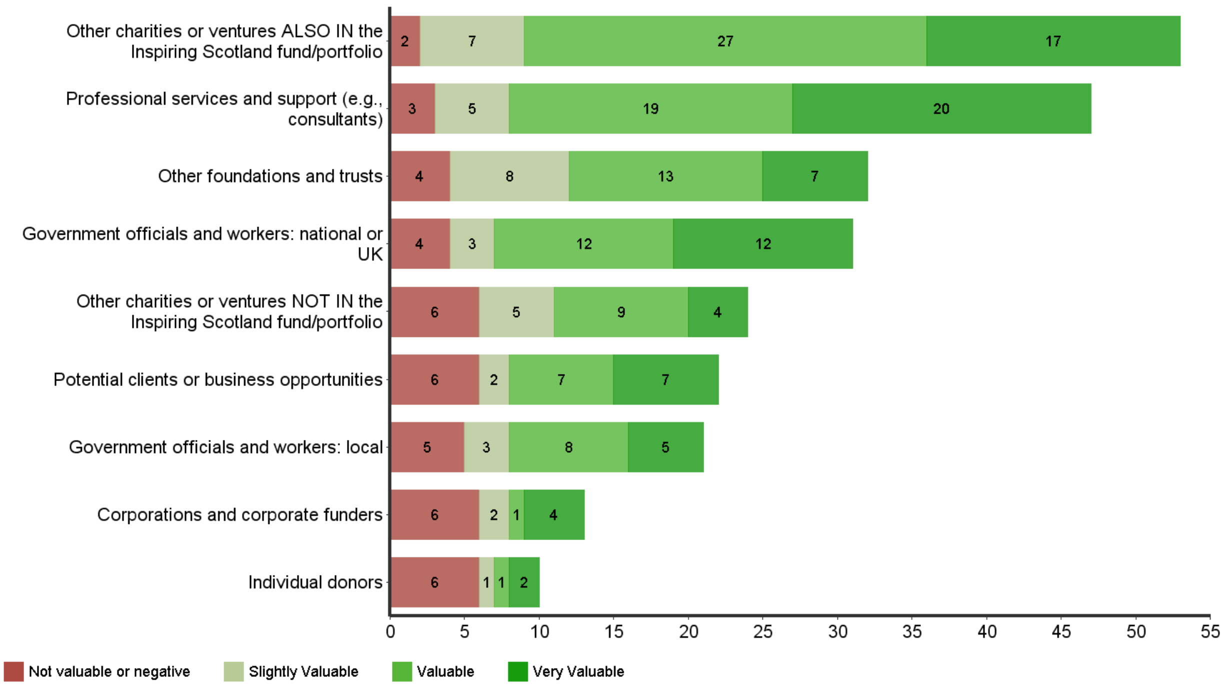
The close relationships between performance advisers and charities seemed to result in well-chosen sets of services. This is particularly important given that the 59 charities in this sample were geographically disparate, operated in multiple modes across a variety of social issues, and were in general highly heterogeneous.

The improvements in charity capacity facilitated by nonfinancial service provision are a key reason the Scottish government funded the work of Inspiring Scotland. Improved networking is another.

## 7.6 Networks

In addition to providing support and funding to charities, Inspiring Scotland intentionally created networking opportunities and made introductions for the charities it supported. Charities reported the creation of valuable connections within and outside the portfolio (Figure 7.20). These expanded networks resulted in contracts, collaborations, product development, and cost sharing.

**Figure 7.20: Types of connections made by SPOs due to Inspiring Scotland support and the value of those connections (n=59)**




The average SPO reported five different types of connections across all three sectors of economic and social life. Connections to other SPOs within the portfolio and to professional service firms were seen as particularly valuable, on average; those to individual donors and corporate funders were seen as much less valuable, on average, with approximately half the rating of each type being "not valuable or negative".

### 7.6.1 Networking of charities within the portfolio

As previously discussed, the Scottish voluntary sector is like many in the west: growing, made up of many small organisations, and with a generally low level of interaction among those charities. A civil servant highlighted these factors in the sub-sector of the voluntary sector that provides play opportunities for children:

> *The play sector is quite disparate and it has very different levels of capacity ... so there is value in connecting some of that up and learning from that experience that is out there.... [Inspiring Scotland staff] are very kind of connected networking people.... Finding ideas, following them up,*

*building, making connections, facilitating… — Director-level civil servant, Scottish Government; Interviewee 25, 2013*

The intentionally intensive portfolio approach is one the most innovative aspects of Inspiring Scotland's model. The primary tool for creating denser networks was twice-annual portfolio days, generally attended by managers of all portfolio charities.

*Portfolio days were very useful in providing links with other Go Play ventures, within our area and beyond. ... useful for meeting experts/consultants and getting advice from them. — Manager, SPO 71 (Go Play Fund, micro, exited), Survey-Q12*

*At the portfolio days Inspiring Scotland commonly invite guest speakers from corporate organisations and national government. This can provide valuable information about private sector practices and government priorities. — Manager, SPO 104 (14:19 Fund, small, active), Survey-Q12*

Charities viewed portfolio days as opportunities to learn from experts in their field, particularly in the areas of management, training, and policy. Other methods to create linkages and expand networks included introductions, relationships in the course of other work, and serving on advisory or expert bodies.

The geography of Scotland, with much of the population and wealth centred in the Central Belt, made access to networks of other SPOs particularly valuable for charities outside that belt. Multiple charities mentioned the value of having diverse organisations throughout Scotland within the portfolio:

*Venture networking is very valuable to the team, e.g. skill sharing, best practice, funding successes…. Geographical spread of ventures allows information sharing. — Manager, SPO 54 (Go 2 Play Fund, small, active), Survey-Q12*

*The most helpful opportunities afforded to us through the 14:19 Fund have been the fact we can network with colleagues across the country. IS* *organises Portfolio Days with guest speakers and networking opportunities, which really takes away from what can be quite an isolated struggle when working in the contexts of our own community and young people. — Manager, SPO 79 (14:19 Fund, micro, active), Survey-Q12*

However, at least one charity also pointed to networking difficulties resulting from geographic factors.

*Again, it may be that we are further removed from IS's main base, but we don't really benefit from this area of Inspiring Scotland's work — Manager, SPO 90 (14:19 Fund, small, active), Survey-Q12*

Although the wide geographical spread of portfolio charities was highlighted as an enabler of sharing practices and discussing policy within the portfolio, geographic concentrations of charities were implicated in fostering collaborations and community-specific knowledge sharing.

*It has opened up networking with other Early Years ventures within our geographical area. — Manager, SPO 102 (EYEA Fund, micro, exited), Survey-Q23*

The intentional focus on "hot spots" of need and funding a variety of interventions focused on one social problem formed the foundation for non-duplicative collaborations of related charities working in the same geographical area.

### 7.6.2 Collaboration between SPOs supported by Inspiring Scotland

Inspiring Scotland seeded and fostered a number of significant collaborations amongst its charities. For example, eight charities in the 14:19 Fund jointly designed, with the Glasgow Youth Employability Partnership, a programme called Connect2. The programme was piloted in the summer of 2012, and after evaluation and modifications, five Inspiring Scotland charities each contributed one full-time staff person to a city-wide rollout throughout 2013. The initiative, created due to Inspiring Scotland intra-portfolio links and support, was characterised by an unusually high degree of cooperation: the charities and city government shared capacity, staff, and data.

> *Joint working with other ventures has led to securing additional project funding from Glasgow City Council (Connect2). Showcasing the work of the Glasgow-based ventures led to a shift in attitude among statutory providers in relation to the IS ventures. They were able to see the quality and scope of what we provided and acknowledge us as main players in the City's employability landscape. — Manager, SPO number withheld (14:19 Fund, small, active), Survey-Q12*

Connect2 was probably the largest multi-charity collaboration that sprang from Inspiring Scotland support, but there were more than a dozen other specific alliances mentioned by charities. In addition to formally contracted collaboration, more than 20 charities described sharing knowledge, best practices, peer advice, and expertise. Other charity managers also mentioned that multiple charities presenting a joint project could have an impact on local government contracting and policy, this time in the context of play for children rather than employability:

> *Inspiring Scotland helped us to join up with other groups in our region that were funded by them. This has led to us continuing working together on other projects connected with play. We have enjoyed this kind of connection as we now have "friends" working in the same area who share best practice and opportunities.… I think if we had more time we would have developed these relationships even further, but two years after the funding has stopped we are all still working together and have had some impact on local government with a big say on the implementation of a play strategy. We are all now involved in providing play workshops for other organisations in the area. — Manager, SPO 50 (Go Play Fund, micro, exited), Survey-Q12*

This micro organisation highlighted several results of a proximal group of related charities supported by the same funder. Tellingly, the charities continued working together to deliver services and were able to have a "big say" in local authority policy implementation in their area of social service provision.

Another charity, supported via the Early Years Early Action Fund, discussed the overall coordination benefits and thickening of local networks facilitated by Inspiring Scotland.

> *Previous to our engagement with IS, we knew of a range of other organisations, but had no real call to interact with them. Through IS and the whole portfolio, we have been able to learn about other orgs, share ideas, work in partnership and jointly deliver services. This is a great new way of working and it ensures that we don't duplicate. We can also support each other in the wider context.… [W]e preach about reducing isolation and providing support—this is what IS has done for us, and the benefits are enormous. I just hope that we can keep this engagement up.… It will be easy to fall by the wayside without them and get bogged down in our own worlds of funding applications and trying to survive. — Manager, SPO 64 (EYEA Fund, micro, exited), Survey-Q12*

This charity manager's opinion underscored the coordination benefits that resulted from having a non-local funder support a group of related charities. They indicated that there was less duplication of effort, increased ability to jointly design and deliver services, and to share ideas and best practices. This manager also mentioned the general perception that organisations in the play sector were isolated from each other, and provided support for the general prescription that increased interaction among play organisations resulted in at least some improvements in service delivery.

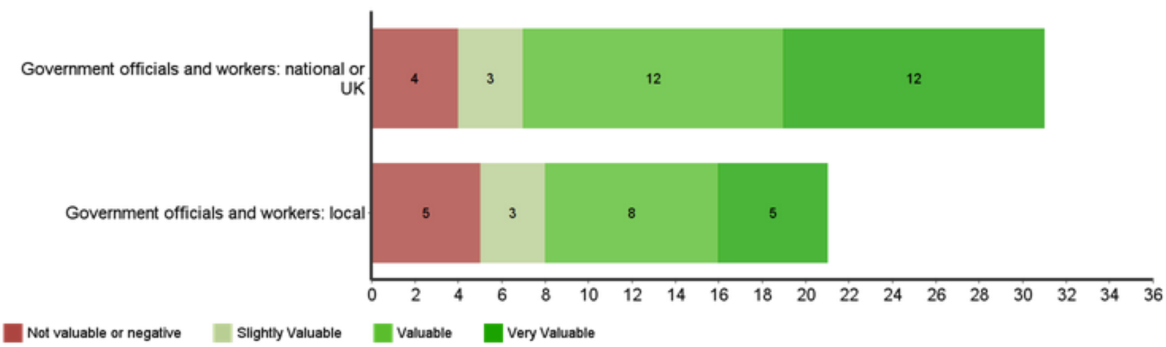
Both testimonies indicate that Inspiring Scotland support had four important features that fostered inter-charity collaboration: first, it created the organisational "breathing room" that allowed managers the time to create partnerships; second, it provided a venue for managers to meet and discuss collaboration; third, it provided the expectation that collaboration was a desirable and useful goal; and fourth, it provided mentorship and support to managers on broader strategic issues, which often included external partnerships.

Each of the last two quotations also indicated a potential challenge of funder-supported collaborative work: that the end of shared funding would spell the end of the collaboration. The first manager reported that the partnership was continuing more than one year after the end of the Go Play, while the second manager expressed concern that their collaboration, despite "enormous" benefits, might end as organisations "get bogged down in [their] own worlds of funding applications and trying to survive". Further work should explore the constellation of factors that allow charity collaborations initially created in a funder-supported context to survive (or not) after that funder removes support.

### 7.6.3 Networking between charities and government

In addition to linking charities together, including fomenting coalitions that interacted with statutory bodies, Inspiring Scotland also facilitated network linkages between individual supported charities—and the individuals that comprise those charities—and government officials. This occurred at both the local (for 21 SPOs) and national (31 SPOs) levels, as shown in Figure 7.21.

**Figure 7.21: Number and value of network connections to government bodies provided to Inspiring Scotland charities (only includes SPOs that reported receiving each type of connection of a total n=59)**




These linkages to national or UK government were rated either *valuable* or *very valuable* in 24 out of 31 cases. They resulted in information exchange and influence on policy, according to both SPO managers and senior civil servants:

> *I have now regular networking opportunities with officials from Scottish Government, and am informed how the national Play Strategy is being developed. — Manager, SPO 61 (Go 2 Play Fund, micro, active), Survey-Q12*

> *Inspiring Scotland has raised the profile of the work done by our organisation at national level; they have pushed us forward to present our project at all times to local and national government. Staff have reports regularly going to the minister for children and young people, the manager now sits on a new framework to develop [a new government policy initiative]. — Manager, SPO 63 (Go 2 Play Fund, small, active), Survey-Q12*

The “networking opportunities” with officials, combined with being “pushed … forward to present” to statutory bodies, created information flows between those bodies and SPO leaders. Importantly, as mentioned by the managers of SPO 63 and 108, this allowed SPOs to plan based on policy shifts and to inform those policy shifts:

*300959831*Lastly, these facilitated links between the state and SPOs—with the positive signalling effect of Inspiring Scotland’s support—also led to direct contracting:

> *The Scottish Government ... link enabled us to showcase some of the project work that IS had funded—and has now led to further significant work and income. It is probably fair to say that without a) the original IS funding and b) the opportunity to showcase this work more widely, particularly to the Government, our organisation may not have survived and the significant changes that we are stimulating in children’s lives would not be taking place. — Manager, SPO 53 (Go Play Fund, small, exited), Survey-Q12*

The links and interactions created between supported SPOs and statutory bodies were a distinctive element of the Inspiring Scotland model. According to SPO managers, these links created opportunities for contracting, learning about policy, and informing policy. These features were seen to a much lesser extent in the Impetus Trust model. However, the models were similar in forming connections to professional service firms and other trusts and foundations.

### 7.6.4 Networking between charities, professional service providers, and funders

As in the Impetus Trust case, most supported SPOs reported making links with professional service firms—and valued them highly and for similar reasons to those discussed in Chapter 5.

The final type of network linkages provided to more than half of SPOs supported by Inspiring Scotland were links to other funders of SPOs: trusts, foundations, and individual donors. Inspiring Scotland, as with statutory bodies, frequently arranged visits and introduction on behalf of portfolio SPOs:

> *We have also met a range of funders—usually as an example project for them to visit. This benefits ourselves indirectly and it has improved our knowledge of how to engage with these stakeholders and what their expectations are. — Manager, SPO 55 (14:19 Fund, medium-large, active), Survey-Q12*

> *[Portfolio advisor] pointed us in direction of various funders—some of which were new to us. — Manager, SPO 71 (Go Play Fund, micro, exited), Survey-Q12*

The manager of SPO 55 highlighted the "showcase" aspect of some visits, where Inspiring Scotland attempted to showcase its own impact via the work of portfolio SPOs. One important effect of these interactions was learning through interaction: that manager reported improved knowledge of funders, their expectations, and how to interact with them.[78]

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[78] The ability to "engage" or interact with funders matters for SPOs: survey data indicate that charities that were more engaged with one type of funder tended to be more engaged with other types of funders (Appendix 10). The correlations are positive and significant for most interactions between the levels of engagement between supported charities and other, non-Inspiring Scotland funders.

This is further evidence of the hypothesis that voluntary sector organisations that develop external-facing relationships and the associated capacities—relationship management, fundraising, contracting, and reporting back results—tend to develop them across multiple kinds of relationships and funders.

Lastly, although the large majority of SPO managers indicated that networking was an important aspect of Inspiring Scotland support, not all managers felt that they and their SPOs benefited:

> *If this was a new organisation there would have been more new links and relationships, but as one of the longest standing Scottish third sector organisations most of these links and relationships were already in place.*
> *— Manager, SPO 97 (EYEA Fund, medium-large, exited), Survey-Q23*

There was no statistically significant correlation between the size or age of an SPO and the value that SPO managers placed on networking.

Overall, the role of network-enhancing groups like Inspiring Scotland in selecting charities and helping them to engage with other funders—regardless of whether they currently have strong networks among funders, government officials, and other groups important to growth—is a topic of signal interest in considering the future and financing of social service provision (considered in the next chapter).

## 7.7 Exit, sustainability, and the role of government

As explored in the case of Impetus Trust in Section 5.7, exit in venture philanthropy is challenging in different ways than venture capital, both operationally and relationally. Operationally, in the venture capital industry on which venture philanthropy is conceptually based, exit events generally bring in capital for subsequent organisational growth. In venture philanthropy, exit means the loss of a funding stream.

Even more difficult, the loss of that funding is coupled with the loss (or at least diminishment) of a long-term, often high-trust relationship without any clear replacement:

> *A weakness [of the Inspiring Scotland approach] is that at the end of a fund there is a feeling of being abandoned because you have had such hands-on support and then effectively go to no support. —Manager, SPO 68 (Go Play Fund, micro, exited), Survey-Q29*

The relational challenge of exit is a fraught issue that arose in both venture philanthropy models examined here—recall the prevalence of partnership and familial language in this case, with many SPO managers referring to Inspiring Scotland's role as a "trusted friend" or "member of the management team".

The SPO-VPO partnerships that made exits relationally painful helped alleviate some of the attendant operational frictions. A senior Scottish Government official involved in the founding of Inspiring Scotland posited that close relationships between Inspiring Scotland and SPOs would facilitate orderly drawing down of funds—an area where he believed statutory bodies often encountered problems.

> *The Inspiring Scotland relationship through their performance management team is a much more intensive relationship [than typical SPO relationships with statutory bodies]…. For the intermediary it is easier to plan that cessation of funding in a more orderly way and to do so in direct partnership with a funded body.*
>
> *I don't think the government can always do that…. I suspect some of the bodies we have stopped funding say those decisions come rather late in the day, they're rather disruptive, and they could significantly impair service delivery, or it could even impair the viability of the service organization. —Director-level civil servant, Scottish Government; Interviewee 13, 2013*

Operationally, although two organisations mentioned the challenges of finding replacement funding after exit, more than a dozen organisations that no longer received Inspiring Scotland support wrote that they felt on firmer or more sustainable ground.[79] The Inspiring Scotland case differed meaningfully from Impetus Trust in that it explicitly aimed (in at least some cases) to prepare charities to sell more services—especially to government bodies.

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[79] More than two-thirds of all the opinion data presented here are from charities that no longer received Inspiring Scotland support at the time of data collection; 39 of the 59 charities were in the two funds that had finished, Early Years Early Action and Go Play.

> *We work with local governments and encourage our ventures to do likewise. It is part of the exit strategy. We work hard on building and maintaining those relationships because they are a long-term feature of the sustainability landscape for charities. —Manager, Inspiring Scotland; Interviewee 20, 2014*

The interaction with government ran from the application stage through exit. One charity CEO, whose organisation had been supported by both Impetus Trust and Inspiring Scotland, shared an impression of the difference:

> *Impetus has been more about general growth and less about the public sector backing you, although that has been a factor…. I think Inspiring Scotland are much more focused on exit then Impetus are. But if you want to go super growth, Inspiring Scotland is all about exit, how can they get out and be backfilled by public sector money. —CEO, active SPO with number withheld, in interview, 2013*

Inspiring Scotland's focus on helping portfolio SPOs increase their earned income, and particularly doing so through contracts with public bodies, was also discussed by the manager of SPO 77:

> *The emphasis from the outset has been to seek payment for the work. We have taken the stance that statutory services need to pay before we can deliver. This has paid off and will mean that the service will be sustained beyond the life of Inspiring Scotland investment. — Manager, SPO 77 (14:19 Fund, medium-large, active), Survey-Q16*

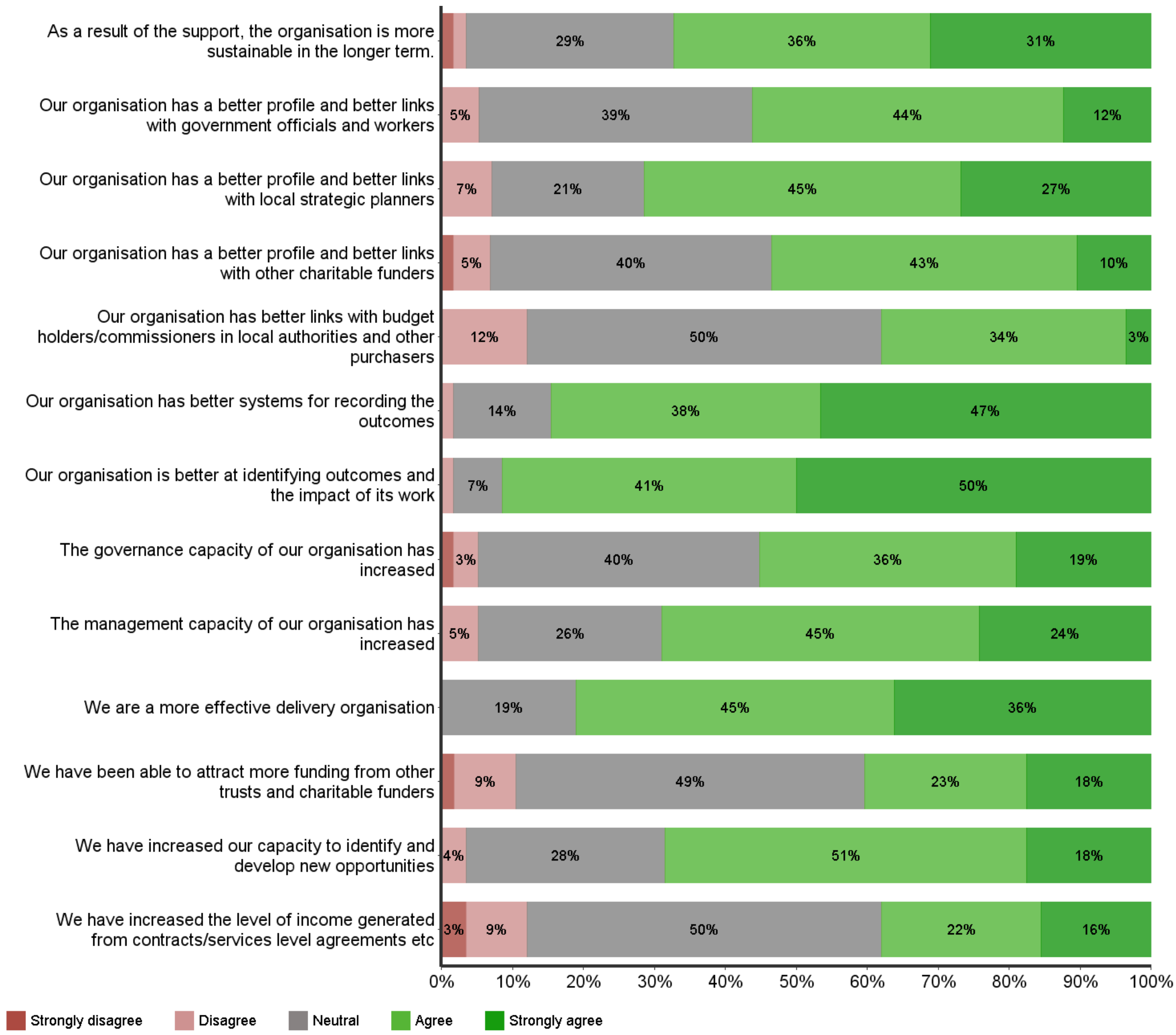
Inspiring Scotland's operational goals for exit were measured by the SPOs' capabilities post-exit: their degree of actual and potential financial sustainability, including additional income streams and the ability to identify and capture new opportunities.

## 7.8 SPO manager opinions on the effect of Inspiring Scotland support on SPO capabilities

This research examined 13 areas of SPO capability, sustainability, and influence; all were areas in which I (and the venture philanthropy model) hypothesized that support from Inspiring Scotland could produce improvements. The areas of greatest and least improvement are of particular interest in informing my third, and to a lesser extent fourth, research questions. Noting that each of the 13 areas showed SPO managers' statistically significant belief that area had improved (Appendix 11), I will examine each area in turn.

The seven areas where the largest proportion of SPO managers—at least 70% agreeing or strongly agreeing in each case—felt that their organisations' capabilities had been improved were primarily concerned with measurement, execution, and sustainability-focused planning, namely: outcome measurement, effectiveness of service delivery, management capacity, links with local strategic planners, sustainability, and ability to identify and develop opportunities (Figure 7.22).

**Figure 7.22: Supported SPO managers' opinions on the impact of Inspiring Scotland support on SPO capabilities (n=58)**




The three areas of least improvement clustered around creating linkage and attracting funding. Sixty percent or more of SPO managers were neutral or disagreed that they were able to create links with budget holders and commissioners in local authorities, attract funding from other trusts foundations, or generate income from contracting. Lastly, three areas had rather ambivalent response profiles: improving SPO profile and links with government workers and officials, SPO profile and links with other charitable funders, and SPO governance capacity.

### 7.8.1 Most SPO managers reported improvements in identifying and measuring SPO impact

The areas with most frequent improvement, according to SPO managers, centred around distinguishing outcomes and evaluation: 91% (53 of 58) felt they better identified the outcomes and impact of their SPOs—half of these (29 of 58) strongly felt that way; while 84% (49 of 58) of SPO managers felt their organisation had stronger systems for measuring impact, with 27 of 58 strongly feeling so. This is a crucial finding: impact measurement is an area where charities, foundations and trusts, and government funders all have a stake in improving systems—each wants to prove that its work or funding is resulting in the desired outcomes.[80] SPO managers discussed such improvement and its effects:

> *Due to the small nature of our organisation and board we were often reluctant to think of our future and measure how successful we are. Inspiring Scotland has ensured that we do this. In particular, our new skills to measure our impact through evaluation training have been hugely beneficial. ...Previously, reports were written using huge amounts of anecdotal information, but now we can record our impact using baseline assessments and other valuable methods. — Manager, SPO 64 (EYEA Fund, micro, exited), Survey-Q16*

> *Clarifying of our outcomes, coupled with building creative and robust monitoring and evaluation systems, has been one of the best things to happen to us as an organization. It has enabled us to attract more funders, influence policy and media more, and dream bigger for the future. — Manager, SPO 93 (14:19 Fund, micro, active), Survey-Q16*

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[80] The users or beneficiaries of services—whose improved welfare is the goal of all the work discussed here—should benefit from better or more efficient design of the work conducted by charities. Further, users or beneficiaries can, in some cases, use information about the efficacy of services to determine whether or not they would like to participate (and such information is often made public, as discussed in the examination of new public management in Chapter 2).

This focus on measurement was also reflected in the nonfinancial services data I collected. Of 58 SPO managers, 45 reported receiving support from Inspiring Scotland to develop an evaluation framework or tools to measure outcomes—all 45 reported value from the process, and 28 found it very valuable (Figure 7.18). Inspiring Scotland put substantial work into considering impact measurement at the SPO and portfolio level:

> *In a diverse portfolio, it takes time and thought to aggregate [impact]. If you have multiple interventions, you have to choose what to collate and what to aggregate. We started out by aggregating, now we are starting to collate [by combining related outcomes].*
>
> *But even selecting indicators is challenging. Someone got a job. What job? Did they last more than four hours? If they lost the job, did they get another one quickly? Knowing where the slide rule should be, to gather information without wasting time and money, is an ongoing area of learning… —Manager, Inspiring Scotland; Interviewee 20, 2014*

The resultant improved measurement capability for SPOs—a key goal of the Scottish Government as a funder of Inspiring Scotland—was sometimes explicitly shared as best practice:

> *We received [Inspiring Scotland] support enabling us to design a bespoke tool, which is adaptable to enable us to measure impact. In a recent HMI*[81] *inspection ... our methods were singled out as examples of good practice. An event is planned to enable these tools to be demonstrated to all organisations involved in community learning across [our region]. —Manager, SPO 104 (14:19 Fund, small, active), Survey-Q26*

Beyond this example, officials in the Scottish Government felt that the quality of SPO impact measurement was improved due to Inspiring Scotland's support:

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[81] Her Majesty's Inspectorate

> *My view is the Scottish government doesn't just want to say nice things about play, it wants to show that it's delivering nice things on play. Now I can't do that. Inspiring Scotland did it for me. —Director-level civil servant, Scottish Government; Interviewee 15, 2013*

> *It's very easy to hand out money to people that you think are worthy of it. It's really difficult … to prove that you were right in making that decision in giving them the money. And Inspiring Scotland do that very well. —Director-level civil servant, Scottish Government; Interviewee 12, 2013*

Inspiring Scotland's management were aware that reporting was a key element of what they offered, and an area where they had a competitive advantage:

> *Government as a donor is very important to us, and government's moving closer and closer to payment for results and outcome funding. We would like to think we're pretty far ahead in outcome funding of the mainstream. —Andrew Muirhead, Inspiring Scotland CEO, in interview, 2013*

Muirhead indicated an expectation that the Scottish Government might move toward models that relied on social impact measurement to determine the price or quantity of a service to be paid for by the state. The concept is manifested in programs like "social impact bonds" and "pay for success" programs, both of which attempt to leverage strengths of all three sectors to achieve social goals. The highly financialised and managerial aspects of such programs are obvious hallmarks of neoliberalisation and new public management, but the heavy involvement of voluntary sector and community-based organisations in this case complicates any simple narrative of the hollowing of the state (discussed in Chapter 8).

Clarifying and measuring the impact of a given SPO's work generally had both internal and external effects. The next two sections examine related areas: internally focused improvement in SPO operations and broader, externally oriented sustainability and planning.

### 7.8.2 Most SPO managers reported improvements in management, service delivery, and sustainability—but less so in attracting funding

Two other areas of frequent improvement were management and effectiveness as service delivery organisations (Figure 7.22). Of supported SPO managers, 81% (47 of 58) felt their SPO was a more effective delivery organisation as a result of Inspiring Scotland's support—36% of them (21 of 58) strongly felt that way; 69% (40 of 58) felt their organisation had increased their management capacity, with 14 of 58 strongly feeling so. For example:

> *We and our trustees have addressed many issues within our organisation that have been highlighted by IS. We have developed a much more business approach to our day-to-day activities and long term planning. Again this type of support isn't offered by other funders and even if the funding relationship ends then we still benefit because our working practices and governance structure [are] in a much better place. — Manager, SPO 68 (Go Play Fund, micro, exited), Survey-Q16*

> *The encouragement provided through this relationship has inspired us to take forward our very ambitious development plan, and to develop the management and organisational capacity to sustain this. — Manager, SPO 92 (14:19 Fund, small, active), Survey-Q16*

These two capabilities are heavily interrelated with a number of other areas discussed in depth in this chapter. Perhaps the heaviest overlap, as mentioned by both SPO managers, is between management and strategic planning.

The final set of three capabilities where SPO managers reported frequent improvement clustered around sustainability and related planning—key capabilities for a successful exit. The majority of supported SPO managers believed their organisations were "more sustainable in the longer term" (39 of 58 agreed or strongly agreed) and better at "identify[ing] and develop[ing] new opportunities" for their SPOs (39 of 57) as a result of receiving Inspiring Scotland support (Figure 7.22). For example:

> *Through the relationship with Inspiring Scotland we have grown considerably as an organisation and developed a plan for the future focused on continued growth, ultimately to achieve sustainability through trading. — Manager, SPO 92 (14:19 Fund, small, active), Survey-Q16*

> *IS encouraged us to develop a long-term income generation plan, which ensured that we looked beyond Inspiring Scotland funding and considered Inspiring Scotland exit even at a very early stage. — Manager, SPO 76 (14:19 Fund, small, active), Survey-Q16*

These planning processes often involved interacting with local strategic planners, individuals charged with helping to coordinate the delivery of social services within a statutory boundary; 42 of 58 supported SPO managers indicated agreement or strong agreement that they had a better profile and links with these planners (Figure 7.22).

Working toward SPO sustainability was a crucial goal—and area of concern—of the Inspiring Scotland model, with its explicit aims to increase nonprofit capacity as well as provide an exit that did not leave supported charities over-extended. While several capabilities discussed here seemed likely to aid SPOs in achieving a sustainable exit, other capabilities related to this goal were *not* reported as improved by most SPO managers.

Three areas related to sustainability and external funding were noted as neutral or not improved by 60% or more of SPO managers: attracting funding from other trusts and foundations (35 of 38 neutral or disagreed), generating income from contracting (36 of 58), and creating links with budget holders and commissioners in local authorities (36 of 58).

Links to other foundations and trusts were among the three most-provided connection types in both VPO cases examined here. Additionally, in each case, SPO managers felt like investment from a VPO provided valuable signals likely to aid them in attracting additional funding. However, only 41% of SPO managers in this case agreed or strongly agreed that their SPO had been able to attract such funding. This might reflect two issues. First, SPO managers might be more willing to assert improvement in areas that are harder to specify—like management capacity—than in manifested outcomes like funding.[82] Second, there are also issues of time course: an easily-verifiable improvement, like improved systems for measuring outcomes, can be implemented more quickly than other improvements—especially those requiring the actions of third parties, like contracting, winning grants, and developing networks. Overall, these areas of lesser improvement point to a continued tension in the venture philanthropy model: exit, and its necessary reliance on actors and systems outside of the VPO–SPO relationship.

### 7.8.3 Size of SPOs and SPO manager opinions on capability improvement

Improving the capabilities of SPOs, despite being a focus of tremendous spending by funders (Suárez, 2011), is an area fraught with challenges for funders: ego, asymmetrical information, and receiving honest answers and feedback as "the hand that feeds". The highly engaged (and therefore often close) relationships built over time between Inspiring Scotland and its charities seemed to mitigate or obviate these challenges in most cases.

Additionally, SPOs of different size had different levels of pre-existing capability—and, relatedly, reported different levels of improvement. For example, governance in a micro organisation might be a relatively informal affair, with a board of directors sourced from early volunteers and acquaintances of the founding management team. Such a group would have more scope for improvement through training, identifying new members, and so on than the board of a large SPO, which might already have fully formalized roles and clear responsibilities. As put by an Inspiring Scotland performance advisor:

> *The larger ventures have less need for some specific services because they have the in-house [capacity], but the smaller ventures have needed more*

[82] The capability question here, Q-20, included a mix of binary, quantifiable (e.g., receiving funding from other trusts or not) and non-quantifiable (e.g., improved ability to identify opportunities) responses. This question was improved for the Impetus Trust survey.

> *help in some of these areas where their board isn't broad enough to have expertise in every field that we're looking for. In which case we found new board members to send in the board. —Performance adviser, Inspiring Scotland; Interviewee 1, 2011*

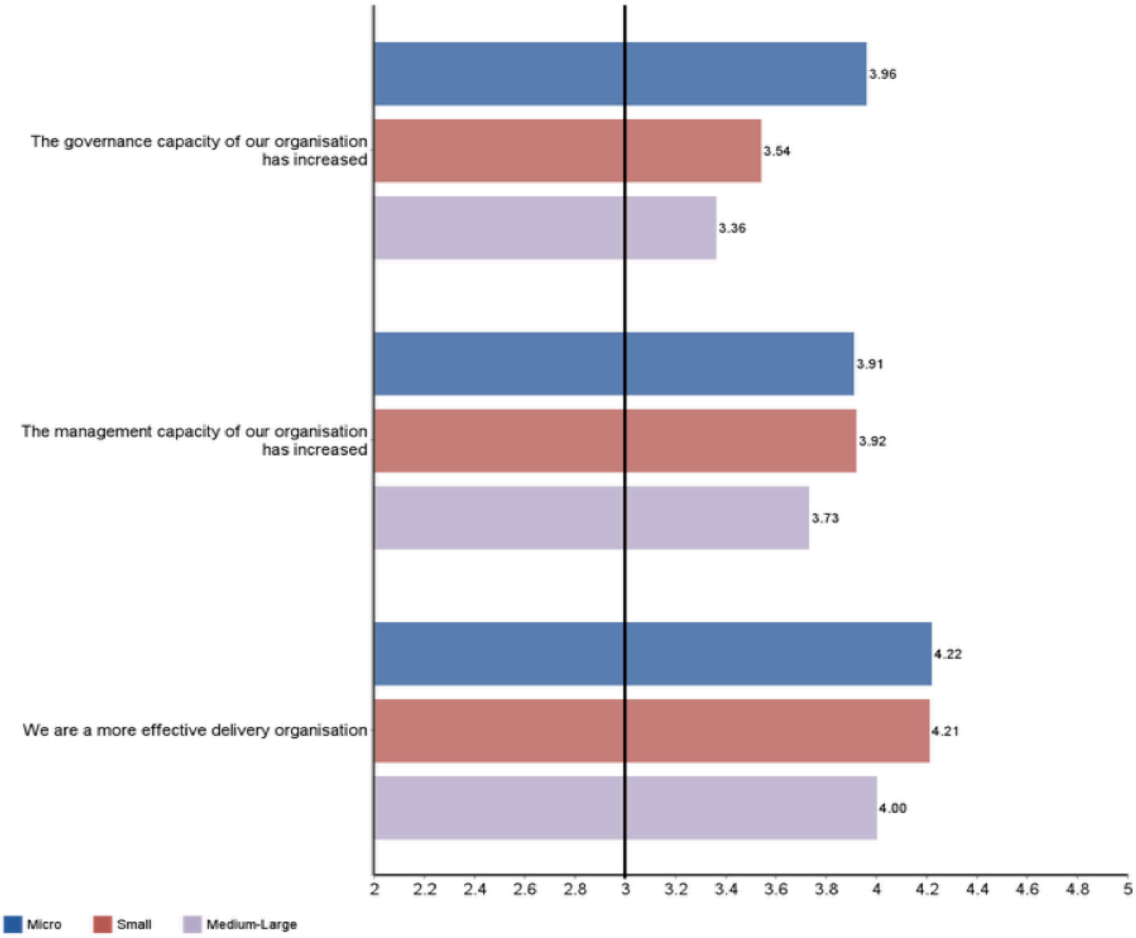
This was borne out by the experience of SPO managers, who also highlighted the issue of size and pre-existing capability:

> *A governance review carried out with our executive committee ... highlighted the need for succession planning and recruiting new members with relevant skills to meet existing gaps. — Manager, SPO 58 (EYEA Fund, micro, exited), Survey-Q16*

> *The organisation is very well established and [Inspiring Scotland] made little impact…. [T]here is a strong board and staff team in situ. — Manager, SPO 97 (EYEA Fund, medium-large, exited), Survey-Q16*

Note that the micro-sized SPO needed substantial governance support, while the larger SPO mentioned their strong board and staff. Figure 7.23 expands these examples to include all supported SPO manager opinions regarding improvement in three areas, by the size of SPOs: governance, management, and effectiveness of SPOs as delivery organisations.

**Figure 7.23: Changes in the Capacity of Supported Charities by Size of Charity (n=59)**



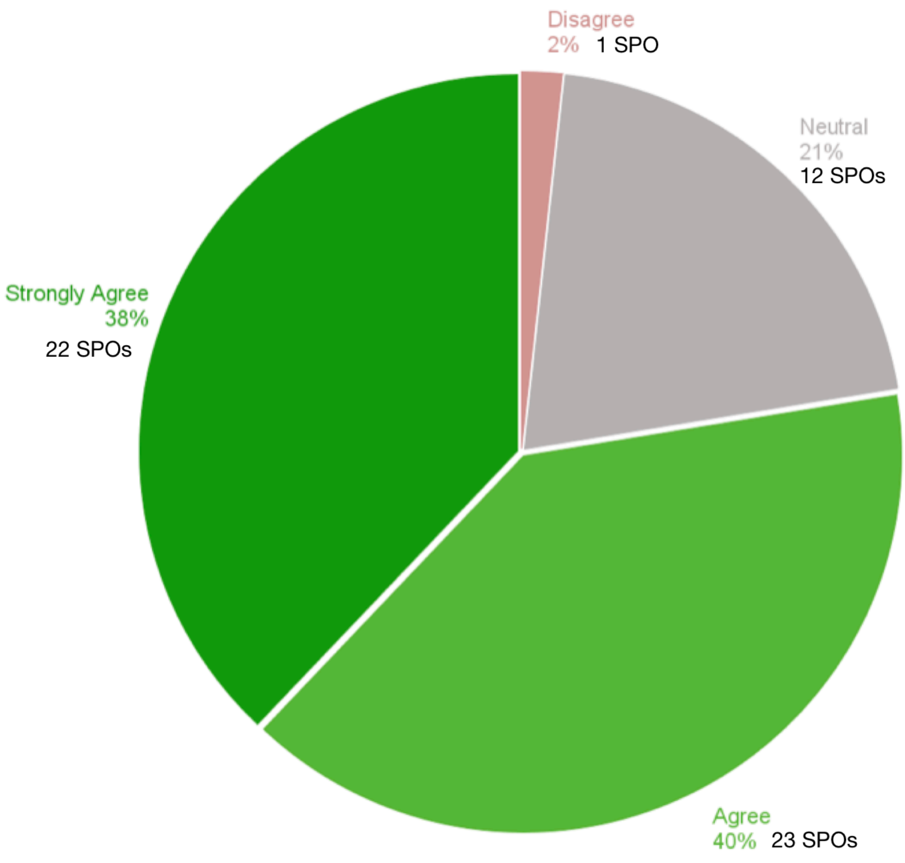

Governance showed greater differences in incidence of improvement between smaller and larger SPOs than either management or delivery effectiveness improvement. This is likely due, in part, to the latter two being areas where improvement is always possible, and can be accomplished in many ways, whereas governance best practices (and concomitant means of improvement) are both clearer and more likely to differ by SPO size. Overall, this is further data indicating that capability-improving support should be tailored to the needs of individual SPOs, as was the case in both VPOs examined here.

## 7.9 SPO manager opinions about value for money of the Inspiring Scotland model

This question is particularly important because the money distributed to SPOs came from taxpayers, and taxpayers paid a premium for the support services provided by Inspiring Scotland.

One important perspective comes from Inspiring Scotland's supported charities, which largely concurred that "the 'added value' created by the nonfinancial services outweighed the cost of these services" (Figure 7.24).[83]

**Figure 7.24: Charity perspectives on whether the benefits of Inspiring Scotland's nonfinancial support outweighed the cost (n=58)**




[83] In the survey, the costs of providing nonfinancial services were presented as a fixed cost of 8–10% of total fund value. This figure is accurate based on Inspiring Scotland financials. It is worth bearing in mind that these overhead figures are substantially lower than those of the first VPO case; this difference was accurately reflected in the survey question.

The large majority of the 58 charities surveyed *agreed* (23) or *strongly agreed* (22) that Inspiring Scotland provided value for money. Just over one-fifth were neutral, and one of the 58 *disagreed*.

Intuitively and importantly, charities that received more types of services felt that Inspiring Scotland provided better value for money than charities that received fewer services ($r_s(56) = .362$, $p=.003$).[84] However, despite smaller SPOs receiving, on average, more types of nonfinancial services, the average value-for-money score was not statistically different for different SPO sizes ($r_s(56) = -.124$, $p=.178$).

## 7.10 Concluding Remarks

The Inspiring Scotland model of venture philanthropy adapted the same seven core features of venture philanthropy that Impetus Trust did—and to similar effect, overall. That said, the two models exhibit some clear differences, most of which might be the result of their different geneses. In the Inspiring Scotland case, the voluntary and public sector nature of its founding was reflected in several operational differences: greater focus on intra-portfolio collaboration, broader geographical scope, more interaction and information-sharing with statutory bodies, region-based staffing, and more structured, time-bounded portfolios. I discuss the implications of these differences—and the emergence of both models of venture philanthropy—in the next chapter.

[84] Charities that strongly felt that Inspiring Scotland provided good value for money in terms of nonfinancial services received an average of 12 different types of service. By contrast, charities that were neutral as to whether Inspiring Scotland provided value for money received an average of 5.42 types of service—fewer than half the number. While it is not possible to attribute causation based on the quantitative survey data alone—or the direction of causation, i.e., whether a high perceived value of nonfinancial services drives charities to request and recall them, or whether receiving more services causes charities to value services more highly—additional interviews and text responses indicated that both of those phenomena were in play.

# 8 DISCUSSION

We are now able to compare the practices of Impetus Trust, Inspiring Scotland, and the early-stage venture capital model on which both are based (RQ2). I address each of the seven practices in turn and consider the extent to which each was found to be valuable or not by the managers of supported SPOs (RQ3). I then explore how and why these venture philanthropy organisations were created in the British third sector, and what their emergence and evolution implies for the funding of third sector service provision (RQ1). Throughout the chapter, I address the extent to which private sector or government funding of a venture philanthropy organisation affects its practices and institutional arrangements. I explore the benefits and weaknesses of any observed differences, of particular interest given the emerging government-supported Inspiring Scotland model (RQ4).

## 8.1 Seven Operational Practices of Venture Philanthropy Adapted by Two Different Venture Philanthropy Models

Both Impetus Trust and Inspiring Scotland adapted the seven core operational practices of venture capital to their venture philanthropy models. Those seven practices were: sourcing and selecting investees; due diligence; an engaged relationship and monitoring; financing; provision of non-financial support; creation of network linkages; and intentional exiting of relationships.

### 8.1.1 Targeting and sourcing of social purpose organisations to be supported: networks, timecourse, and geography

The two VPOs sourced the SPOs they supported with distinctive uses of networks, on different timecourses, and with different spatial considerations. As in early-stage venture capital (Gompers & Lerner, 2001), both VPOs typically conducted active search through professional and personal networks. Additionally, both VPOs used open application processes and took steps to improve the quality of those processes

(Table 8.1). Overall, the evolutionary story of British venture philanthropy sourcing mirrored that of venture capital and private equity, particularly in the case of Impetus Trust (as discussed in Chapter 2).[85]

**Table 8.1: The sourcing practices of early-stage venture capital compared to those of Impetus Trust and Inspiring Scotland**

| Practice | Venture capital | Impetus Trust case | Inspiring Scotland case |
|---|---|---|---|
| Sourcing and selection | Deals sourced through active search, personal and professional networks. Non-referred applicants less successful. Generally, all investees selected in first 1–3 years of fund life. | Deals sourced through active search, mostly through personal and professional networks. Open application exists but rarely successful. Rolling admissions into fund. | Portfolio selected all at once. Sourcing through open application, with active search by SPO and partners. Focus on how portfolio SPOs might interact. |

Impetus Trust started with a largely unsuccessful open application process supplemented by personal and professional networks. As the targets for Impetus Trust's funds became more specific, and its networks and reputation grew, active search became better suited to identify and select from within the smaller universes of relevant SPOs working on that issue. I do not mean to overstate a causal claim of narrower focus leading to more active search—there was also learning and increasing interaction between the VPOs and other funders: SPOs, statutory bodies, and others. Impetus Trust added SPOs to its funds on a rolling basis throughout its first decade. Overall, Impetus Trust based its choices of investees on a geographical model based on relationships, serendipidity, and capacity. Organisations generally entered its field

[85] This evolution paralleled that of venture capital, as discussed in Chapter 2. Dawson, who was active in the emergence of both British venture capital and venture philanthropy, discussed those parallels: "[Venture capital] has a massive set of intermediaries—bankers, consultants, et cetera—that help make those connections and can win referrals and other benefits. … In the early years of venture capital, [sourcing] was a lot like the philanthropy sector … but in the last 30 years, the large majority come through intermediaries. Whether venture philanthropy will go that way … the difference between a direct approach and a referral is a bit academic, because in the focused model you're bound to find [the best SPOs to support] somehow" (Stephen Dawson, Impetus Trust co-founder, in interview, 2015). Although he indicated uncertainty about whether venture philanthropy would become as referral-based as venture capital, I would argue that the process is already underway.

of vision through personal and professional networks—and were thus more likely to be local and easier to examine when they were. As a result, the bulk of SPOs supported by Impetus Trust were either in London or had managers or trustees that were highly trusted by members of Impetus Trust, a pattern similar to that found in venture capital (e.g., Zook 2002).

By contrast, the targeting and structure of Inspiring Scotland's sourcing of SPOs was based on public needs around access, timing, and geography and timing. Each fund was sourced in a single wave, selecting all SPOs at once—important given annual statutory funding and evaluation processes and a state focus on accountability (Section 2.2). Each fund was open to unsolicited applicants to satisfy statutory preferences for open processes and access; many applicants were encouraged to apply via referrals, professional networks, and personal networks. Potential applicants had to request information from Inspiring Scotland before applying: this public-but-gated process was an attempt to deter full applications—and the required effort—from SPOs that were unlikely to be supported. The geography of need was targeted both demographically—defining the target population relative to indices of deprivation—and then spatially, focusing on concentrations of the target group of people (Section 6.4).[86] This fit the explicitly Scotland-wide goals of the government and Inspiring Scotland—particularly the responsibility of the government to serve citizens as universally as possible (contrasted with charitable logics by Mohan & Breeze, 2016).[87]

### 8.1.2 Due diligence

Like venture capitalists, who generally review potential investments over a months-long due diligence process focused on the venture's plans, management, and assets

[86] Additionally, in the case of the first fund, the Scottish Government was aware that certain groups of young people (those with four or more areas of deprivation) were particularly unlikely to be reached by public sector services, and suspected that charities in the communities of greatest need were more likely to succeed in working with those young people.

[87] Mohan and Breeze discuss governmental "organizing principles" of systemic provision, broadly available to residents, in a unified approach—which they contrast with the "charitable logics" of idiosyncratic provision of services, using disparate approaches, and funded by "philanthropic particularism" that allows focus on specific groups or places (p. 5-6).

(Bygrave & Timmons, 1992), both VPOs conducted substantial amounts of due diligence—although with different processes (Table 8.2).

**Table 8.2: The due diligence practices of early-stage venture capital compared to those of Impetus Trust and Inspiring Scotland**

| Practice | Venture capital | Impetus Trust case | Inspiring Scotland case |
|---|---|---|---|
| Due diligence | Months-long process with substantial contracting elements establishing formal rights. Attempts to mediate information asymmetry and agency challenges. | 12-month period of strategic planning at the beginning of relationship. Costly in time and funding. Aim is to provide value even if SPO is not funded after 12 months. | VPO-provided consultants assist SPOs during their application to join a fund. Costly in time, some consultant fees. Aim is to provide value even if SPO is not funded. |

Impetus Trust acted in a manner not unlike early stage venture capital funders, with the first stage of their investment analogous to the first tranche in a seed funding investment. This probationary 9-12 month period was focused on planning for the next tranche of funding and demonstrating that the SPO was ready for it, and came along with professional consultant help in strategy development. Poor performance in this stage, or a failure to produce a strong plan for the next tranche, were grounds for ending the investment.

In the Inspiring Scotland case, promising applicant SPOs were provided with consultants to help ensure that they provided full information for due diligence—and to ease the burden of doing so. This practice also reflected a challenge of admitting an entire portfolio at once—Inspiring Scotland did not have the flexibility that Impetus Trust did in being able to begin and end individual SPO relationships at will. The provision of support in developing applications for funding was an intentional attempt to counteract a voluntary-sector-level vicious circle of limited capacity, identified as a challenge by both Inspiring Scotland and the Scottish Government: smaller charities, regardless of quality, are often focused on organisational survival and immediate resource acquisition, or lack professionals with experience in grant writing—and, as a result, are unable to compete for the type of funding that would enable them to hire such expertise (Isserman & Markusen, 2013).

### 8.1.3 Engaged relationship and monitoring

Supported SPOs generally found their relationships with VPOs to be unusually engaged, trusting, and useful—rating each of them as far more highly engaged, on average, than other types of funders. Both VPOs shared four important engagement practices, all of which facilitated monitoring. First, frequent interaction through the portfolio system built familiarity and trust. In the Inspiring Scotland case, this was further enhanced by the fact that nearly all meetings were held in the offices of the charities, possible because performance advisers were based in the regions they supported rather than in a central office. Second, the scope of engagement generally extended to the entire charity, not just one project. This opened up many avenues to discuss and troubleshoot problems and provide support services. Third, this close engagement was bolstered by formal monthly or quarterly meetings in which goals and support services were discussed. Both VPOs also offered training and other opportunities to multiple SPOs at once. Fourth, a clear focus on reporting and evaluation was generally thought to contribute to honest and unusually transparent relationships, despite requiring significant effort. Although some SPOs found this process to be overly burdensome, a large majority of supported SPOs in each case thought evaluation benefited their SPOs as well as the VPOs. In both cases, the high degree of formal information sharing was regarded as mutually reinforcing an engaged and favourable relationship between the VPO and SPO. The virtuous cycle between these two factors was discussed in Chapters 5 and 7.

The Inspiring Scotland model added several practices that created more intra-portfolio interaction and decreased the power differential between it and SPOs. The clear targets of overall funds and the fact that funding came from the Scottish Government shifted the power relations significantly: although Inspiring Scotland remained a funder, it and the charities it supported had shared outcome targets and mutual accountability to a third party. SPOs often characterised this dynamic as leading to a "shoulder-to-shoulder" relationship. Additionally, semi-annual "portfolio days" in which all charities met added to the feeling of mutual endeavour. These practices are laid out in Table 8.3.

**Table 8.3: The engagement and monitoring practices of early-stage venture capital compared to those of Impetus Trust and Inspiring Scotland**

| Practice | Venture capital | Impetus Trust case | Inspiring Scotland case |
|---|---|---|---|
| Engaged relationship and monitoring | Provision of advice, management support, and networking. Often via or including board representation. Formal contracting with funding dependent on monitored results. | Frequent and close interaction with VPO staff. More than other SPO funder types. Quarterly in-person meetings to evaluate performance. Share best practices among SPOs. | VPO staff are organised and based in regions. Frequent and close interaction with VPO staff. More than other SPO funder types. Quarterly in-person meetings to evaluate performance. Share best practices among SPOs in structured, mandatory events. |

The geographical practices previous described—a London focus in the Impetus Trust case, and a system of distributed staff assigned to "hotspots" in the Inspiring Scotland case—enabled both VPOs to interact closely and monitor SPOs. These geographical patterns of support are keeping with practices from early stage venture capital showing that propinquity is associated with closer monitoring (Lerner, 1995). The overall centrality of engagement and monitoring—according to all actors in the venture philanthropy process—indicates a high level of "procedural justice" in SPO-VPO relationships, a proxy construct for trust and interaction that was correlated with venture success over a 10-year period in venture capital (Busenitz et al., 2004).

### 8.1.4 Financing

Like venture capital funders, both VPOs provided significant amounts of (generally) unrestricted funding to the SPOs they supported. The funding was generally longer term, designed to last four to ten years. In general, the portfolio structures and temporal scheduling of financial support of each VPO reflected their origins, with Impetus Trust appearing more like a venture capital firm and Inspiring Scotland more like a government programme (Table 8.4).

**Table 8.4: The operational practices of early-stage venture capital compared to those of Impetus Trust and Inspiring Scotland**

| Practice | Venture capital | Impetus Trust case | Inspiring Scotland case |
|---|---|---|---|
| Provision of funding | Highly variable proportion of total budget, depending on venture stage. Use sometimes restricted by contract. Focused on growth toward eventual exit. | 5% of SPO annual budget, on average. Usually unrestricted. Focused at the organization level and longer-term. Multiple stages of funding possible. | 15% of SPO annual budget, on average. Usually unrestricted. Focused at the organization level and longer-term. Funding duration set at outset of relationship in most funds. |

Impetus Trust provided smaller amounts of funding per venture; on average, 5% of each SPO's annual budget. It also structured its funding more like a venture capital firm, creating a three-stage model in which it could increase its support of high-performing SPOs over additional years. This evolution was also a reflection of Impetus Trust's own limited budget slowly growing over its first decade. And somewhat like a venture capital firm, Impetus Trust selected grantees within in each social issue area on a rolling basis over months or years, and exited its support one SPO at a time.

Inspiring Scotland provided larger funding in both absolute and relative terms, averaging 15% of each SPO's annual budget. Although its first fund had a ten-year duration, two subsequent funds had two-year durations, although one was extended.[88] These unusually short periods of support were dictated largely by government resource cycles—and don't meet the time requirements usually considered in definitions of venture philanthropy or address the challenges of short-term funding arrangements for SPOs that are diagnosed by scholars (Brest & Harvey, 2008; Letts & Ryan, 2003).

This funding model for SPOs, in which they knew at the beginning of the period of support the date of its conclusion, had several advantages and disadvantages. It provided clarity around exit timelines and kept each cohort of SPOs on the same schedule. This made it easier to have relevant baseline research, to set clear (time-

[88] In the first instance, Early Years Early Action and Go Play were announced as two-year funds. Go Play was then extended and evolved for several more years.

relevant) targets for SPOs and the portfolio, and to aggregate fund-level impacts—which, collectively, made it easier to "sell" a fund to government as the primary or sole customer. However, this model made it harder to tailor the timeline of support to individuals SPOs, and gave little or no flexibility to add SPOs to a portfolio after launch—an option allowed for in Impetus Trust's more opportunity-based rolling admission. The set exit date meant that some exits were necessarily earlier (or later) than optimal for some SPOs. Additionally, it limited opportunities to incorporate new learning into fund structure or selection processes.

The temporal structure of their portfolios also had an impact on the manner in which the VPOs themselves raised the funds to support their operations. Like a venture capitalist, Inspiring Scotland generally took a share of the fund amount as a management fee—which was agreed at the outset, along with the amount and duration of the fund. Although this allowed for clear processes, it also limited the ability of Inspiring Scotland to raise additional capital to increase the size of portfolios after launching them. Impetus Trust, on the other hand, raised money on a rolling basis for both its own costs and for ongoing support of SPOs, sending approximately one-quarter of its income to its grantees. By comparison Inspiring Scotland passed on approximately four-fifths of all funding received as grants, a proportion due to several factors, including a much larger overall budget and a smaller "home office" with distributed staff.

### 8.1.5 Provision of nonfinancial support

This work provides the most granular examination yet of the type and breadth of nonfinancial services provided by venture philanthropy organisations. Overall, both VPOs examined provided a broad suite of services to SPOs. SPO managers valued these services highly (Sections 5.5 and 7.5).[89] This finding supports a key claim underpinning the venture philanthropy concept: the idea that it fills a value-adding intermediary role analogous to that of venture capitalists.

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[89]Across the 773 total ratings of types of services from SPO managers across both VPOs, 403 (52%) were *very valuable* and 226 (29%) were *valuable.*

This suite of services provided by each VPO was wider and more extensive than that typically described in the venture capital literature. The average SPO manager supported by Impetus Trust reported receiving 10.5 different types of nonfinancial services, approximately half of them from pro bono professionals. For Inspiring Scotland, the average was 9 different types of nonfinancial services, approximately one-sixth from pro bono professionals. The differences between the two models (Table 8.5) are attributable to their structures and roots—as is a slightly different balance of services, with Impetus Trust more focused on organizational growth and strategy and Inspiring Scotland more focused on voluntary sector-specific support.[90]

**Table 8.5: The non-financial service provision practices of early-stage venture capital compared to those of Impetus Trust and Inspiring Scotland**

| Practice | Venture capital | Impetus Trust case | Inspiring Scotland case |
|---|---|---|---|
| Provision of nonfinancial support | Often involving identification of new team members, especially management. Implicated in removing managers and locating new hires. Support and links for many professional services. | Substantial. Average SPO reports receiving 10.5 different types of non-financial services. Approximately half of services from pro bono professionals/firms. Spreads practices across SPOs. | Substantial. Average SPO reports receiving 9 different types of non-financial services. Approximately one-sixth of services from pro bono professionals/firms. Spreads practices across SPOs. |

Impetus Trust's strengths lay with its strong, densely networked London roots, a city with a concentration of and agglomeration benefits for social enterprises, including professional services like those that made up so many of Impetus Trust's offering (Buckingham, Pinch, & Sunley, 2012; Pinch & Sunley, 2016). In the second case, Inspiring Scotland's regional support system, structured portfolios, and meetings in

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[90] The balance of service provided was somewhat different between the two VPO cases. SPO managers supported by Impetus Trust indicated that organisational strategy and growth supports were the most commonly provided: advice and support in strategy development, mentoring to chief executives, advice on generating income, advice to strengthen board and governance systems, Theory of Change development, and marketing advice. In the case of Inspiring Scotland, SPO managers indicated that the most commonly provided services were more focused on voluntary-sector-specific support: pre-application support, support developing evaluation tools, advice for programme implementation, strategy advice, and executive mentoring.

SPO offices aided in the provision of services by VPO staff—and the government and voluntary-sector backgrounds of its founding team, and narrower focus on social issues and evaluation, allowed for more voluntary sector-specific supports.

There were accompanying challenges to the provision of nonfinancial support services: it was a time burden for some charities; pro bono support sometimes resulted in cultural frictions between private sector and third sector logic, practices, and values; and it took time and effort to plan and track service delivery.

Strategic input and planning were among the most-common and highly valued services provided by both VPOs—as is the case in venture capital (Sapienza, 1992), where there is evidence that expertise in areas like fundamental business model shifts can improve early-stage start-up performance (Gerasymenko, De Clercq, & Sapienza, 2015). The high value ascribed to strategic planning by SPO managers in surveys and interviews indicates that this feature is also central in venture philanthropy.

There was a lesser focus on talent acquisition and search for VPOs compared to growth-stage venture capital. The most obvious explanation is based on size: venture capital aims to rapidly grow the size of firms, so recruiting is central. Venture philanthropy focuses less on massive organisational growth, so there is less growth in headcount—although recruitment of staff and board members was certainly conducted on behalf of some SPOs. Additionally, in venture capital, the shifting of formal ownership across multiple financing rounds creates board and management churn that is not an issue in venture philanthropy.

### 8.1.6 Creation of network linkages

A key role of venture capital firms is their creation, deepening, and exploitation of network links to source, support, and find exit opportunities for investees (Bygrave & Timmons, 1992; Ferrary & Granovetter, 2009; Megginson & Weiss, 1991). There is evidence that the quality of these networks is correlated with venture capital investment returns (Hochberg et al., 2007). The networks span the personal and professional associations of VCs, and VC firms frequently have professional staff to facilitate intra- and extra-portfolio links.

Both VPOs examined here explicitly attempted to utilize networks in the service of the SPOs they supported. Both eventually devoted full-time staff to managing networks of pro bono service providers, both explicitly "showcased" quality SPOs to political and philanthropic elites, and both explicitly described creating and sharing access to networks as part of their support package to SPOs (Table 8.6).

**Table 8.6: The networking practices of early-stage venture capital compared to those of Impetus Trust and Inspiring Scotland**

| Practice | Venture capital | Impetus Trust case | Inspiring Scotland case |
|---|---|---|---|
| Creation of network linkages | Explicit provision of links to professional, and often personal, networks of VC staff. Frequently have professional staff to facilitate intra- and extra-portfolio links. | Most frequent links are with professional service firms, other portfolio SPOs, other trusts, and corporates. Links within portfolio not a core focus. No all-portfolio programs. | Most frequent links are with other portfolio SPOs, professional service firms, other trusts, and government. Links and collaboration within portfolio are a core focus; all-portfolio programs support this. |

Overall, I find that these venture philanthropy models appear to play network-enhancing roles analogous to venture capital firms. Both VPOs were thought to be more effective than other funders in creating network links, and links were generally valued by SPO managers, particularly those of smaller SPOs.[91] In both cases, the three most commonly reported types of links were with professional service firms, other SPOs in the VPO portfolio, and other trusts and foundations.

The Inspiring Scotland model, with its government-influenced focus on portfolio targeting, structure, and interaction, appears to result in more valuable links *between* SPOs: 44 of 53 rating were *valuable* or *very valuable*, as opposed to six of 16 in the Impetus Trust case. The intentional focus on "hotspots" of need and funding a variety of interventions focused on one social problems formed the foundation for non-duplicative collaborations of related charities working in the same geographical area (similar to those found by Lindsey [2008] in venture capital, which were implicated in improved venture outcomes). These findings indicate that other funders seeking to

[91] Combining both cases, smaller SPOs reported a higher average value when rating new network connections ($r_s(75) = -.261$, $p = .011$). This might reflect a number of constraints facing smaller organisations and their ability to access resources.

create SPO–SPO links could employ similar practices—and also that not all forms of venture philanthropy necessarily create valuable SPO–SPO links.

The Impetus Trust model, with its venture capital origins, had a greater focus on other funders and less on SPO–SPO links and government links. SPO managers supported by Impetus Trust reported that links to other foundations and trusts were more valuable, on average, with 14 of 15 reporting them *valuable* or *very valuable*, than did those supported by Inspiring Scotland (20 of 32). This might reflect the active work of Impetus Trust seeking "co-investors" for SPOs, a venture capital practice they report in their annual reports that Inspiring Scotland does not.

### 8.1.7 Intentional exiting of relationships

Both VPOs initially struggled with "exiting" SPOs. They responded to the problem in different ways, influenced by their funding sources and the backgrounds of their founders (Table 8.7).

**Table 8.7: The practices around exiting funding relationships of early-stage venture capital compared to those of Impetus Trust and Inspiring Scotland**

| Practice | Venture capital | Impetus Trust case | Inspiring Scotland case |
|---|---|---|---|
| Intentional exiting of relationships | Exit goal is financial return. External liquidity events required: acquisition by other firms or public offerings. | Exit goal is sustainability of SPO. Exit on a per-SPO basis. Best performers receive continued support. | Exit goal is sustainability of SPO. Exit on the fund schedule, all at once. (First fund was per-SPO exits.) Created additional follow-on fund in one case. |

Impetus Trust created an "internal exit" with a new, third stage of funding for SPOs it deemed highest-performing—much the same way that venture capital funds participate in additional financing rounds of promising portfolio companies (Bygrave & Timmons, 1992). In two of their four funds, Inspiring Scotland extended a fund for three years (Go Play) and created related follow-on funds (Go 2 Play) to continue supporting promising interventions and SPOs—both cases where the Scottish Government was convinced that providing additional support was in line with broader public goals.

The timelines on which exits occurred differed by VPO, with significant advantages and disadvantages for each. For Inspiring Scotland, entire portfolios began and ended their periods of support together. Impetus Trust exited SPOs one at a time, and after different durations of support, based on their performance and sustainability.

## 8.2 The Emergence of British Venture Philanthropy: Founding of a Collaborative Sub-Industry

There are clear parallels between the seven core operating practices of venture capital and their adaptation to venture philanthropy, as shown by both VPO cases here. Given that similarity, I examine the emergence of these VPOs, the broader British venture philanthropy sub-industry, and the implications of each.

As in the case of the first American venture philanthropy organisations (Grossman, Appleby, and Reimers 2013; Moody, 2008), the founders of British VPOs created organisations to meet what they saw as SPO- and third-sector-level gaps in funding and organisational supports (discussed in Chapters 2, 4, and 6; Letts et al, 1997). Both sets of co-founders explicitly discussed reading and being influenced by "Virtuous Capital", the 1997 *Harvard Business Review* article discussing the potential of foundations applying venture capital principles (Letts et al., 1997). Both were also explicitly influenced by pre-existing models, according to their founders: 2004-founded Impetus Trust was influenced by American models; 2008-founded Inspiring Scotland was also influenced by Australian and British models.[92]

The British, and broader European, conception of venture philanthropy was fundamentally collaborative from the outset—in part due to the choices of Impetus Trust's co-founders in their roles as founders of the first industry association, the

[92] The continued internationalisation of venture philanthropy practice—including the rapidly growing Asian Venture Philanthropy Network and early adopters in Africa and South America—may prove a rich research area to continue the sociological examination of the construction and propagation of a field, as examined in American venture philanthropy by Moody (2008). The importance of the initial academic article (Letts et al., 1997) suggesting (though not explicitly naming) the concept of venture philanthropy will likely continue to decrease as future VPOs are founded based on data from practical rather than conceptual venture philanthropy.

European Venture Philanthropy Association (EVPA). The collaborators of British venture philanthropy were initially envisioned to be other trusts and foundations, as evidenced in the first decade of Impetus Trust's work, which included substantial co-investment with other foundations (Section 4.1). This collaborative tone also influenced Inspiring Scotland and its understanding of venture philanthropy as a model that could be deeply collaborative with government bodies (Chapter 6).

The collaborative nature of British venture philanthropy was explicitly due to the finance sector backgrounds of many of its initial founders and trustees (Factary, 2011) and lessons from the initial emergence of both venture philanthropy in the United States and venture capital in Britain. As opposed to the technology entrepreneur backgrounds of many American VPO founders of the late 1990s—whose goal to reinvent philanthropy alienated some potential philanthropic partners (Grossman et al., 2013; Moody, 2008)—financiers were accustomed to serving as brokers and working in collaborative groups of firms over time, including in London (Clark, 2002).

Stephen Dawson's background led him to create Impetus Trust as a first, proof-of-concept VPO of an envisioned broader venture philanthropy sub-industry. He immediately recruited additional philanthropists, an approach found to be successful in British community foundations (Maclean, Harvey, & Gordon, 2012).

This approach was modelled on the creation and maturation of venture capital in Britain, a process in which Dawson participated for 30 years. In interview, Dawson referenced three sets of actors he felt were required for a successful venture capital (and venture philanthropy) sub-industry: networked intermediaries, nonfinancial service providers, and funders. Dawson's foundational work in British venture philanthropy's emergence was explicitly collaborative in response to received wisdom—specifically, a warning that he had received from two of his advisors that the first American VPOs had created unnecessary friction by drawing bold distinctions between venture philanthropy and "traditional philanthropy" (discussed by Grossman et al., 2013).[93]

Overall, the more collaborative nature of British (and much European) venture philanthropy, and a generally favourable context for its emergence (Chapters 2, 4, 6), were manifested in the 20 VPOs that existed in Britain at the time of data collection and the more than 100 organisations in the EVPA (Buckland et al., 2013). This spread can be viewed as a civil society-based version what Brenner et al. (2010, p. 334) deemed "core analytical processes" of neoliberalisation: regulatory experiments, systems of inter-jurisdictional policy transfer, and transnational rule-regimes. These experimental financial intermediaries drew inspiration, strategies, and practices from the internationalisation and spread of venture capital logic (Bruton et al., 2005; Ooghe et al., 1991) and their expansion into new geographical and regulatory domains.

### 8.2.1 The emergence of government-supported venture philanthropy

The first VPO to work extensively with government as a partner—and as a co-founder—was Inspiring Scotland. Inspiring Scotland's emergence was in the context of an already-networked European venture philanthropy sub-industry. Although one of its two founders had significant professional ties to the finance industry, the founders' backgrounds were primarily in philanthropic foundations and government (Chapter 6).

Five key elements of the Scottish Government's rationale for supporting the creation of Inspiring Scotland—before there was any track record—were discussed at length in Chapter 6, so I will simply list them here. These were: financial leverage, additional ability to support SPO capacity building, the creation of a political buffer in resource allocation, the potential for improved information from SPOs, and the creation of data regarding SPO efficacy.

Civil servants interviewed in the course of this dissertation indicated that the portfolio structuring process was a critical enabler of government support: they appreciated the

[93] This is not intended to caricaturise American venture philanthropy, with has continued to evolve, including the mellowing and resolving of some early frictions (Grossman et al., 2013).

ability to set clear expectations around the social outcomes they aimed to achieve. Inspiring Scotland conducted and commissioned research to "co-produce" a clear target and progress indicators with civil servants (Chapter 6).

## 8.3 Implications for Funding of Third Sector Service Provision: What Does Venture Philanthropy's Emergence and Evolution Mean for Service Provision?

The emergence and evolution of venture philanthropy has seven distinctive implications for the funding of third sector service provision in Britain: the creation and/or deepening of network links amongst funders, SPOs, nonfinancial service providers, and other actors; signalling the quality of SPOs through their selection and support by VPOs; the recruitment and channelling of financial and nonfinancial resources to some SPOs, aided by the VPO's proposition of leveraging and blending multiple sources of support for SPOs; additional data about social issues created by VPOs during their scoping and selection processes and SPOs during due diligence and then their period of support; the potential broadening of service provision options for government contracts due to increased delivery capacity, efficacy data, and ability to apply for contracts by supported SPOs; decreased power differentials and improved information flow between SPOs and their funders due to the VPO's position as an intermediary; and the potential to support place-based collaboration and innovation. Each of these implications were specifically mentioned by at least one Scottish Government official in interview as they explained why they funded additional topic areas and portfolios through Inspiring Scotland.

### 8.3.1 Creating and deepening network links

There is clear evidence that both models serve to link SPOs, often small, community-based charities, to each other and to business and political elites. Additionally, both VPOs here actively arranged the engagement of outside actors with supported SPOs, including many of the same actors that venture capitalists supply to supported firms: other investors, strategic partners, clients, employees, consultants, lawyers, and accountants (Bygrave & Timmons, 1992; Gompers, 1995; Sapienza, 1992; Sapienza et al., 1996).

The Inspiring Scotland model was more intentional about creating links within the voluntary sector and to government, in part because civil servants indicated a strong belief that the voluntary sector is fragmented. Portfolios enhanced the collective, associational power of charities, acting like miniature, credentialed trade associations to advocate for their issues. SPO managers discussed four features that facilitated this cooperation: providing organizational "breathing room" that allowed managers the time to create partnerships; a venue for managers to meet and discuss collaboration; the expectation that collaboration was a desirable and useful goal; and mentorship and support to managers on broader strategic issues, which often included external partnerships. Further work should explore the constellation of factors that allow charity collaborations initially created in a funder-supported context to survive (or not) after that funder removes support.

One limitation of both models is that a rigorous selection and high degree of support only allows a small number of SPOs into portfolios, and primarily strengthens networks amongst them. Neither model had a focus on encouraging networking between supported and non-supported SPOs.

### 8.3.2 Creating mechanisms to recruit, pools and channel financial and nonfinancial resources to selected SPOs

One effect of these venture philanthropy models is the pooling and channelling of resources to a sub-set of potential recipients, as in venture capital. The efficacy of individual models is and will continue to be debated, although there are clear indications that some venture capital models have support increased performance in firms (Gompers & Lerner, 1999) and regions (Saxenian, 1994).

Where venture capital provides resources to individual firms from within the private sector, venture philanthropy appears to go a step further in recruiting new resources to the voluntary sector overall. This goes beyond network links—both VPOs created new channels or systems to bring resources to SPOs, including the VPO staff themselves in most cases. The concept that each new resource encouraged or created leveraging of additional resources was a critical component of both VPOs' recruiting of resources for SPOs. In the process, each recruited individual, charitable trust, or firm—or statutory body, particularly in the Inspiring Scotland case—was informed of the broader venture philanthropy model, at least to some extent. For example, funders learned that their financial contributions to a VPO resulted in the leveraged provision of pro bono or subsidized nonfinancial services—and similarly, pro bono corporate volunteers learned about the funding and networking support SPOs received.

Human capital was probably the most substantial *new* resource that was brought to the voluntary sector in these venture philanthropy models. Both VPOs had three advantages in hiring over either small SPOs or statutory bodies, which constituted another form of leverage. They could hire highly skilled professionals at a discount, could develop expertise in locating and hiring those elites, and could offer a more autonomous experience to new employees than most government roles. In both cases, many employees were previously senior private sector leaders. Approximately half of all staff interviewed—and all staff with private sector backgrounds—indicated that they willingly took a decrease in pay relative to their previous employment.[94]

In the Inspiring Scotland case, performance advisors were based in their own regions, and interacted far more with charities than with other Inspiring Scotland staff or investors. This high degree of autonomy, social purpose, and working primarily with high-level managers was tantamount to psychic compensation that staff indicated made up for lower financial compensation, extending to charitable trusts a similar finding amongst British social enterprises (Pinch & Sunley, 2016).

Overall, this model allowed VPOs—and by extension in the Inspiring Scotland case, the state via an intermediary foundation—to direct high-quality labour toward social issues they deemed important. The ability to hire staff seen as highly credible and effective by charity managers, and to do so at a discount, is a distinctive benefit of an intermediary foundation. Given the geographically-targeted nature of the Inspiring Scotland model, this also might bring new human capital to bear in some locations.

I initially questioned whether highly qualified, discounted labour of this type might be hard to find or replicate. However, it appears that there are many successful managers from the private sector, often with experience on charity boards, who will

[94] In many cases these cuts were greater than 50%, and interviewees generally felt that they were unlikely to take a similar decrease in pay to work for the government or for individual charities.

consider employment in venture philanthropy—those of the baby boomer generation in particular (Grossman et al., 2013). Although this raises an issue of access and skews the available staff toward wealthier individuals, it also provides a pool of motivated and experienced senior managers to support charities.

There is some concern, however, that the high level of reliance by SPOs on VPO staff—recall charity managers referring to them as "extra members of the management team" or "confidants"—might leave gaps in supported charities upon exit. While this was planned for, and seemed to be managed well, it is a potential vulnerability to be examined in future research.

### 8.3.3 Creating better data at the SPO and social issue level, which informed policy

Like venture capitalists with their investees (Tian, 2011), both VPOs collected data about the performance of individual SPOs relative to their social outcome targets. However, both VPOs also used this data—along with the expertise they gained in conducting baseline research and SPO selection—to influence the decision making of other actors, especially funders and government bodies. Both VPOs released reports on the issue areas they worked on; these reports usually included both VPO-generated and commissioned third-party data, and often had implications or suggestions for policy.[95]

### 8.3.4 Signalling supported SPO quality though selection and support/picking winners

Pinch and Sunley (2016, p. 1298) neatly capture a "catch-22" facing small social enterprises in London that is applicable to many VPO-funded organisations: "gaining a reputation required funding and funding required a reputation". The SPO-level data just discussed was joined with VPO practices of rigorous selection and due diligence to create a situation where VPO support acted as a "badge" or "Kitemark" of SPO

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[95] Impetus Trust released reports on collaboration on social issues (Kail & Abercrombie, 2013), as well as youth unemployment and re-offending. Inspiring Scotland released reports for each fund, often co-authored with New Philanthropy Capital (e.g., New Philanthropy Capital 2008a; 2009).

quality (discussed in Chapters 5 and 7). This mirrors the role of venture capital in mitigating challenges of search and information asymmetry (Timmons & Bygrave, 1986). Additionally, both VPOs, and Impetus Trust in particular, actively sought out other charitable trusts and foundations to "co-invest" in SPOs they supported.

While each VPO only creates such signal of quality for a small number of SPOs, the total number of supported SPOs in Europe has been greater than two thousand (Buckland et al., 2013)—and more than 6,000 SPOs were screened by VPOs in 2013/14 (Hehenberger et al., 2014). As this number continues to grow—and if other VPOs provide signals in the same way—venture philanthropy might contribute to decreased information asymmetry in voluntary sector funding. Given that many funders have limited time, clarity, and expertise in due diligence (Frumkin & Kim, 2001; Reinhardt, 2009), VPOs playing this role could fill a function analogous to private sector venture capitalists.

The managers of supported SPOs agreed that VPOs can signal the quality of SPOs in a potential marketplace of many small organisations where quality is difficult and expensive to gauge. If more organisations practice venture philanthropy-like due diligence, and if additional funders develop strong reputations—and, as this case indicates, other funders are influenced by due diligence and reputations—the third sector could more closely resemble a "market", in which capital is allocated to organisations that have been able to demonstrate quality in their operations and results. Section 8.5 discusses the limitations of these processes.

### 8.3.5 Supported SPOs become qualified to access broader funding opportunities, especially government contracts

The seven operation practices discussed, combined with the signalling effect of VPO support, often helped prepare supported SPOs to win additional support in grants and, crucially, in contracts with the state. The careful selection of SPOs and the subsequent support to strengthen their processes created a virtuous cycle. In this cycle, a subset of "certified" charities were given privileged access to funding, networks, professional services, and other resources—which then gave them both capacity and access to additional resources, including contracting. This mirrors the strong signalling effects found in private sector venture capital investment, in which investment from prestigious venture capital firms attracts additional investment and attention (Megginson & Weiss, 1991).

The work of Inspiring Scotland, in particular, served to make charities more attractive as potential contractors for state-funded service provision—and thus broadened the bidding pool for public contracts. This occurred in four ways: the improvement of charity capacity in general, the possibility for portfolio charities to bid collectively, the creation of intervention and impact evidence, and improvement in the capability of charities to navigate the bidding process. As outlined in detail by a Scottish Government director in Chapter 6, and put succinctly by a senior manager at Inspiring Scotland (Interviewee 20, 2014), “Our charities are being offered in a way that can now be bought by government.”

The relatively small size of the average organisation funded by both VPOs, and especially Inspiring Scotland, is of interest because smaller associational and charitable organisations are thought to be critical connective tissue in Western societies, but are challenging for governments to support or work with directly—but become more effective contractors and advocates when they adopt more professional practices (Graddy & Morgan, 2006). Strengthening and professionalising these often local, often volunteer-heavy charities—analogous to the work of venture capitalists for new firms (Hellman and Puri, 2002)—was an explicit goal of the Scottish Government in funding Inspiring Scotland.

### 8.3.6 The presence of VPO intermediaries can decrease power differentials, leading to improved information flow

The positionality of both VPOs as intermediaries between their own funders and the SPOs they funded reduced the uneven, funder-biased power dynamic often viewed characteristic of philanthropic funding (e.g., Carrington, 2003; Ostrander, 2007). This effect appeared much stronger in the Inspiring Scotland case.

Inspiring Scotland, as an intermediary between government investors and charities, served as a two-way conduit of information. Importantly, it was able to provide intelligence to government officials—and could act as an anonymising agent in the process, sharing the information without revealing the charity from which the information came. The openness and relatively high trust between the VPO and charities, examined in depth in Chapter 7, allowed for frank discussion, including about weaknesses of government programs. The portfolio structure and methods to share information and best practices among charities allowed Inspiring Scotland staff to collect data from multiple charities about government actions. Staff could then compare this with information from other, similar charities and share the triangulated data with relevant government actors.

Inspiring Scotland could also share information from and about government with grantees—the value of which was discussed by several charity managers in Section 7.6.3. In both cases of information sharing, Inspiring Scotland staff described playing a role that transfers knowledge without harming relationships:

> *It's a softening. You can soften from both sides, to avoid it being he-said, she-said when discussing sensitive topics.... We operate as [an] early warning system for charities and for government... We have conversations that you can't have inside [government], and you can't have outside [in public forums]. We can be a sounding board, a safe place — Manager, Inspiring Scotland; Interviewee 20, 2014*

Conversations between Inspiring Scotland staff and government officials or charity managers, which were often informal, shared information in a non-public fashion. The value of this information sharing was described as very high by both government officials and charity managers. As relayed by government officials in Chapter 6, this communication flow was made easier by several aspects of Inspiring Scotland's engagement with the public sector: it occurred over time and across multiple areas of social service provision. Interviewees indicated that this "diversification" allowed government officials to treat Inspiring Scotland staff more like members of another government department rather than as a contractor, leading to easier and more frank conversations than might be possible with managers of individual charities.

This dynamic also allowed information to flow the other way: government officials reported that, via Inspiring Scotland, they informally shared ideas about interventions with charity managers without the weight of expectation—and potential responsibility—that comes from directly sharing such ideas with charities.

In the case of Inspiring Scotland, the clarity and transparency of that funder-VPO relationship, and the contractual obligations of the VPO to the Scottish Government, created an obvious shared goal for the VPO and SPOs. Further, both the VPO and SPOs were familiar with the relatively strict adherence requirements for government contracts, adding another layer of seriousness to the portfolio goals—and allowing for a different trust dynamic:

> *…[T]here's inherent mistrust sometimes of government from smaller charities or local councils … but it is government money that's putting us where we are when we go to these ventures. And yet they will open up to us completely… — Performance adviser, Inspiring Scotland; Interviewee 9, 2011*

The intentional decreasing of power differentials was a key feature of the VPO model—one not seen in an analogous way in the venture capital literature. However, in the Impetus Trust case, its broader set of VPO funders and lack of clear portfolio-level targets—and especially contractual obligations of the whole portfolio to hit such targets—did substantially less to reduce the VPO–SPO power differential.

### 8.3.7 Venture philanthropy and venture capital: Evidence of similar roles in place-based innovation

Overall, I find that both VPOs examined here played several of the innovation-network roles that Ferrary and Granovetter (2009) attribute to VCs in Silicon Valley. The data indicate venture philanthropists already play three of the five roles: selection of promising investees, financing them, and signalling investee quality. There is evidence that the two other functions of venture capital—embedding in regional networks and collective learning—both occur, and seem likely to continue as network links and experience accumulate in VPOs and their personnel.

Further work should examine whether some of the possible negative effects of venture capital are also evidenced in venture philanthropy. For example, indirect ties to "competitor" charities via intermediaries might impede innovation, as Cox Pahnke, McDonald, Wang, and Hallen (2015) argue is the case for venture-capital-backed innovative firms.

## 8.4 Implications and Challenges Specific to Government-Supported Venture Philanthropy and Its Interaction with Public Management and Political Processes

Government-supported venture philanthropy has several features that create positive opportunities for recruiting, coordinating, and leveraging multi-sector resources to meet social goals. However, these same features raise tensions around the appropriate roles of an intermediary foundation in a democracy—they create risks for power imbalances, capture of processes by special interests or wealthy investors, and co-option of local control of social services. These benefits and tensions are explored here.

### 8.4.1 Longer relationships with SPOs that are resistant to changes in government personnel

Many civil servants in the Scottish Government rotated their positions frequently. Indeed, in interviewing five civil servants in 2013, I learned that none of the current "owners" of government-supported portfolios at Inspiring Scotland had been there at the creation of those funds. The longer average tenure of staff at Inspiring Scotland is therefore helpful in creating longer-lasting links with SPOs, in this case with VPOs rather than (or in addition to) civil servants—obviously advantageous in an effort to create and deepen voluntary sector network links. On the other hand, the expertise and networks that are built up by VPO staff might otherwise have accrued to civil servants, including civil servants who could have taken these links and knowledge on to further roles. (Section 8.3.2 explains that these specific VPO staff would have been unlikely to take government roles).

### 8.4.2 Ability to explore a potential area of social service provision with low cost via a VPO

Inspiring Scotland launched and supported the Go Play Fund in 2011. This fund was designed to intentionally expand the capacity of the voluntary sector to provide a social service that the Scottish Government was interested in—but not committed to—funding. In this case, the social goal was expanded access to free play for children.

In the Go Play Fund, foundational research was used to secure public money to strengthen non-profit organisations, in part with private sector support. Crucially, I argue that this was intentionally designed to make the charities capable and well-evidenced enough to win funding via (primarily local) government contracts and private philanthropic sources. While this instance appeared to be successful, broader reliance of the state on external research to select priorities could erode statutory capabilities and risk eventual capture of public priorities or resources by those external groups.

### 8.4.3 Politics of risk and failure: the VPO intermediary served as a buffer for the state

Informants of several types—ministerial, civil servant, foundation manager, and charity manager—all indicated that Inspiring Scotland, in its intermediary role, acted to insulate the Scottish Government from risk in three ways. This was appealing to government actors; its overall implications are more mixed, with both positive features and potentially dangerous loss of accountability.

The first area of risk insulation concerned basic operational risk: because Inspiring Scotland administered all funding to grantees, as well as all support, any errors in operation could be attributed to Inspiring Scotland, not governmental officials. Second, there was insulation from charity selection and associated risks: because investors in this process had no say in funding choices or in operational matters—only in setting overall social goals—responsibility for the funding and de-funding decisions lay with Inspiring Scotland. This allowed managers in government to be only indirectly responsible for de-funding charities or selecting failures. Third, Inspiring Scotland could act as a buffer from scandals and failures affecting its grantees. The choice to fund charities lay with Inspiring Scotland, including charities that were controversial or became so after funding. The high proportion of supported charities that work with vulnerable and young populations increased the potential for headline-attracting scandal, and increased the value of the buffer. (Successful charities could still host ministerial visits, of course.)

Overall, Inspiring Scotland's role as an intermediary fundamentally shifted—and redefined—the risk of failure to produce effective outcomes. Inspiring Scotland explicitly attempted to take risks on high-potential charities with an investment mindset. Indeed, according to a senior manager at Inspiring Scotland, failure can increase the credibility of the VPO:

> *Being realistic, if we hadn't lost one or two [failures] in the early years … to still have 24 [out of 24 initial ventures] at the end of seven to ten years, we wouldn't have taken enough risk at the outset. That's not how venture capital works.…*
>
> *I had the job of sharing this information with our investors… and they were actually just interested to learn more about why, they weren't concerned, they were expecting that it might have even been a higher fallout rate.… Our investors come from financial backgrounds, and they know not all investments perform.… [T]aking informed decisions on risk—they are very much from a business background and understand that.*
>
> *—Manager, Inspiring Scotland; Interviewee 21, 2014*

This explicit expectation of some failure in grants allowed government "investors" both distance from failures and a rationale for failure that was consistent with the tenets of new public management.

This insulation from and ability to take risks raises potential dangers. The lack of public accountability could lead to irresponsible risk-taking by government funders—or allocation of funding to low-quality intermediaries. In this case, the Scottish Government used internal "efficiency matrices" to determine whether funding Inspiring Scotland was an effective use of public money, and conducted quarterly reviews of each fund. As summarised by the Inspiring Scotland manager, "We're under critical review on a permanent basis… In some ways this is even more scrutinized and contingent than normal government funding… [because it has] built-in and required review" (Manager, Inspiring Scotland; Interviewee 21, 2014).

### 8.4.4 Tensions between democratic accountability and an intermediary allocating public resources

Inspiring Scotland's intermediary role had buffer effects that the state found desirable, but that effect came at the cost of democratic accountability. Although this lack of public accountability is typical of philanthropy,[96] this model directly channels public money into a foundation. Voters cannot weigh in on the funding choices made by Inspiring Scotland. This lack of direct democratic process exists for most government funding choices over the short term in Britain and Scotland, of course—voters rarely decide individual funding choices.[97] However, the use of an intermediary places another agent between public money and its ultimate allocation.

The potentially damaging lack of accountability in private philanthropy was discussed by a senior manager at Inspiring Scotland, who noted that "If Bill Gates came and spent £50 million per year on NEETS [young people not in education, employment, or training], that would undoubtedly skew democratic process… but our process is more like co-production [with the state]" (Interviewee 20, 2014). There is a real danger that "super-rich" donors' private philanthropy might erode democratic and civic institutions (Hay & Muller, 2014), exacerbated by the additional leverage the tax code gives to donors with higher marginal tax rates (Reich, 2012).[98]

Overall, the issue of accountability in this case is contested. On the one hand, there is the obvious loss of public control over individual funding choices. On the other hand, there is a counterargument, put forward by informants in government, civil society, and Inspiring Scotland itself, that the intermediary has two supportive effects on democratic accountability.

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[96] Much private philanthropy can be viewed as de facto "tax expenditures" due to tax exemptions triggering foregone revenue (Madoff, 2010, p. 958).

[97] In the British and Scottish contexts, at least. Some Western countries or sub-national regions do exercise more issue-specific, direct voting.

[98] For more on this issue, see Hall's (2013) work on the policy tensions regarding philanthropy between political and legal equality on one hand and expressive freedoms on the other. He views this as a growing threat to democracy in the American context, highlighting recent increases in inequality and expansions of freedoms in allocating personal funds to political and electoral processes.

The first is at the very heart of democratic processes in resource allocation. By shielding individual funding choices—but not overall social goals—from being swayed by politicians, the institutional arrangement of an intermediary foundation could actually protect democratically set goals by resisting capture by interest groups—for example, the lobbying power of a large and influential but ineffective charity that was de-funded. The strength of this argument ultimately depends upon one's faith in the ability of the state to appropriately listen to all voices, and then avoid acting disproportionately in the interests of individuals or institutions with influence.

The second, related argument is about timeframe: it holds that employing an intermediary allows the government to maintain long-term focus on a strategic social goal. As laid out by a senior Inspiring Scotland manager with a background in the public sector:

> *This allows the government to stay the course on its strategy. One person yaps in an ear [of a minister or civil servant], and that can shift away from the overall strategy. Is that one person or institution bending things off course, perhaps incorrectly? —Manager, Inspiring Scotland; Interviewee 20, 2013*

As this quotation notes, there is the danger of capture on the government side. This is mirrored by the danger that other funders of the intermediary foundation—wealthy philanthropists, corporations, and other trusts and foundations—might influence the deployment of public funds. This is the most dangerous breach of democratic accountability made possible in this model of government-supported venture philanthropy. It is also a clear line drawn by Inspiring Scotland, which has rejected substantial potential funding from donors who wanted to set stipulations on organisations or geographical areas that they wished to support.

Balancing these two sets of risk—capture by politicians and interest groups on one hand and wealthy philanthropists on the other—is a core tension (and competency) of Inspiring Scotland. This is examined in more depth later in this chapter.

### 8.4.5 The VPO intermediary and tensions between local and national control

This institutional arrangement, with an intermediary foundation funded by a central government but operating in local "hotspots", raises possible tensions between national control and local control. This is a central concern: recall Peck and Tickell's assertion of an "intrinsically regressive scalar politics of neoliberalism", in which unaccountable extralocal actors are given power to influence local institutions and systems—thus constraining local progressive action (2012, p. 248; Section 2.2.4). The funding model of Inspiring Scotland, especially given its preference for funding multiple charities in geographical proximity, can have large effects on local areas. This raises concern that large decisions in the provision of social services in an area might be taken without local input, democratic or otherwise. This scenario is one that is not desired by any actors involved: it certainly does not improve Inspiring Scotland's chances of success to operate without coordination and welcome in the local authorities in which it works.

To counteract this danger, the application process by which charities were considered for support by Inspiring Scotland mandated coordination with the local government (Section 7.1.1). These local statutory bodies were also viewed as part of a sustainable exit strategy for SPOs (Section 7.7). As in many operational practices employed in this model, building relationships between sectors was seen as a key to successful implementation.

Hood and Peters (2004) discussed the argument that in the "middle age" of new public management, government programs had often been rolled out with reformers failing to do sufficient data-gathering to test the wisdom of those programs if they appeared to be "normal" manifestations of managerial, financialised governance (p. 278). The Inspiring Scotland case can be viewed as a potential response to this challenge—reformers chose to have research and decisions conducted externally to government, where the creation of new routines, by (mostly) new staff, could avoid several challenges of purely intra-governmental reform or experimentation.

Overall, my research indicates that, in this case, these highly concerning tensions have thus far been navigated satisfactorily, creating a rather opposite result to that predicted by Peck and Tickell's (2012) framework—but as other countries replicate this model, these risks deserve continued attention.

## 8.5 Other Challenges and Criticisms of British Venture Philanthropy

### 8.5.1 It is unclear what proportion and type of SPOs might benefit from venture philanthropy-style support

Venture philanthropy support is not suited to all SPOs working on all social issues. In this study, I have only examined SPOs that were selected as good candidates for support by VPOs. Given that, in the Impetus Trust case, these represent only 26 of over 2000 SPOs they screened, the growth of venture philanthropy raises questions about what proportion of SPOs might benefit, and which organisational characteristics help or hinder support by a VPO. I found evidence that indicated potential SPOs were narrowed to those whose management with willingness to join in costly engagement with VPOs, undergo organisational change, and measure outcomes contributed to success—but further research is needed at the SPO level.

Even with this highly selective subset of SPOs, measurement at the portfolio level was difficult. Venture philanthropy's goal of measuring outcomes is particularly restrictive: there were challenges in collecting and aggregating data regarding social impact. It is hard to determine what information matters in the first place. It is then costly to gather data and verify data (Section 7.8.1). A key challenge is then to combine data from different organisations, using different interventions, in a way that provides direction for policy and other action. An Inspiring Scotland manager expanded on this issue:

> *Knowing where the slide rule should be, to gather information without wasting time and money, is an ongoing area of learning ... and the better you get at giving people information, the more information they expect. — Manager, Inspiring Scotland; Interviewee 20, 2014*

This comment also reveals a challenge inherent in a feature of venture philanthropy that I previously discussed as a benefit: the creation of performance data about SPOs, social interventions, and aggregated data about social issues. The tensions lie in determining what sort of data to collect, how much to collect, and why—and also around setting expectations for groups who then gain access to that information, including funders and statutory bodies. Despite these broader tensions, SPO managers generally felt that data collection did not place an undue burden on their organisations, and government officials appreciated the reporting and new data to inform policy.

### 8.5.2 Venture philanthropy might not be applicable to some important social issues

The need—or at least the strong desire by venture philanthropists—for measureable outputs and outcomes also precludes a large number of charities working in areas of public action from being supported by VPOs. For example, Impetus co-founder Nat Sloane mentioned that advocacy and campaigning organisations did not match Impetus Trust's needs for measurement.

This is symptomatic of a much broader, and perhaps more troubling, set of challenges confronting social service provision in Britain: the heavily managerialised routines of "new" public management demand that funders, especially government, attempt to find the most impact for money. This is a reasonable and desirable goal, but measures of efficiency and efficacy often require a numerical measure for impact. Some areas of public need and service provision lend themselves much more readily to such quantification than others. For example, many areas of arts and cultural expression, though broadly valued, do not lend themselves to easy measurement—despite potential gains to be made by identifying and supporting excellent SPOs working in those areas (Isserman & Markusen, 2013).

Lastly, both venture capital (Saxenian, 1994) and philanthropy (Reiner & Wolpert, 1990; Wolpert, 1988) have distinctive regional and national cultures that impact their values and practices. Britain and the United States are distinctly more philanthropically organized and generous in formal philanthropy (Clegg & Pharoah, 2006), as well as successful in venture capital (Sapienza et al., 1996), than most nations. Nearly all research to date has been focused in these "best case scenario" countries. Like venture capital, venture philanthropy may be more likely to succeed in societies that accord high status to entrepreneurs (Bruton et al., 2005). The manner in which the spread of venture philanthropy has broadly followed that of venture capital (Ooghe et al., 1991) further supports this notion. As venture philanthropy spreads into ever more cultures and places, there might be limitations in adopting or adapting venture philanthropy principles.

### 8.5.3 Financial sustainability of VPOs

One of the chief differences between venture philanthropy and the venture capital model on which it is based is its revenue model. Both of the VPOs examined here provide only grants to investees, with no possibility of financial return[99]—which means that they must raise all of the money they disburse and their operating budgets from other funders. Although both VPOs charge the equivalent of "management fees" on the money they provide to charities, neither receives the share of profits from investee liquidation events that helps support venture capital firms. This leaves VPOs the two principal means by which charities are funded: earned income and donated income (Hansmann, 1979). While both VPOs grew in size and annual revenue over the period studied, the question of sustainability remains.

The Inspiring Scotland model, despite its rapid growth in revenue and size, has two financial vulnerabilities based on its substantial public support: that its proposition to leverage private funding might not be sustainable, or that public funding might be cut for other reasons. Inspiring Scotland functioned like an annual contractor: after the goals for a fund were set, payments were sent for Inspiring Scotland services and sub-grants. Nearly all funding was annual or, at most, on three year contracts, introducing potential uncertainty into the revenue side of the model. As put by a senior manager at Inspiring Scotland:

> *The heart of our model is the desire to fund charities for the long term, but there's a mismatch in a way. Even if we have a contractual arrangement that says somebody is going to give us money for five years, the reality is if they choose not to, what do we do, sue them? – Manager, Inspiring Scotland; Interviewee 4, 2011*

[99] Many European VPOs do provide debt, equity, or pseudo-equity financing to SPOs (Hehenberger et al., 2014).

This was echoed by another senior manager who acknowledged the power that funders hold over Inspiring Scotland but indicated that the short-term funding agreements were more pro forma than threatening.

> *They take the money away, end-of. So there is a power dynamic. But it's not exercised. We have to do one or three-year contracts to tick various procurement boxes. But day-to-day, month-to-month, it's far more collegial than that. It's not management by contract. It's not command and control. — Manager, Inspiring Scotland; Interviewee 20, 2014*

From the government's perspective, though, the use of an intermediary foundation was similar to normal contracting—and it was able to reap gains from SPOs receiving longer-term support without committing its assets fully at the outset.

The blending of private and public assets in the first Inspiring Scotland fund raises the second threat to its financial sustainability: the leveraging of private philanthropic funding. If the model, which was analysed based on efficiency, only appeals to the state with a financial input multiplier, then it is dependent on external funders to remain feasible. This is a serious risk for leverage-based venture philanthropy models, especially given the failure of the Inspiring Scotland case to reach its initial goals for private funding. Separately, leverage can also be a disincentive to halting an ineffective program. For example, if a programme is only 75% effective or worthy of funding on its merits, but each of two donors thinks the other "doubles" the impact of a contribution, both might continue funding.

Further work should consider whether government-supported venture philanthropy crowds out or competes with other programs, as was found in the case of a similarly early-stage, government-supported venture capital programme in Australia (Cumming & Johan, 2009).

### 8.5.4 Cultural challenges due to multi-sector nature

Supported SPOs sometimes reported frictions working with some of the actors with whom venture philanthropy support brought them in contact. These include professional service providers, in particular those accustomed to serving large corporations. Some supported SPOs mentioned being introduced to wealthy philanthropists and other funders to whom small charities rarely have access. The CEO of Street League, an early Impetus Trust investee, described in interview (2012) his appreciation at being treated "like a grownup at the grownup table" in such interactions, as an equal rather than a supplicant (Section 5.6.1).

That said, despite efforts by both VPOs to mitigate frictions, some SPOs reported that interacting with private sector professionals was challenging. This might understate the potential frictions between general SPOs and these actors: supported SPOs overwhelmingly agreed that the VPOs "took a business-like approach to philanthropy" (Section 7.1.2), and may have expected such interactions to be part of the process—and still had some challenges.

### 8.5.5 Open questions about the "exit" aspect of the model, in terms of both immediate and long-term sustainability of exited SPOs

Lastly, questions remain about the long-term sustainability of "exited" SPOs. There is simply not enough data to see whether the growth in ambitions and operations that venture philanthropy support encouraged were able to be supported after exit. SPOs in this research reported that their collaborations and programs had not ceased after funding, but more work should examine the extent to which this is true as the number of exited SPOs grows.

## 8.6 Conclusion: Implications for Public Service Provision

This research project has explored the emergence of two new venture philanthropy funds in Britain. Both funds sought to adopt and adapt practices from the venture capital industry and bring them to bear on charities. This process yields insights and militates against simple readings of the changing role of the state in social service provision.

Privatization is not the only option to bring new or different resources to bear in organizing, supporting, and carrying out systems of service provision. Some "neoliberal" impulses are not market-focused, or even market-supporting: both of these models are fundamentally about strengthening voluntary organisations.

This reality complicates stories of the hollowing or diminishing of the state's role, even as both cases support non-state delivery of social services, explicitly using "private sector" practices to do so. Further, government-supported VP can be seen as the transition of yet another formerly public function—allocating resources for services—to non-government actors.

However, contrary to the observations and predictions of critics like Harvey (2005), the results of both models are broadly aligned with the interests of the state. First, there is a direct increase in charities that are options for service delivery contracts, a priority for both the British and Scottish governments. Second, financial, human, and other resources from private individuals and firms are directed toward public goals—this is especially explicit in the case of government-supported venture philanthropy. These resources include substantial donated services from professional service firms, which flies in the face of some understandings of private firms. These include the simple conception that firms must and must only act in the interest of maximising shareholder distributions. (Of course, there are many stakeholders and reasons for this, explored in the broader field of corporate social responsibility.)

Returning to the concepts of new public management, many of which involve adapting private sector practices to the public sector, central elements of venture philanthropy see the adaptation of those practices to the third sector. This is not a new transfer by any means—foundations, SPOs, and others have acted in similar ways for centuries—but the degree of formalization is novel. Additionally, the case of government-supported venture philanthropy is explicitly designed, in part, to make SPOs better suited to working with statutory bodies practicing tenets of new public management.

However, lest this seem to be a purely neoliberal storyline, another goal—made explicit by government and Inspiring Scotland—is to help SPOs compete with private firms. This concept of competition may seem to be a market-based logic—but every philanthropically supported organisation, whether religious, human service, or other, similarly competes for resources. The primary difference is that competition often remains *within* the voluntary sector, rather than *between* and among the voluntary and private sectors as seen here.

Data presented here indicates that there are spillover effects within the voluntary sector and between SPOs, and both private and statutory bodies. These effects, both relational and in terms of resource transfer to SPOs, seem to indicate that government-supported venture philanthropy does have effects beyond simply contract preparedness for SPOs, and that those effects mirror the explicit social goals of the model. One such goal was the support of very small, sometimes not even formally incorporated, community-based SPOs—bodies often thought of as victims of marketization and neoliberalised governance, and certainly not beneficiaries.

While both models can be viewed as fundamentally "redistributive" in their nature and neoliberal in their practices and intellectual heritage, the "redistributive effect" of these models is *not* increased social inequality, of the sort that Harvey (2005) and others have argued are "such a persistent feature of neoliberalisation as to be regarded as structural to the whole project" (p. 16). Overall, the redistributive effects of these models seem progressive rather than regressive.

Other criticisms of venture philanthropy bear considering, in particular the role of elites and elitism, the potential challenges to democratic accountability or principles, and the undue influencing of SPOs by funders. In both models examined here, elites were primarily tapped for resources in the service of VPO goals. They provided or arranged for discounted services and forged network links. There were certainly some frictions, but nearly all of those concerned process or workplace culture rather than goals, coercion, or power differentials.[100]

Co-option or capture of resources is always a danger with transfers of any kind. Data presented here indicate two distinctive elements, in place for both VPOs, to guard against this. First, care was taken by both VPOs to build trust and increased transparency with the SPOs they supported. Second, the institutional arrangement of an *intermediary* VPO decreased some of the power imbalance seen in most philanthropic funding. While capture will always remain a risk in funding models,

[100] There were rare incidences of challenge around power differentials. In each case they manifested as silent challenges, with either SPO or VPO staff hesitant to raise problems due to their perceptions of differentials in status or expertise.

this work provides evidence from SPO managers—reported via a credible, anonymised third party—that these concerns were not realised in these two VPO models, discussed far less frequently than concepts of partnership or mutual endeavour.

# 9 CONCLUDING REMARKS, FUTURE RESEARCH, AND IMPLICATIONS

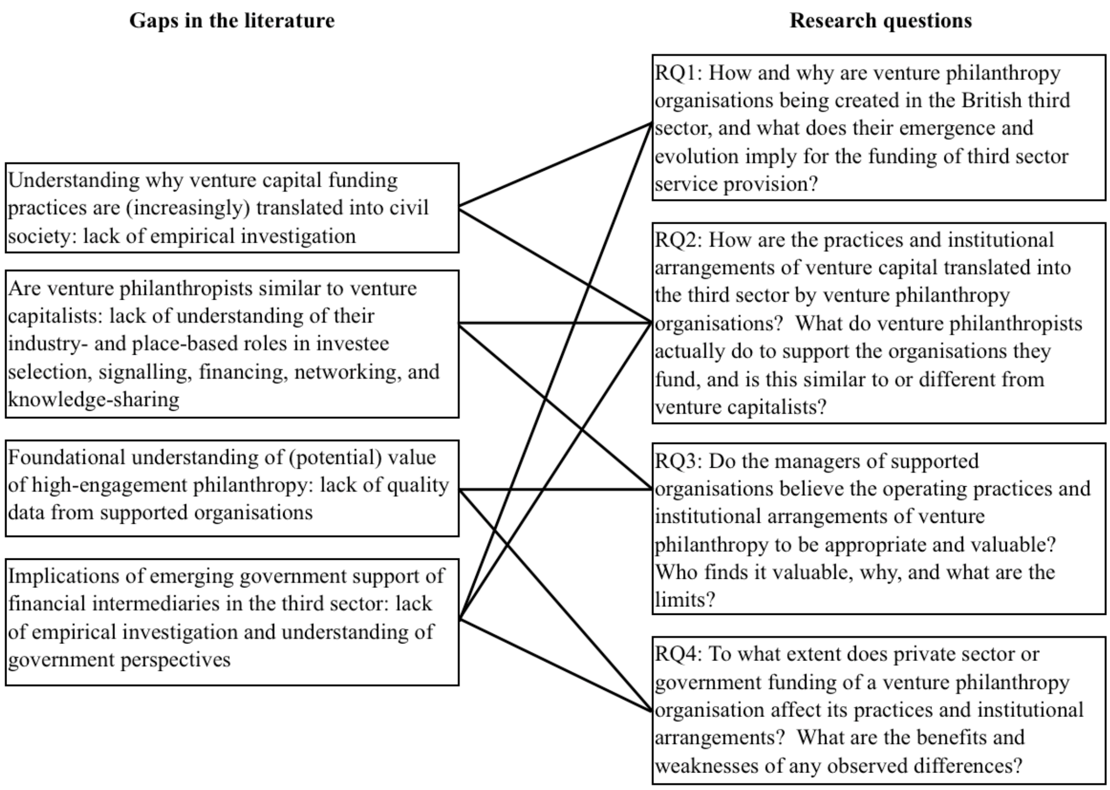
This chapter summarises the key findings of this research and contributions to the literature, as laid out in Figure 9.1. It then explores future areas for research, and concludes with implications for policymakers, funders, and managers.

## 9.1 Contributions

It is a commonly held assumption in economic geography, management, and public administration that specialised capital providers contribute to the performance and growth of supported firms and industries. This is especially true for "value-added" funders in the private sector, most notably venture capital providers, which enjoy significant government support in recognition for their role in firm and industry growth (Section 2.6). This public support, across nearly all developed nations (Brander et al., 2015), includes a combination of subsidies, tax advantages, preferential regulation, creation of government-owned VC funds, and direct public provision of capital to privately-owned (Cumming, 2014). Such policies create a role for the state in funding and/or managing a collection of non-state actors to accomplish economic development goals, exhibiting key doctrines of new public management (Hood, 1991; Section 2.2) and the broader neoliberal logics of privatisation, managerialism, and financialisation (Section 2.1). This policy experimentation with financial intermediaries has taken many forms, including direct or indirect public funding of VC firms investing at least £4 billion per year in venture capital financing across the 25 countries with the greatest VC activity 2000-2008 (Brander et al., 2015), despite scepticism of such arrangements (e.g., Lerner, 2009).

The past twenty years have seen the emergence and rapid growth of analogous funders in the *third* sector. Although there has been some significant examination of these "venture philanthropists" (Section 2.7), four important areas remained underexplored (Figure 9.1)—despite intentional and striking similarities to the well-described practices and evolution of venture capital (Section 2.6; Letts et al., 1997; Moody, 2008; Ooghe et al., 1991). This dissertation informed these gaps by systematically examining the emergence, operational practices, and institutional arrangements of two influential British venture philanthropy organisations (VPOs): the first such fund in Europe (Chapters 4 and 5) and the first fund in the world co-produced with a government (Chapters 6 and 7).

**Figure 9.1: The relationships between gaps in the literature and my research questions**




Chapters 4-7 contributed data from the founders, funders, and social-purpose organisation (SPOs) supported by venture philanthropists to inform the first gap: understanding why venture capital funding practices are increasingly being translated into civil society funding and management. My research indicates that in the cases of the first European venture philanthropy organisaion (VPO) and the first VPO to be funded primarily with public money, the founders of British VPOs created organisations to meet what they saw as SPO- and third sector-level gaps in funding and organisational supports. These were similar to challenges enumerated by their American counterparts (discussed in Chapters 2, 4, and 6; Letts et al., 1997). Both sets of co-founders were influenced by "Virtuous Capital", the 1997 *Harvard Business Review* article discussing the potential of foundations applying venture capital principles (Letts et al., 1997). The founders of both VPOs also learned from the cultural challenges that faced American venture philanthropy pioneers in the late 1980s and 1990s (discussed by Grossman et al., 2013; Moody, 2008). This learning, and the financial industry backgrounds of many British VPO staff and trustees (Factary, 2011), might explain why British venture philanthropy is characterised by collaborative action and networking (Chapter 8).

The rationales and logic employed by these founders and funders echo the themes of managerialism, financialisation, and accountability often discussed in the context of neoliberalisation (Section 2.1), public management (Section 2.2), and increasingly in the voluntary sector (reviewed by Maier, Meyer, & Steinbereithner, 2016). Indeed, venture capitalists, some government officials, and VPO managers used similar vocabularies, logics, and even decision-making tools (recall the Scottish Government's efficiency matrix, and both VPOs' use of a modified balanced scorecard created by McKinsey & Company). In the broader context of a shift in Britain from funding the third sector with grants to contracts, these increasingly similar values and logics across actors from different sectors might contribute to continued experimentation like that of the Inspiring Scotland case (Chapters 6-7).

Second, a lack of understanding about whether the venture philanthropy model in particular—as an influential model in the vanguard of broader shifts—does or does not function in the same way as its explicit "parent" model of venture capital. This is particularly important given the special roles ascribed to venture capital in the literature as an integral part of place- and industry-based innovation (e.g., Saxenian 1994, Ferrary & Granovetter 2009)—a major justification for public subsidy and support of venture capital.

By creating a grounded understanding of the sectoral relationships involved, this dissertation addresses a gap in understanding the insitutional arrangements and operating practices of venture philanthropy. I find that, overall, the two VPOs examined here do act in accordance with the founding concepts of venture philanthropy. Each engaged in seven core activities of venture capital intentionally adapted to the third sector: sourcing and selection, due diligence, an engaged relationship, provision of funding, provision of non-financial support, creation of network linkages, and intentional exiting of relationships (discussed and contrasted in Chapter 8).

In several of these functions, the VPOs reflected the logics and practices of their founders and funders. Impetus Trust more closely resembled early-stage venture capital, with a reliance on London-based networks, funders, and service providers—and a heavily London-focused portfolio. Inspiring Scotland evidenced the logics of government rather than charity in several instances (these logics are juxtaposed by Mohan & Breeze, 2016), with substantial research into social issues, heavily structured portfolios, and more focus on availability of support to all SPOs and their clients across various geographies—which might result in the loss of some pluralistic, expressive functions of philanthropy (Frumkin, 2006).

In examining these seven areas, I address the third gap: a lack of quality data from the organisations that receive support from venture philanthropists that limits our understanding of venture philanthropy practices and their value. This is particularly true of grant-based venture philanthropy, where supported organisations do not exchange equity or debt for the support they receive—and where well-documented imbalances of power in grant-based funding exacerbate the challenges of soliciting feedback from grantees (e.g., Ostrander, 2007). Previous work on venture philanthropy tends to blend all VPOs together (e.g., Hehenberger et al., 2014; Hehenberger & Harling, 2013; John, 2007), or focus primarily on equity- or debt -based models (Scarlata, Zacharakis, & Walske, 2016). Many, if not most, researchers in the field also call for more SPO voices and data (e.g., Grossman et al., 2013; John, 2007).

Supported SPOs reported in interviews and surveys that venture philanthropy support was highly valued, on average—and was believed to provide more value to SPOs than an equivalent amount of funding. SPOs indicated that they received, on average, approximately ten different types of non-financial support, and highly valued most forms of new networking connections (though not all services or linkages were found to be valuable: Chapters 5, 7). Importantly, this data was provided by SPO managers and focused on the SPO-VPO dyad—rather than provided by VPOs and focused at the portfolio or trust level. This revealed that smaller SPOs valued services and network links more highly than larger SPOs, although all sizes of SPOs indicated both were valuable, on average.

Both VPO models resulted in a range of effects and implications for broader social service provision and funding. Both (i) created and deepened network links within and to the third sector. The VPO models themselves were (ii) mechanisms to recruit, pool, and channel financial and nonfinancial resources to selected SPOs—including subsidised staffing and access to financial and governmental elites. I found that VPOs (iii) created better data regarding both individual SPOs and the broader social issues they funded, which in both cases was deliberately disseminated by the VPO to inform policy. The venture philanthropy process (iv) signalled SPO quality, fulfilling a critical function analogous to venture capital in the private sector. Support services and signalling (v) helped SPOs to become qualified to compete for other funding sources, notably public contracts. The (vi) presence of VPO intermediaries decreased power differentials, leading to improved information flow between funders, statutory bodies, and SPOs. In the case of Inspiring Scotland, the VPO served as an information intermediary between the statutory bodies that funded it and the SPOs that it supported, sharing policy information with SPOs and feeding "frontline" information and recommendations from SPOs to government. Critically, the VPO could serve as a trusted summarising and anonymising agent, particularly in provided critiques to government from SPOs.

These combine to (vii) indicate that venture philanthropy can play a role similar to venture capital in supporting place-based innovation—a role that has attracted public funding and policy support to venture capital (Cumming, 2014). Overall, I found evidence that, like venture capitalists (Gompers & Lerner, 2001), VPOs can create portfolio and sector-level positive externalities. The high degree of collaboration supported the prediction that structural features of the third sector, such as shared goals, intellectual property and best practices, would make cooperation among portfolio organisations much easier in venture philanthropy than venture capital (Section 2.6). Further, VPOs can serve as active matchmakers and instigators of collaborations.

That said, both models face many challenges. It is unclear what proportion and type of SPOs might benefit from venture philanthropy-style support. Venture philanthropy might not be applicable to some important social issues (Section 8.5)—a danger as ever more philanthropic funding moves toward highly managerial, financialised, and measurement-focused approaches (Section 2.5).

The financial sustainability of VPOs themselves is an open question. Impetus Trust remained very small, in grantmaking terms, for its first nine years (Section 4.1), and potentially faced frictions by being funded by the same bodies as its grantees. Inspiring Scotland did not meet its ambitions of matched private and public funding for its first, largest fund: over 2008-2013, it attracted approximately half of the private funding it aimed for (Section 6.3).

There were cultural frictions in both models, especially with pro bono and consultant professional service providers that worked with SPOs, although the VPOs both served as cultural intermediaries in working to mitigate those frictions. The concept of exit, in terms of both immediate and long-term sustainability of exited SPOs, remains a fundamental challenge not faced in the venture capital model (Section 2.6).

The model of government-supported venture philanthropy contains several dangers to vital concepts of accountability, democratic processes, and local control (Sections 2.7 and 8.4). Although new private resources are attracted toward public aims, and the targeting of those resources is done transparently and at a high standard in this case, there is an abdication of public control of the allocation process. The intermediary role of a VPO might be a valuable buffer protecting improved allocation from lobbying and politicking—but it also risks influence or capture by unaccountable individuals in philanthropy or the private sector (Section 8.4). The national government funding, through a VPO, of local clusters of SPOs in areas of need, has intuitive appeal, but also might interfere with deeply-held commitments to local control.

The fourth and final gap in the literature concerns understanding implications of emerging government-supported financial intermediaries in the third sector. In the context of shifting sectoral relationships in Britain over the last four decades, often defined in terms of various concepts of neoliberalisation (e.g., Harvey, 2005; Peck & Theodore, 2007; Section 2.1–2.3), this emerging institutional arrangement exemplies the "variegated hybrid" nature of neoliberalisation and capitalism, containing both international influences and a "networked, 'local' construction" (Peck & Theodore, 2007, p. 765).

The central role of individuals, firms, and logics from the private sector—and particularly the financial and management consulting industries—lends this arrangement a strong, potentially-pernicious neoliberal flavor (Hall, 2011 mentions both of those industries in such a context). That public funding is controlled by a non-state charitable trust explicitly espousing the value of venture capital-based practices only reinforces this reading—and the potential for co-option.

However, the role of the public sector goes well beyond funder—it includes a high level of influence and control. Public officials, using tools and logics of public management that focus on accountability and efficiency, collaboratively set the goals and targets of the project. Although the state no longer directly allocates funds to SPOs, it has formal annual control of its contribution.[101] Indeed, we might view this model as the extension of government direction over the use of a new set of private funds and subsidized labour from private sector individuals and firms—an effect rather the opposite of formal privatisation or influence-based neoliberalisation.[102]

[101] Given the Scottish Government's provision of the majority of funding in this case, it also has the *de facto* power to shut down the VPO (Section 8.5).

[102] The specific goals of Inspiring Scotland funds run counter to Hall's expectations of privatisation and "cutting state involvement in quality of life activities" (Hall, 2011, p. 721), and it is appears unlikely that this emergent phenomenon is part of a "hegemonic project" (p. 728).

Further, the new information flows enabled between statutory bodies, charities, and firms in this arrangement serve to support public goals (Sections 7.6 and 8.3).

The same blending of sectoral roles extends to the third sector's involvement. On the one hand, SPOs receive substantial financial and non-financial resources (Chapters 5 and 7) without exchanging formal control. These resources come from all three sectors, including private philanthropists. However, this pooling and allocation of resources might dilute the crucial independent function of civil society (Knight, 1993). This is especially true of private philanthropy, which has a special pluralist tradition, allowing for competing conceptions of the public good—sometimes in conflict with state policy (Bernholz, 2004; Brest & Harvey, 2008; Frumkin, 2006).

The substantial benefits I found to both VPO models I examined—and the tensions, limitations, and potential dangers of each—seem set to increase if venture philanthropy continues its currently-strong growth trajectory (Grossman et al., 2013). As government involvement grows (predicted by Hehenberger & Harling, 2013), the blending of logics and practices between people—and the people who instantiate them—into emerging models demand continued study.

## 9.2 Limitations and future research

There are several issues where further research is needed to deepen our understanding of venture philanthropy, its broader effects, and its potential to interact with the state. Although this study has provided a deeper understanding of VPO practices, more work is needed to understand the breadth and variety of this emerging sub-industry.

This research was focused only in Britain. While this was the first area of expansion outside of America, VPOs have since been created across continental Europe and Asia. As in venture capital (Megginson, 2004), there is evidence that venture philanthropy takes different forms in different contexts, especially with regard to government and philanthropy industry structure (Buckland et al., 2013). However, this evidence is relatively cursory and does not yet include any of the emerging Asian models. With government experimentation in Hong Kong and Thailand, international comparative studies could yield more understanding of interjurisdictional policy transfer, new public management, and venture philanthropy as organisational field creation (Moody, 2008).

Further, the significant roles of venture philanthropy trade associations in its expansion from the US to Europe and Asia might shed light on the process of policy transfer. Especially given the noted role of trade associations in the growth of venture capital, this might be fertile ground. Additionally, this is an area where the venture philanthropy story is rather different to that of venture capital: the venture philanthropy field in the US was never united, by a trade association or otherwise, in the same manner as in Europe and Asia.

The two cases examined here both provided only grant financing to SPOs, in contrast to other VPO-style funders which also use debt and equity instruments. VPOs seeking financial return might employ different institutional arrangements and operating practices, yielding different effects. For example, the intraportfolio collaboration effects found here might be less robust in the face of financial return incentives.

In this work, I studied "pioneer" VPOs to yield some understanding of the evolution of a new financial intermediary in the British third sector. While that was crucial to developing our current understanding, and Impetus Trust has become an archetypal case (Section 3.1), future work should examine additional VPOs to see how venture philanthropy models are replicated and extended. Research that covers a broader universe, with larger sets of SPOs, will allow for more complex analysis and a deeper investigation of exited SPOs—and more conclusions about the effectiveness of the venture philanthropy sub-industry as a whole.

The replicability of these models, particularly the state co-creation of a VPO, remains to be seen. Although work is underway in Hong Kong and elsewhere to create government-supported VPOs, I am not aware of any comparable models. That said, there have been distinctive state-supported financial intermediaries created in the US and Irish third sectors; their study might help us understand how prevailing public management doctrines are employed and adapted in funding financial intermediaries.

Although my results show promise for public funding of value-adding financial intermediaries in the third sector, it is not yet clear for which *social issues* such intermediaries might be effective. Although I was able to discuss some potential limitations of the types and social issue foci of SPOs that may be suited to VPO support (Section 8.5), additional study is required to explore what sorts of issues might be well (or poorly) suited.

A similar gap exists regarding SPO capabilities and needs. Despite VPO support being a good fit for most SPOs examined here, it is unclear to what extent the five barriers to support faced by these SPOs (Section 5.5) are a more general problem. Further research into the needs of SPOs would help understand the overall demand for value-adding intermediaries.

Although the opinions of SPO CEOs consulted here provided distinctive advantages in understanding the additionality of VPO support (Chapter 3), future work should include longitudinal performance data, ideally including impacts for service users and SPOs, to understand the breadth and degree of the effects created by VPO support.

Future work should examine the broader set of SPOs involved in venture philanthropy models, including using longitudinal performance data to compare supported SPOs to SPOs that choose not to apply for such support, unsuccessful applicants, and SPOs several years after exit. Although this work captured the experiences of some exited SPOs (nine in the Impetus Trust case and 31 in the Inspiring Scotland case), there were limits to the extent I could meaningfully analyse those groups versus active SPOs—future work would benefit from larger sample sizes and longer times post-exit.

## 9.3 Policy and practice implications

Recalling the four-level structure of venture philanthropy (Section 1.1), this work has implications for the actors of each level: funders of VPOs (including policymakers), VPOs, SPOs, and service users.

For policymakers, philanthropists, and other funders of social services, this work provides evidence that financial intermediaries in the third sector can provide value to SPOs. Further, in both VPOs examined here, SPOs and funders generally believed that the process provided value for money. I found evidence that pro bono professionals can be successful in supporting SPOs, particularly when their skills are thoughtfully matched, they are culturally sensitive, and the scope of their work with SPOs is clearly defined.

Of particular interest to funders with "system-level" ambitions like statutory bodies and large trusts, I found strong evidence that engagement with venture philanthropists can provide signals of SPO quality. This was created, in these cases, by strong VPO reputations, rigorous due diligence processes, and additional external credibility provided by working with private sector elites, and, in the case of Inspiring Scotland, the government. Such signals, if reliable, could be extremely valuable in reducing the transaction costs of boths funders and seekers of funding.

For VPOs and other direct funders of SPOs, this dissertation provides the deepest empirical work suggesting that, at least for the two cases examined, venture capital practices can be adapted by VPOs to positive effect. SPOs valued some services, on average, more than others, but overall "value-adding" non-financial services were rated as highly valuable. This included SPOs placing significant value on the creation of new network links on their behalf by VPOs—an area where many funders, regardless of their level of SPO engagement, might realise significant benefits for SPOs with relatively little effort.

Charitable trusts and funders should also consider the potential value of structured portfolios of related organisations. The initial evidence here indicated increased collaboration and network value the more tightly focused a portfolio is. VPOs can structure portfolios to increase the likelihood of collaboration and positive spillovers: creating "pathway" portfolios in which they select a range of small and large SPOs who offer complementary services.

VPOs can support, it seems, both very small and very large SPOs. As discussed, smaller SPOs generally access a broader range of services and support, and report greater value for money of VPO support. However, larger SPOs can achieve outsized gains by "cascading" VPO-instigated improvements throughout their organisations.

Lastly, more VPOs might wish to explore collaboration with statutory bodies. In part due to the parallel values and logics employed by VPOs and (at least some) government officials, the potential frictions of collaboration appear to be manageable.

For SPOs, there are several implications. First, working with a highly-engaged funder requires substantial time and effort. Second, in both cases examined here, SPO managers strongly believed the strains and costs to be worth it given the results their

SPOs achieved. Third, support from high-reputation funders was believed to signal SPO quality, and many SPOs reported receiving additional funding based on that signalling. Fourth, accessing VPO or funder networks can result in substantial benefits at low cost.

For service users, beneficiaries, and citizens—whose benefit is the core purpose of all the institutional arrangements and operating practices examined here—the implications of these findings are likely to be felt through the work of SPOs. However, the 82 SPO managers surveyed and interviewed in this dissertation believed their organisations to be more effective and impactful for having engaged with a venture philanthropy organisation.

For national governments, this research provides evidence that new financial intermediaries can be created in collaboration with statutory bodies. Further, they can be structured such that their operation can achieve specific government goals: for example, the creation of strong data concerning the impact of play on children, or broadening the pool of potential service providers by having SPOs better prepared to submit competitive bids. As in some instances with venture capital (Lerner, 2010), it appears that public aim can be met via financial intermediaries.

This dissertation contributes to a more nuanced and accurate understanding of an emerging class of value-adding financial intermediaries. It finds that VPOs function like venture capitalists, and create an analogous set of benefits for supported SPOs, industries, and (likely) places. Further, distinctive elements of the third sector allow VPOs to facilitate broader collaboration and information sharing more readily than in private sector venture capital. The increasingly converging logics employed by governments, charitable trusts and foundations, corporations, and SPOs seem likely to result in increased experimentation with financial intermediaries. These experiments, including the two examined here, might not result in a straightforward diminishment of statutory involvement in the provision of social services. The first government co-created VPO indicates that these diverse actors can meaningfully collaborate in support of public goals.

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# 11 APPENDICES

# APPENDIX 1: DEFINITIONS OF VENTURE PHILANTHROPY

**Table 11.1: Commonly-referenced definitions of venture philanthropy, in order of their appearance**

| | "Virtuous Capital" (Letts et al., 1997) | "VP in Europe" (John, 2006) | Center for VP (from Moody 2008) | "Growth of European VP" (Buckland et al., 2013) | European VP Association (EVPA, 2015) | Asian VP Network (AVPN, 2015) |
|---|---|---|---|---|---|---|
| Multi-year/long-term investments | yes | yes | yes | yes | yes | |
| Engaged/close relationship | yes | yes | yes | yes | yes | yes |
| Performance measures/ accountability/ focused on outcomes | yes | | yes | yes | yes | yes |
| Provision of nonfinancial services/ expertise | | yes | yes | yes | yes | yes |
| Focus on exit strategy | yes | | yes | | | |
| Risk management | yes | | | | | |
| Larger amount of funding than traditional funders | yes | | | | | |
| Tailored financing | | | | yes | yes | |
| Involvement of networks | | | | yes | yes | |
| Focus on organizational capacity building | partial | | | yes | yes | yes |
| Funding for growth and development | | | | | | yes |
| Investing in people and leaders | | | | | | yes |

# APPENDIX 2: SURVEY OF MANAGERS OF SPOS SUPPORTED BY IMPETUS TRUST

8/9/13 Qualtrics Survey Software

UNIVERSITY OF CAMBRIDGE Survey of ventures supported by venture philanthropy fudns

**Default Question Block**

Thank you for taking part in this research project involving the support provided by ${e://Field/Foundation}. This is independent work conducted by a University of Cambridge team led by Noah Isserman and funded by the (Bill and Melinda) Gates Cambridge Trust — it is not at all funded by ${e://Field/Foundation}.

All of your answers will be treated as fully confidential and will not be shared with Impetus-The Private Equity Foundation in an attributable manner.

We will be asking you about your engagement with ${e://Field/Foundation}. For your replies, please consider your perception of your organisation's entire history with ${e://Field/Foundation}.

Impetus and the Private Equity Foundation (now merged into the combined Impetus-PEF) are also are keen to learn from your insights and experiences, but respect the independence of academic research and the importance of full confidentiality. Again, all of your answers are confidential and will not be shared with Impetus-PEF in an attributable manner.

You can save, exit, and return to this survey at any point.

Q37

What was your organisation's annual revenue for the most recent financial year?

- £0-£24,999
- £25,000-£99,999
- £100,000-£499,999
- £500,000-£1,999,999
- £2,000,000-£10,000,000
- More than £10,000,000

Q3

In which years did your organisation receive funding and/or support from ${e://Field/Foundation}?
Please tick all that apply.

| 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |

Q43

**How much grant funding have you received to date** in total from ${e://Field/Foundation}?

- £0-10k
- £10k-50k
- £50k-100k

https://s.qualtrics.com/ControlPanel/Ajax.php?action=GetSurveyPrintPreview&T=4nrpGW 1/29

- £100k-200k
- £200k-300k
- £300k-400k
- £400k-500k
- £500k-750k
- £750k-1m
- £1m+

**Q5**

Thinking of your most recent financial year, what percentage of your organisation's total funding comes from:
(please drag each bar to the approximate percentage—you do not need to be exact)


**Q45**

How would you best describe your organisation's **primary delivery model?**

- Direct service provision: Working directly with intended beneficiaries
- Intermediary: Franchise, licensing, subcontracting to other delivery organisations
- Intermediary: Consultancy, train the trainer, accreditation for direct service providers

- ◯ Advocacy or policy work
- ◯ Other – please specify

What is your **key target long-term outcome(s)** for beneficiaries of your services?

If you are an intermediary, please state the outcome relevant to the end beneficiaries your services aim to impact.

*Please tick all that apply*

**Q46**

- ☐ School readiness or other early years outcomes
- ☐ (Re-)engagement in school (eg, attendance, behaviour), and academic attainment – focus on primary school age
- ☐ (Re-)engagement in school (eg, attendance, behaviour), and academic attainment – focus on secondary school age
- ☐ Successful transition from education to employment
- ☐ Sustained employment
- ☐ Reduced re-offending
- ☐ Other – please specify

How many beneficiaries did your services **reach during your last financial year**? By 'reach', we mean beneficiaries or service users engaged with the programme in the given year.

If you are an intermediary, please state the number of end beneficiaries your services reach.

**Q47**

- ◯ 1-50 people
- ◯ 50-100 people
- ◯ 100-500 people
- ◯ 500-1,000 people
- ◯ 1,000-5,000 people
- ◯ 5,000-10,000 people
- ◯ 10,000-50,000 people
- ◯ 50,000+ people

On a scale of 0-10, how likely would you be to recommend working with ${e://Field/Foundation} to another charity, based on the extent to which they have helped you grow your impact?

**Q48**

Not at all likely Neutral Extremely likely

| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| How likely to recommend? | | | | | | | | | | | |

Q50

Please explain why:

Q51

**As you will probably be aware, Impetus Trust and the Private Equity Foundation have recently merged to form Impetus-PEF. Please tell us about your reaction to this.**

**What do you see as the opportunities for the merged Impetus-PEF organisation?**

Q52

**And what are your concerns, if any, for how the merged Impetus-PEF operates in future?**

Q53

In addition to financial support, **what other type of support** did you receive from ${e://Field/Foundation}?
*Tick all that apply*

- [ ] ${e://Field/Foundation} staff advice

- ☐ Pro bono advice/consulting (part-time)
- ☐ Pro bono advice/consulting (full-time, e.g., secondees)
- ☐ Networking
- ☐ Other (please specify)

**Q55**

Within these three broad categories, please indicate how important each kind of expertise is to your organisation:

| | Not at all important | Slightly important | Important | Very Important | Extremely Important |
|---|---|---|---|---|---|
| Expertise in **providing organisational support and advice**: developing general organisational capabilities (e.g., management, finance, IT) | ○ | ○ | ○ | ○ | ○ |
| Advice relevant to the area in which your charity operates – regarding, government **policy, commissioning, and other income generation** | ○ | ○ | ○ | ○ | ○ |
| Advice relevant to the area in which your charity operates – regarding **designing, implementing and managing an effective intervention,** using expertise in understanding the social need and evidence base of "what works" | ○ | ○ | ○ | ○ | ○ |

**Q29**

What are the weaknesses or challenges of ${e://Field/Foundation}'s approach?

**Q57**

Please rate the quality of ${e://Field/Foundation}'s support on the following dimensions relative to your other funders and advisors:

| | Much less effective than others | Less effective than others | Similar to others | More effective than others | Much more effective than others |
|---|---|---|---|---|---|
| Financial support | ○ | ○ | ○ | ○ | ○ |
| Pro bono advice/consulting | ○ | ○ | ○ | ○ | ○ |
| Networking opportunities | ○ | ○ | ○ | ○ | ○ |
| **Providing organisational support and** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **advice**: developing general organisational capabilities (e.g., management, finance, IT) | ○ | ○ | ○ | ○ | ○ |
| Advice relevant to the area in which your charity operates – regarding, government **policy, commissioning , and other income generation** | ○ | ○ | ○ | ○ | ○ |
| Advice relevant to the area in which your charity operates – regarding **designing, implementing and managing an effective intervention**, using expertise in understanding the social need and evidence base of "what works" | ○ | ○ | ○ | ○ | ○ |

**Q59**

**Please explain your ratings with specific examples of how ${e://Field/Foundation} compares against your other funders and advisors.**

**Q60**

To what extent has your relationship with ${e://Field/Foundation} helped you develop the following capabilities?

In the right column, please also indicate how important each capability is for your organisation.

| | ${e://Field/Foundation} has enabled our organisation to: | | | | | How important are each of these capabilities to your organisation? | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Strongly disagree | Disagree | Neutral | Agree | Strongly agree | Not important | Slightly important | Important | Very important | Extremely important |
| Significantly increase number of beneficiaries we reach | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Increase our effectiveness in producing our target outcomes (e.g., a higher success rate for people enrolled in our programmes) | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Develop a more cost-effective solution to the social problem we are aiming to address | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Gain government support for our intervention | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Build and sustain top quality leadership | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Improve the effectiveness of operational managers | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Improve the effectiveness of board governance | | | | | | | | | | |
| Implement robust financial management systems | | | | | | | | | | |
| Achieve sustainable income streams | | | | | | | | | | |
| Use data to improve our services and outcomes | | | | | | | | | | |
| Demonstrate our impact | | | | | | | | | | |
| Enhance front-line ability to deliver outcomes | | | | | | | | | | |

Please tell us more about your answer above: describe how your relationship with ${e://Field/Foundation} has had an impact on your organisational capabilities, if at all, comparing it with other funders and advisors wherever it is helpful. Please provide some specific examples of where ${e://Field/Foundation} support has developed your organisational capabilities.

**Q61**

Due to your relationship with ${e://Field/Foundation}, how have your organisation's PRIORITIES changed (if at all)?
For each item, please indicate whether it is more or less important.

**Q16**

| | Much less important | Less important | Slightly less important | No change | Slightly more important | More important | Much more important |
|---|---|---|---|---|---|---|---|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 |
| Earning income | | | | | | | |
| Diversifying funding streams | | | | | | | |
| Planning your organisation's future | | | | | | | |
| Increasing your organisation's effectiveness in | | | | | | | |

| | |
|---|---|
| producing outcomes | |
| Growing your organisation | |
| Measuring your organisation's impact | |
| Using data in organisational decision-making | |
| Interacting and working with government | |
| Winning government service contracts | |
| Marketing and communications | |
| Others (please specify) | |
| Others (please specify) | |

**Q19**

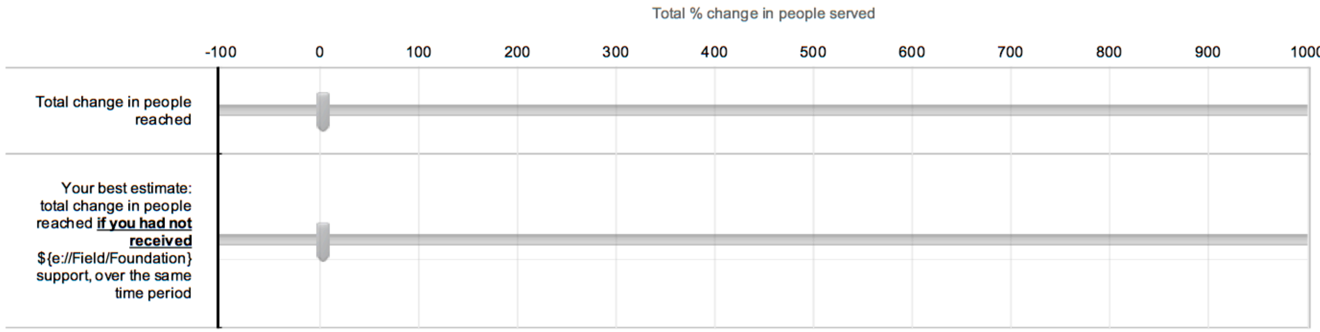
Please tell us more about your answer to the last question.

Describe your relationship with ${e://Field/Foundation}, comparing it with other funders wherever possible.

Please give your best estimate for the total change in number of people served by your programme(s) in a given year, from the start to end of the investment (or start to today, if you are still engaged with ${e://Field/Foundation}. Then, estimate the same without support from ${e://Field/Foundation}.

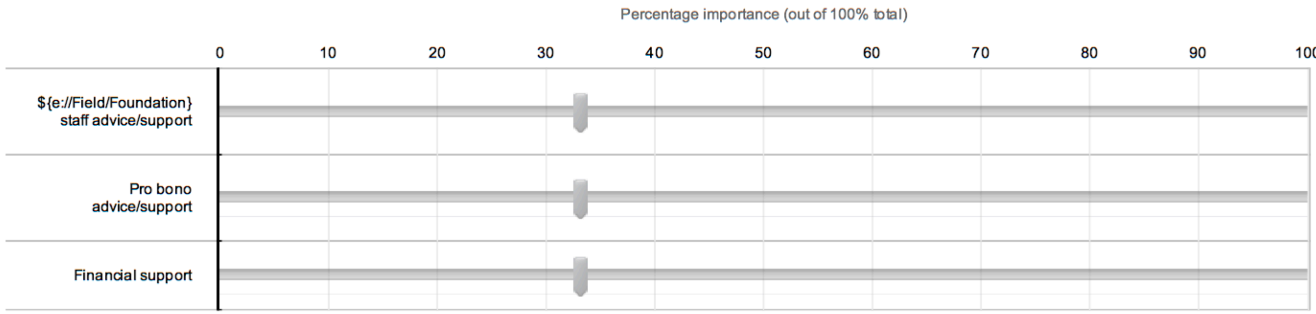
Please indicate the percentage change in people served. (E.g, -50% would be the number dropping by half, +100% would be the number doubling.)

**Q62**




**Please indicate the relative importance of the support you receive from ${e://Field/Foundation} in helping you grow your impact.**
Please use relative percentages that add to approximately 100%.

**Q63**




It costs c £75k per annum for ${e://Field/Foundation} to provide the non-financial support (investment team and the pro bono services) to each portfolio organisation

**Q35**

**To what extent do you agree or disagree:** the 'added value' created by the non-financial services outweighs the cost of these services.

| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|---|---|---|---|
| ○ | ○ | ○ | ○ | ○ |

**Q7**

What was the ${e://Field/Foundation} support used for? If the grant was unrestricted, please indicate what investments it contributed to.

*Please mark all that apply.*

- ☐ Start-up/seed stage of your organisation
- ☐ Adding new location or service area(s)
- ☐ Starting new programme(s)
- ☐ Expanding existing programme(s)
- ☐ Investing in new operations staff
- ☐ Investing in senior management capacity
- ☐ Investing in hard infrastructure (IT, facilities, etc)
- ☐ Other (please specify)
- ☐ Other (please specify)

**Q65**

Would you rather work with multiple funders directly or receive pooled funds (such as co-investments) through organisations like ${e://Field/Foundation}?

| Strongly prefer to work with multiple funders directly | Prefer to work with multiple funders directly | No preference | Prefer pooled funds (through orgs like ${e://Field/Foundation}) | Strongly prefer pooled funds (through orgs like ${e://Field/Foundation}) |
|---|---|---|---|---|
| ○ | ○ | ○ | ○ | ○ |

**Q6**

This very important question examines the NON-FINANCIAL SERVICES provided by ${e://Field/Foundation} to your organisation. Please indicate who the primary provider of the service was (if provided), and the value of the service to your organisation.

| | Who was the primary provider of this service? | | | **If provided:** how valuable was the service? | | | |
|---|---|---|---|---|---|---|---|
| | ${e://Field/Foundation} staff | Pro-bono service or expert | Not provided | No value or negative | Slightly valuable | Valuable | Very Valuable |
| Pre-application support | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Individual support/mentoring to Chief | ○ | ○ | ○ | ○ | ○ | ○ | ○ |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Executive | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Advice to support programme design and implementation (eg, programme codification) | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Advice / support on strategy development (eg, market research, focus area, strategic priorities, growth options) | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Theory of change development (clarifying mission, outcomes, target population, activities) | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Advice on management of change | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Support to develop an evaluation framework and/or tools to measure outcomes | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Support to improve internal operational reporting (eg outcomes, programme participation) | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Support to develop new products or services | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Support to develop non-financial systems and procedures (eg professional development, admin processes) | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Income generation advice or strategy | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Practical support with fundraising | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Support on procurement/contract negotiations with local authorities or other government bodies, including payment by results | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Support in preparing the organisation for payment by results / social investment | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Support on procurement/contract negotiations with non-government firms | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Marketing advice or strategy | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Practical support to develop your marketing materials | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Support to establish new financial systems | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Financial management advice | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Advice and assistance to strengthen your board/governance systems | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Assistance in recruitment of new board members | ○ | ○ | ○ | ○ | ○ | ○ | ○ |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Human Resources and organisational structureadvice | | | | | | | |
| Legal advice | | | | | | | |
| Information Technology advice | | | | | | | |
| Access to government networks | | | | | | | |
| Access to other professional networks | | | | | | | |
| Estate management (advice/assistance with buildings) | | | | | | | |
| Other (please specify) | | | | | | | |
| Other (please specify) | | | | | | | |

**Please tell us more about your answer to the last question.**

Describe any of your experiences—**especially very positive or very negative experiences**— with non-financial services provided or arranged for by ${e://Field/Foundation}, comparing with other funders wherever it is possible.

Q26

Q66

To what extent do you agree or disagree with the following statements about the advice /consulting received from **${e://Field/Foundation} staff:**

| | Strongly disagree | Disagree | Slightly disagree | Neutral | Slightly agree | Agree | Strongly a |
|---|---|---|---|---|---|---|---|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 |
| It is important for ${e://Field/Foundation} staff to have a good understanding of my organisation | | | | | | | |

It is important for ${e://Field/Foundation} staff to have a good understanding of the social need and "what works" in the area in which my organisation operates (e.g., education for disadvantaged young people)

${e://Field/Foundation} staff support is valuable because we would not be able to access it on our own

riorit

${e://Field/Foundation} staff support is valuable because we would not be able to pay for it on our own

${e://Field/Foundation} try to influence our organisation according to their priorities rather than my own

Q67

To what extent do you agree or disagree with the following statements regarding your Impetus or Impetus-PEF Investment Director:

| | Strongly disagree | Disagree | Slightly disagree | Neutral | Slightly agree | Agree | Strongly a |
|---|---|---|---|---|---|---|---|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 |
| Having an investment director is a crucial part of the value of my organisation's relationship with Impetus or Impetus- | | | | | | | |

PEF

The quality of service my investment director provides is high

My investment director successfully diagnoses where my organisation is in need and directs pro bono support towards this area

My investment director has sufficient knowledge of organisational capacity-building to provide effective advice

My investment director has sufficient understanding of my organisation to provide effective advice

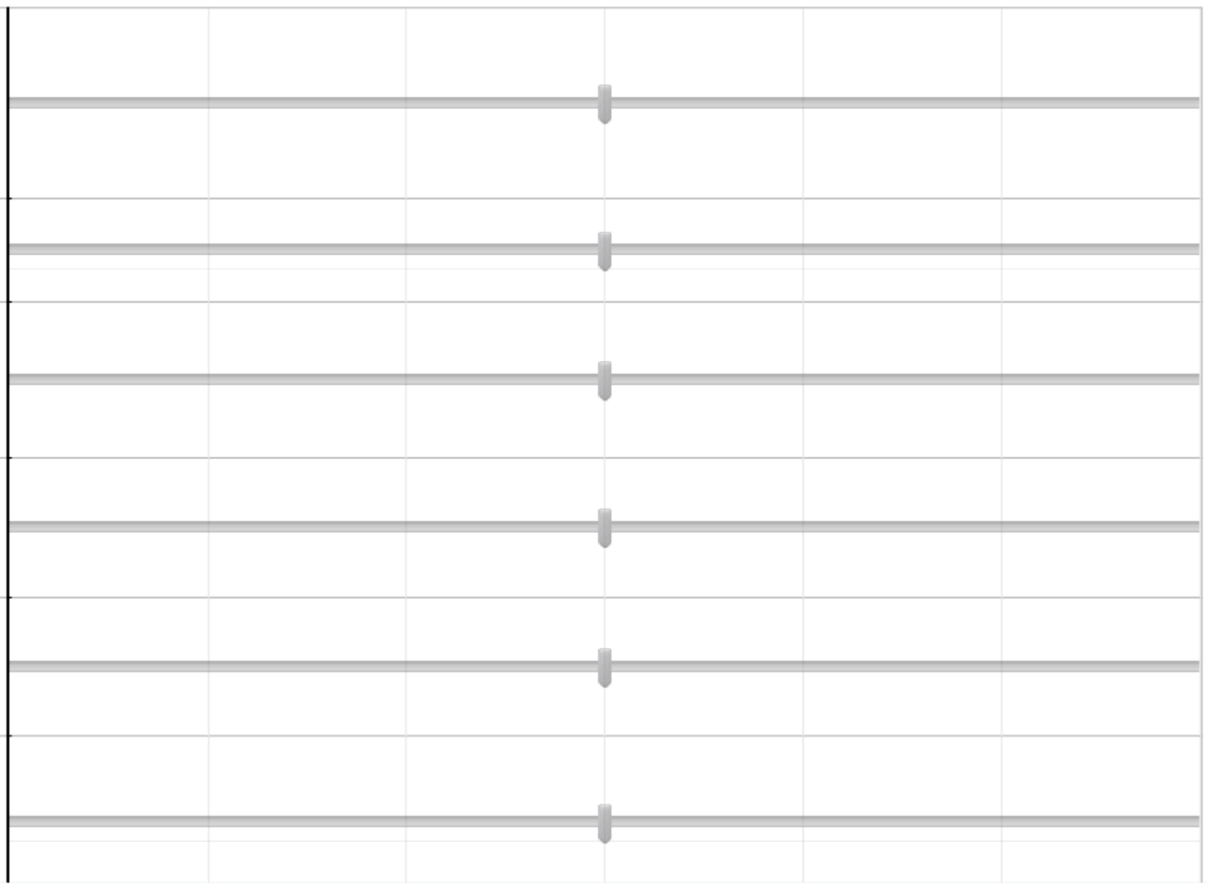
My investment director has sufficient understanding of the sector in which my organisation operates to provide effective advice

My investment director has sufficient understanding of my organisation's intervention (evidence base for 'what works') to provide effective advice

Q68

To what extent do you agree or disagree with the following statements regarding your PEF Portfolio Advisor:

| | Strongly disagree | Disagree | Slightly disagree | Neutral | Slightly agree | Agree | Strongly a |
|---|---|---|---|---|---|---|---|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 |
| Having a portfolio advisor (PEF staff member) is a crucial part of the value of my organisation's relationship with Impetus or Impetus-PEF | | | | | | | |
| The quality of service my portfolio advisor provides is high | | | | | | | |
| My portfolio advisor successfully diagnoses where my organisation is in need and directs pro bono support towards this area | | | | | | | |
| My portfolio advisor has sufficient knowledge of organisational capacity-building to provide effective advice | | | | | | | |
| My portfolio advisor has sufficient understanding of my organisationto provide effective advice | | | | | | | |
| My portfolio advisor has sufficient understanding of the sector in which my organisation operates to provide effective advice | | | | | | | |



| | | | | | | | |
|---|---|---|---|---|---|---|---|
| My portfolio advisor has sufficient understanding of my organisation's intervention (evidence base for 'what works') and the nature of the social need to provide effective advice | | | | | | | |

**Q69**

To what extent do you agree or disagree with the following statements regarding your PEF Deal/Operational Captain :

| | Strongly disagree | Disagree | Slightly disagree | Neutral | Slightly agree | Agree | Strongly a |
|---|---|---|---|---|---|---|---|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 |
| Having a deal/operational captain is a crucial part of the value of my organisation's relationship with PEF | | | | | | | |
| The quality of service my deal/operational captain provides is high | | | | | | | |
| My deal/operational captain successfully diagnoses where my organisation is in need and directs pro bono support towards this area | | | | | | | |
| My deal/operational captain has sufficient knowledge of organisational capacity building to provide effective advice | | | | | | | |

| | 0 | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|---|
| My deal/operational captain has sufficient understanding of my organisation to provide effective advice | | | | | | | |
| My deal/operational captain has sufficient understanding of the sector in which my organisation operates to provide effective advice | | | | | | | |
| My deal/operational captainhas sufficient understanding of my organisation's intervention (evidence base for 'what works') and the nature of the social need to provide effective advice | | | | | | | |

**Q64**

Please tell us more about your last answer, and the quality and skills of your key contacts.

**Q70**

To what extent do you agree or disagree with the following statements about the advice / consulting received from **pro bono partners and pro bono consultants:**

| | Strongly disagree | Disagree | Slightly disagree | Neutral | Slightly agree | Agree | Strongly a |
|---|---|---|---|---|---|---|---|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 |
| It is important for pro bono consultants to | | | | | | | |

have a good understanding of my organisation

Pro bono consultants had a good understanding of my organisation

It is important for pro bono consultants to have a good understanding of the social need and "what works" in the specific area in which my organisation operates (e.g., education for disadvantaged young people)

Pro bono consultants had a good understanding of the social need and "what works" in the specific area in which my organisation operates (e.g., education for disadvantaged young people)

Pro bono support is valuable because we would not be able to access it on our own

Pro bono support is valuable because we would not be able to pay for it on our own

We would have received better quality of support if it had been paid for rather than pro bono

Q71

Think about the most successful pro bono project you have had through ${e://Field/Foundation}. What was it, who provided it, and what made it successful?

Q72

Think about the least successful pro bono project you have had through ${e://Field/Foundation}. What was it, who provided it, and what made it unsuccessful?

Q39

With regard to the kinds of non-financial services that ${e://Field/Foundation} provided or arranged for you organisation: are such services generally available IN YOUR GEOGRAPHICAL AREA?

| Very limited availability of non-financial services | Limited availability of non-financial services | Moderate availability of non-financial services | High availability of non-financial services | Very high availability of non-financial services |
|---|---|---|---|---|
| ○ | ○ | ○ | ○ | ○ |

Q11

With regard to NETWORKING and CONNECTIONS provided by ${e://Field/Foundation} to your organisation: for each type of connection, indicate how many connections ${e://Field/Foundation} provided and their value to your organisation.

| | How many connections of this type? | | | | | How valuable are these connections to your organisation? | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Zero | 1 | 2-4 | 5-10 | 10+ | Not valuable or negative | Slightly Valuable | Valuable | Very Valuable |
| Other foundations and trusts | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Individual donors | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Corporations and corporate funders | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Professional services and support (e.g., consultants) | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Potential clients or business | | | | | | | | | |

Potential clients or business opportunities

Other charities ALSO IN the ${e://Field/Foundation} fund/portfolio

Other charities NOT IN the ${e://Field/Foundation} fund/portfolio

Government officials and workers: national or UK

Government officials and workers: local

Other (please specify)

Other (please specify)

Please tell us more about your last answers.

**Q12**

Describe if and how ${e://Field/Foundation} has provided access to other people and organisations, comparing it with other funders wherever it is helpful. What results have come from this access?

Anecdotes and examples are appreciated. (These answers, like all answers, will not be shared with ${e://Field/Foundation} in an attributable manner.)

**Q73**

What networking/connections would you like to have that you do not receive today from ${e://Field/Foundation}?

Q27

For each statement about your experience with ${e://Field/Foundation}, please indicate how much you disagree or agree.

| | Strongly disagree 0 | Disagree 1 | Slightly disagree 2 | Neutral 3 | Slightly agree 4 | Agree 5 | Strong agree 6 |
|---|---|---|---|---|---|---|---|
| ${e://Field/Foundation}'s selection and due diligence process was more intense than other trusts/foundations. | | | | | | | |
| Because of ${e://Field/Foundation}'s selection process, there is cachet to being supported by ${e://Field/Foundation}. | | | | | | | |
| Being supported by ${e://Field/Foundation} has signalled to other funders that we are a strong organisation. | | | | | | | |
| Inspiring Scotland's relationship with the Scottish Government makes it a more credible organisation. | | | | | | | |
| The high proportion of ${e://Field/Foundation} staff with consulting, finance and law backgrounds makes it a more credible organisation. | | | | | | | |
| ${e://Field/Foundation} takes a business-like approach to philanthropy. | | | | | | | |
| ${e://Field/Foundation} has had a major impact on the direction of my organisation. | | | | | | | |
| More funders should act like ${e://Field/Foundation}. | | | | | | | |
| ${e://Field/Foundation}'s work with policymakers has opened up opportunities for my organisation | | | | | | | |
| Networking with the other organisations in the ${e://Field/Foundation} portfolio was valuable. | | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| ${e://Field/Foundation} gave us access to services and networks we could not have otherwise found in our location. | | | | | | |
| Organisations located near ${e://Field/Foundation} are likely to receive better support than organisations located further away | | | | | | |
| There were difficulties in working together due to ${e://Field/Foundation}'s approach. | | | | | | |
| ${e://Field/Foundation}demand too much evaluation and reporting. | | | | | | |
| I am aware of the connection between ${e://Field/Foundation} and the Private Equity industry. | | | | | | |
| The connection between ${e://Field/Foundation} and the Private Equity industry enhances the value of the relationship and provides added benefit. | | | | | | |
| Other (please specify) | | | | | | |

Q74

How did you hear about ${e://Field/Foundation}?

Tick all that apply

- ☐ I was approached by ${e://Field/Foundation}
- ☐ I knew an organisation in the portfolio
- ☐ Through another funder
- ☐ Online search
- ☐ At a conference/meeting
- ☐ I applied through the gated process / responded to a call for proposals
- ☐ Other, please specify

Q75

Who was your main point of contact and relationship holder for the ${e://Field/Foundation} engagement.

- ○ ${e://Field/Foundation} staff member

○ A pro bono provider (e.g., deal/operational captain)

Q78

How often do you interact with your main relationship holder? Please select the closest match.

| | How frequently do you interact? | | | | | Is this frequency: | | |
|---|---|---|---|---|---|---|---|---|
| | Never | <1 time per month | 1-2 times per month | 1-2 times per week | 2+ times per week | Too much | Not enough | Just right |
| Please select the closest match: | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |

Q9

For each mode of communication, how often do you personally interact with ${e://Field/Foundation} staff?

And for each: would you like more, less, or the same of this type of interaction?

| | How often do you interact with your main relationship holder and members of the ${e://Field/Foundation} staff? | | | | | Is this frequency: | | |
|---|---|---|---|---|---|---|---|---|
| | Never | <1 time per month | 1-2 times per month | 1-2 times per week | 2+ times per week | Too much | Not enough | Just right |
| In person: your organisation's office or site | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| In person: ${e://Field/Foundation}'s office | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| In person: other location | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| By phone | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| By phone text message | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| By email | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| By Skype or videoconferencing | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| By internet text (MSN, Skype text chat, Google chat, etc) | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Other (please specify) | | | | | | | | |
| Other (please specify) | | | | | | | | |

Q79

Please tell us more about your answer to the last question.

Do the methods of contact work? How might they be improved?

Do you think that being located nearer or farther from ${e://Field/Foundation}'s offices influences the mode and intensity of communication?

Do you think that being located nearer or farther from ${e://Field/Foundation}'s offices influences the mode and intensity of communication?

Q14

In general, how would you characterise the LEVEL OF ENGAGEMENT with your organisation, comparing ${e://Field/Foundation} with other funders?

*Either click or drag the sliders to answer.*

| | Very low engagement | | | Lower engagement | | | Higher Engagement | | | Very high engagement | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| ${e://Field/Foundation} and your organisation | | | | | | | | | | | |
| Other foundation/trust funders and your organisation, on average | | | | | | | | | | | |
| Large-scale individual donors and your organisation, on average | | | | | | | | | | | |
| Businesses / corporate funders, on average | | | | | | | | | | | |
| Local and council government funders and your organisation, on average | | | | | | | | | | | |
| National government funders and your organisation, on | | | | | | | | | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| average | | | | | | | | | | |
| Others (please specify) | | | | | | | | | | |

Q76

How engaged is ${e://Field/Foundation} with the following parts of your organisation:

| | How engaged is ${e://Field/Foundation} with the following parts of your organisation? | | | | | Is this frequency: | | |
|---|---|---|---|---|---|---|---|---|
| | Not engaged | Slighly engaged | Engaged | Very engaged | Extremely engaged | Not enough | Just right | Too much |
| The board of trustees | | | | | | | | |
| Senior management | | | | | | | | |
| The rest of the organisation | | | | | | | | |

Q18

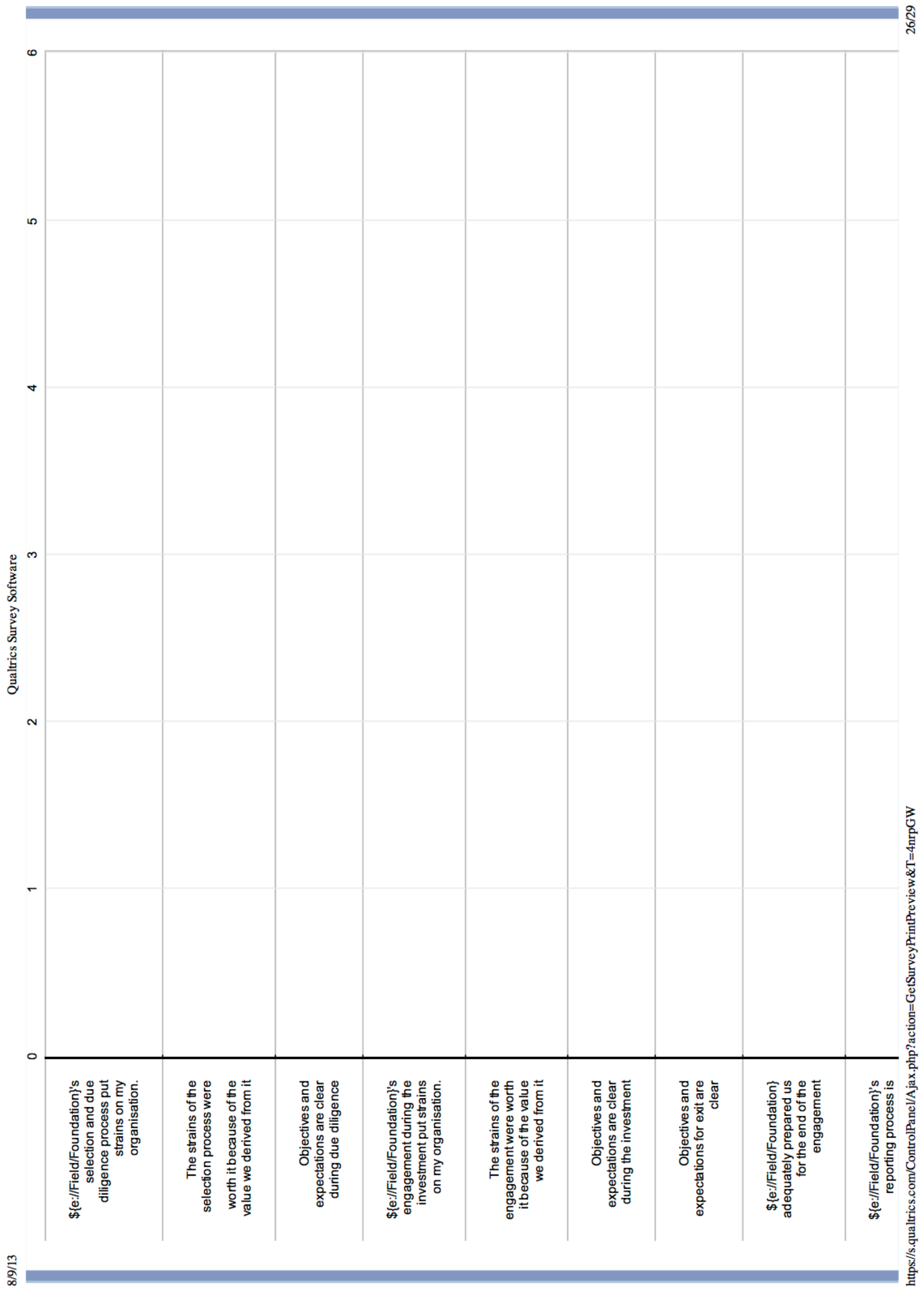
**Please tell us more about your answer to the last several questions about your engagement with** ${e://Field/Foundation}**.**

Describe your relationship with ${e://Field/Foundation}, comparing it with other funders wherever possible. ${e://Field/Foundation}.

Q81

For each statement about your experience with ${e://Field/Foundation}, please indicate how much you disagree or agree.

| | Strongly disagree | Disagree | Slightly disagree | Neutral | Slightly agree | Agree | Strongly a |
|---|---|---|---|---|---|---|---|


8/9/13
Qualtrics Survey Software
0
1
2
3
4
5
6
${e://Field/Foundation}'s selection and due diligence process put strains on my organisation.
The strains of the selection process were worth it because of the value we derived from it
Objectives and expectations are clear during due diligence
${e://Field/Foundation}'s engagement during the investment put strains on my organisation.
The strains of the engagement were worth it because of the value we derived from it
Objectives and expectations are clear during the investment
Objectives and expectations for exit are clear
${e://Field/Foundation} adequately prepared us for the end of the engagement
${e://Field/Foundation}'s reporting process is
https://s.qualtrics.com/ControlPanel/Ajax.php?action=GetSurveyPrintPreview&T=4nrpGW
26/29

| | | | | | |
|---|---|---|---|---|---|
| simple | | | | | |
| ${e://Field/Foundation}'s reporting requirements reflect the realities of my organisation | | | | | |
| Using volunteers to work directly with our beneficiaries (eg for CV workshops) is valuable to us | | | | | |
| We would like to take on volunteers through ${e://Field/Foundation} to work directly with our beneficiaries through ${e://Field/Foundation} (eg provided through ${e://Field/Foundation}'s corporate partners) | | | | | |

Q82

Please share more about your thoughts on ${e://Field/Foundation}'s processes, including due diligence, exit planning, and reporting.

Q20

Thinking about your organisation as of 30 June 2013:
How many staff does your organisation employ?

1-3

4-9

10-25

25-49

50-100

100+

Q21

How many years ago was your organisation founded?

1-2

3-5

5-10

10-19

20-50

50+

Q31

Where does your organisation provide services?

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Neighbourhood: part of a city or village | Local: one city or council area | Regional within UK: multiple council areas | England Only | All of Scotland | All of UK | UK and countries outside UK | International (non-UK) |

Q38

In general, which option(s) best describe the areas where you provide services?

| | | | | | |
|---|---|---|---|---|---|
| Rural, low income | Rural, middle income | Rural, high income | Urban, low income | Urban, middle income | Urban, high income |

This is the final page of questions.

Q25

In your opinion, what sort of work or organisation is a venture philanthropy approach like ${e://Field/Foundation}'s best suited for? Please share your insights, experiences, and thoughts.

Q23

Please share your thoughts about ${e://Field/Foundation}, venture philanthropy, the third sector, government support, or any other allied topic. We would be delighted to hear your thoughts, and deeply appreciate you taking the time to share your insights and experiences.

Thank you very much for taking the time to provide feedback. Your answers will be extremely valuable for improving ${e://Field/Foundation}'s services to organisations like yours.

If you have any questions, concerns, comments, or would like to speak further—which would be very welcome—please indicate that below.

Contact info:
Noah Isserman
University of Cambridge
Gonville and Caius College
Cambridge CB2 1TA

Mobile: +44 (0)753 5645 081
E-mail: ni225@cam.ac.uk, isserman@gmail.com

In recognition of your time and effort in responding, the research team and Impetus-PEF will share with you the key findings, both positive and negative. Impetus-PEF is committed to learning all they can from your (confidential, anonymised) feedback, and will also share how they are planning to respond during the next few months.

Please contact me to arrange a call.

I'd like you to email me to start a conversation. (input email below)

Other:

**Block 1**

# Appendix 3: Survey of Managers of SPOs Supported by Inspiring Scotland

7/10/13 Cambridge University Survey | Inspiring Scotland | Qualtrics Survey Software

UNIVERSITY OF CAMBRIDGE
Survey of ventures supported by **Inspiring Scotland**

**Q20**

How many staff does your organisation employ?

- 1-3
- 4-9
- 10-25
- 25-49
- 50-100
- 100+

**Q21**

How many years ago was your organisation founded?

- 1-2
- 3-5
- 5-10
- 10-19
- 20-50
- 50+

**Q37**

What was your organisation's annual turnover last year?

- £0-£24,999
- £25,000-£99,999
- £100,000-£499,999
- £500,000-£2,000,000
- £2,000,000-£10,000,000

https://s.qualtrics.com/SE/?SID=SV_dotRcQE7p1D3bJb&Preview=Survey&BrandID=qtrial 1/13

- More than £10,000,000

In which years did your organisation receive funding and/or support from Inspiring Scotland?
Please tick all that apply.

**Q3**

| 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |

On average, how much funding has Inspiring Scotland given your organisation PER YEAR?

**Q5**

- £0-9,999 per year
- £10,000-£24,999 per year
- £25,000-£49,999 per year
- £50,000-£99,999 per year
- £100,000-£199,999 per year
- £200,000-£399,999 per year
- £400,000+ per year

What percentage of your organisation's total funding comes from:
(please drag each bar to the approximate percentage—you do not need to be exact)

Approximate Percentage of Your Organisation's Total Funding

| | 0 10 20 30 40 50 60 70 80 90 100 | |
|---|---|---|
| Inspiring Scotland | | 17 |
| Other Trusts or Foundations | | 34 |
| Individual Donors and Supporters | | 50 |
| Government Grants | | 7 |
| Earned Income: Government Contract | | 17 |
| Earned Income: non-Government Contract | | 17 |
| Other (please specify) | | 0 |

| | |
|---|---|
| Other (please specify) | 0 |

Q7

What was the Inspiring Scotland support used for?
Please mark all that apply.

- ☐ Start-up/seed stage of your organisation
- ☐ Adding new location or service area(s)
- ☐ Starting new programme(s)
- ☐ Expanding existing programme(s)
- ☐ Investing in new staff
- ☐ Strengthening infrastructure/IT systems
- ☐ Other (please specify)
- ☐ Other (please specify)

Q31

Where does your organisation provide services?

| Neighbourhood: part of a city or village | Local: one city or council area | Regional within Scotland: multiple council areas | All of Scotland | All of UK | UK and countries outside UK |
|---|---|---|---|---|---|
| ○ | ○ | ○ | ○ | ○ | ○ |

Q38

In general, which option(s) best describe the areas where you provide services?

| Rural, low income | Rural, middle income | Rural, high income | Urban, low income | Urban, middle income | Urban, high income |
|---|---|---|---|---|---|
| ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |

Q7

What is the FULL POSTCODE of your primary location/headquarters?
(This information is for academic research and will not be shared with Inspiring Scotland.)

This question examines the NON-FINANCIAL SERVICES provided by Inspiring Scotland to your organisation. Please indicate whether each service was provided, who provided it, and its value to your organisation.

Q6

| | Was service | If provided: who provided the | If provided: how valuable was the |
|---|---|---|---|

| | provided? | | service? | | | service? | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Yes | No | Inspiring Scotland staff or board | Pro-bono service or expert | Consultant paid by Inspiring Scotland | No value or negative | Slightly valuable | Valuable | Very Valuable |
| Pre-application support | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Individual support/mentoring to Chief Executive or managers | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Advice to support program implementation | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Advice on business strategy | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Advice on management of change | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Support to develop new products or services | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Support to develop new business systems and procedures | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Fundraising advice or strategy | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Practical support with fundraising | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Support on procurement/contract negotiations with local authorities or other government bodies | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Support on procurement/contract negotiations with non-government firms | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Support to develop an evaluation framework and/or tools to measure outcomes | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Marketing advice or strategy | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Practical support to develop your marketing materials | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Financial management advice | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Support to establish new financial systems | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Advice and assistance to strengthen your board/governance systems | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Assistance in recruitment of new board members | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Human Resources advice | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Legal advice | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Information Technology advice | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Access to government networks | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Access to other professional networks | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Estate management (advice/assistance with buildings) | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Other (please specify) | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Other (please specify) | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |

**Q39**

With regard to the kinds of non-financial services that Inspiring Scotland provided or arranged for you organisation: are such services generally available IN YOUR GEOGRAPHICAL AREA?

| Very limited availability of non-financial services | Limited availability of non-financial services | Moderate availability of non-financial services | High availability of non-financial services | Very high availability of non-financial services |
|---|---|---|---|---|
| ○ | ○ | ○ | ○ | ○ |

**Please tell us more about your answer to the last question.**

**Q6**

Describe any of your experiences—**especially very positive or very negative experiences**— with non-financial services provided or arranged for by Inspiring Scotland, comparing with other funders wherever it is possible. (Answers will not be shared with Inspiring Scotland in an attributable manner.)

**Q9**

For each mode of communication, how often do YOU and OTHER MEMBERS OF YOUR ORGANISATION interact with Inspiring Scotland?

| | You personally | | | | | All other members of your organisation | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Never | <1 time per month | 1-2 times per month | 1-2 times per week | 2+ times per week | Never | <1 time per month | 1-2 times per month | 1-2 times per week | 2+ times per week |

https://s.qualtrics.com/SE/?SID=SV_dotRcQE7p1D3bJb&Preview=Survey&BrandID=qtrial 5/13

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| In person: your organisation's office or site | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| In person: Inspiring Scotland's office | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| In person: other location | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| By phone | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| By phone text message | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| By email | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| By Skype or videoconferencing | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| By internet text (MSN, Skype text chat, Google chat, etc) | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Other (please specify) | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Other (please specify) | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |

With regard to NETWORKING and CONNECTIONS provided by Inspiring Scotland to your organisation: for each type of connection, indicate how many connections Inspiring Scotland provided and their value to your organisation.

**Q11**

| | How many connections of this type? | | | | | How valuable are these connections to your organisation? | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Zero | 1 | 2-4 | 5-10 | 10+ | Not valuable or negative | Slightly Valuable | Valuable | Very Valuable |
| Other foundations and trusts | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Individual donors | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Corporations and corporate funders | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Professional services and support (e.g., consultants) | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Potential clients or business opportunities | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Other charities or ventures ALSO IN the Inspiring Scotland fund/portfolio | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Other charities or ventures NOT IN the Inspiring Scotland fund/portfolio | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Government officials and workers: national or UK | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Government officials and workers: local | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |
| Other (please specify) | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ | ○ |

Other (please specify)

Please tell us more about your last answers.

Describe if and how Inspiring Scotland has provided access to other people and organisations, comparing it with other funders wherever it is helpful. What results have come from this access?

Anecdotes and examples are appreciated. (These answers will not be shared with Inspiring Scotland in an attributable manner.)

**Q12**

In general, how would you characterise the LEVEL OF ENGAGEMENT of your relationship with Inspiring Scotland and with other funders?

*Either click or drag the sliders to answer.*

**Q14**

| | Very low engagement | | | Lower engagement | | | Higher Engagement | | Very high engagement | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Inspiring Scotland and your organisation | | | | | | | | | | | |
| Other foundation/trust funders and your organisation, on average | | | | | | | | | | | |
| Large-scale individual donors and your organisation, on average | | | | | | | | | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Local and council government funders and your organisation, on average | | | | | | | | | | |
| National government funders and your organisation, on average | | | | | | | | | | |
| Others (please specify) | | | | | | | | | | |

**Please tell us more about your answer to the last question.**

Q18

Describe your relationship with Inspiring Scotland, comparing it with other funders wherever possible. (These answers are confidential and will not be shared with Inspiring Scotland in an attributable manner.)

Q19

Due to your relationship with Inspiring Scotland, how have your organisation's PRIORITIES changed (if at all)?
For each item, please indicate whether it is more or less important.

| | Much less important | Less important | Slightly less important | No change | Slightly more important | More important | Much more important |
|---|---|---|---|---|---|---|---|
| | 0 | 1 | 2 | 3 | 4 | 5 | 6 |
| Earning income | | | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Diversifying funding streams | | | | | |
| Planning your organisation's future | | | | | |
| Growing your organisation | | | | | |
| Measuring your organisation's impact | | | | | |
| Using data in organisational decision-making | | | | | |
| Interacting and working with government | | | | | |
| Winning government service contracts | | | | | |
| Marketing and communications | | | | | |
| Others (please specify) | | | | | |
| Others (please specify) | | | | | |

Please tell us more about your answer above: describe how your relationship with Inspiring Scotland has had an impact on your priorities, if at all, comparing it with other funders wherever it is helpful. Anecdotes and examples are appreciated!

(These answers are confidential and will not be shared with Inspiring Scotland in an attributable manner.)

Q19

Q60

What IMPACT has support from Inspiring Scotland had ON YOUR ORGANISATION?

| | Do you agree or disagree with the statement? | | | | |
|---|---|---|---|---|---|
| | Strongly disagree | Disagree | Neutral | Agree | Strongly agree |
| The governance capacity of our organisation has increased | ○ | ○ | ○ | ○ | ○ |
| The management capacity of our organisation has increased | ○ | ○ | ○ | ○ | ○ |
| We are a more effective delivery organisation | ○ | ○ | ○ | ○ | ○ |
| Our organisation is better at identifying outcomes and the impact of its work | ○ | ○ | ○ | ○ | ○ |
| Our organisation has better systems for recording the outcomes | ○ | ○ | ○ | ○ | ○ |
| Our organisation has a better profile and better links with local strategic planners | ○ | ○ | ○ | ○ | ○ |
| Our organisation has better links with budget holders/commissioners in local authorities and other purchasers | ○ | ○ | ○ | ○ | ○ |
| Our organisation has a better profile and better links with government officials and workers | ○ | ○ | ○ | ○ | ○ |
| Our organisation has a better profile and better links with other charitable funders | ○ | ○ | ○ | ○ | ○ |
| We have been able to attract more funding from other trusts and charitable funders | ○ | ○ | ○ | ○ | ○ |
| We have increased the level of income generated from contracts/services level agreements etc | ○ | ○ | ○ | ○ | ○ |
| We have increased our capacity to identify and develop new opportunities | ○ | ○ | ○ | ○ | ○ |
| As a result of the support, the organisation is more sustainable in the longer term. | ○ | ○ | ○ | ○ | ○ |

Other (please specify)

Other (please specify)

Q29

What are the weaknesses or challenges of Inspiring Scotland's approach?

Q27

For each statement about your experience with Inspiring Scotland, please indicate how much you disagree or agree.

| | Strongly disagree 0 | Disagree 1 | Slightly disagree 2 | Neutral 3 | Slightly agree 4 | Agree 5 | Strong agree 6 |
|---|---|---|---|---|---|---|---|
| Inspiring Scotland's selection and due diligence process was more intense than other trusts/foundations. | | | | | | | |
| Because of Inspiring Scotland's selection process, there is cachet to being supported by Inspiring Scotland. | | | | | | | |
| Being supported by Inspiring Scotland has signalled to other funders that we are a strong organisation. | | | | | | | |
| Inspiring Scotland's relationship with the Scottish Government makes it a more credible organisation. | | | | | | | |
| The high proportion of Inspiring Scotland staff with finance and law backgrounds makes it a more credible organisation. | | | | | | | |
| Inspiring Scotland takes a business-like approach to philanthropy. | | | | | | | |
| Inspiring Scotland has had a major impact on the direction of my organisation. | | | | | | | |
| More funders should act like Inspiring Scotland. | | | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Networking with the other ventures in the Inspiring Scotland portfolio was valuable. | | | | | |
| Inspiring Scotland gave us access to services and networks we could not have otherwise found in our location. | | | | | |
| Ventures located near Inspiring Scotland are likely to receive better support than ventures located farther away. | | | | | |
| There were difficulties in working together due to Inspiring Scotland's approach. | | | | | |
| Inspiring Scotland demand too much evaluation and reporting. | | | | | |
| Other (please specify) | | | | | |

Q35

It costs 8-10% of the total fund value for Inspiring Scotland to provide Performance Advisors, the pro-bono services and to raise money for funds.

**To what extent do you agree or disagree:** the 'added value' created by the non-financial services outweighs the cost of these services.

| Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|---|---|---|---|---|
| ○ | ○ | ○ | ○ | ○ |

Q25

In your opinion, what sort of work or organisation is a venture philanthropy approach like Inspiring Scotland's best suited for? Please share your insights, experiences, and thoughts.

Q23

Please share your thoughts about Inspiring Scotland, venture philanthropy, the third sector, government support, or any other allied topic. We would be delighted to hear your thoughts, and deeply appreciate you taking the time to share your insights and experiences.

If you have any questions, concerns, comments, or would like to speak further—which would be very welcome—please indicate that below or contact the primary investigator, Noah Isserman, directly.

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University of Cambridge
Gonville and Caius College
Cambridge CB2 1TA

Mobile: +44 (0)753 5645 081
E-mail: ni225@cam.ac.uk, isserman@gmail.com

**Q28**

- ◯ Please contact me to arrange a call.
- ◯ I'd like you to email me to start a conversation. (input email below)
- ◯ Other:

>>

# APPENDIX 4: NOTES ON METHODOLOGY

This appendix contains information about specific methodological choices concerning missing data and recoding data.

Missing data

Many important questions forced responses, so missing data was not an issue in those cases. Some of the more complex questions, though, included multiple response options and then multiple reactions to each of those options. In these cases, non-responses were not included in the analysis, because assuming “no opinion” or “neutral” would not have been appropriate.

Some survey questions were multi-part, requiring clicking on radio buttons to share multiple pieces of information regarding a single topic. For example, Q-27, regarding non-financial services, asks the respondent three things: (1) did you receive this service? (2) If so, who provided it? (3) If so, how valuable was the service? Some responses were incomplete. Responses that indicated no or did not answer (1) were discarded. Responses that answered yes to (1) were included, with any missing data thereafter removed from the denominator in relevant analyses. This methodology was applied to all such questions.

Recoding non-responses

One of the questions invited survey respondents to enter two pieces of data with regard to the number and value of networking connections they had received. The connections were between the SPO and nine different types of actors, for example “other foundations and trusts”, “individual donors”, and “other charities not in the fund/portfolio”. Respondents were asked to click two radio buttons for each type of actor, indicating *how many connections* to actors of that type were facilitated by the venture philanthropy fund and *how valuable* those connections were, on average. For the number of connections, there were five options: 0, 1, 2-4, 5-10, and 10+ connections. Upon inspecting the data after the completion of the survey, it was clear that many respondents declined to click the “0” box to indicate zero connections: while *all* respondents (59/59 for Inspiring Scotland) indicated some connections and their value, many simply elected not to click

"0" to fill those categories where they had no connections made. This obviously would result in inaccurate data, so all null fields were replaced with zeros on the assumption that doing so more closely matched the intent of respondents—who, again, had all indicated at least some non-zero replies.

Translating ordinal data to continuous data

Additionally, the five options for number of connections—0, 1, 2-4, 5-10, and 10+—posed an additional challenge. These designations were initially marked as ordinal replies numbering one through five—a suboptimal choice in the design of the survey. However, this clearly failed to capture the reality of the situation, so the replies were translated into a continuous data format using conservative assumptions (illustrated in Table 11.1).

**Table 11.2: Translating ordinal data to continuous data**

| | | | | | |
|---|---|---|---|---|---|
| Actual label from survey | 0 | 1 | 2-4 | 5-10 | 10+ |
| Ordinal | 1 | 2 | 3 | 4 | 5 |
| Translated to continuous | 0 | 1 | 3 | 7.5 | 11 |

The translation was straightforward, with two of the fields, zero and one, being translated exactly. The two fields with ranges, 2-4 and 5-10, were translated into the midpoints of those ranges, 3 and 7.5. The final category, 10+, was translated to 11 using the most conservative assumption.

Notes on Inspiring Scotland survey and multiple funds

There were a total of 70 eligible unique SPOs supported by Inspiring Scotland spread across four funds. There was overlap between funds and a few exceptional cases, so I outline the methodological choices here. The overall response rate (completed surveys only), after two rounds of surveying, was 84%, or 59 of 70 organisations. The basic information of these respondents follows, broken down by fund, in Table 11.2. It includes the total number of eligible unique ventures per fund, the number of complete responses received, the number of individual complete surveys received, and the response rates for each fund,

**Table 11.3: Inspiring Scotland survey response rates, by fund**

| Fund name | Total SPOs in fund | Total eligible SPOs in fund | Complete survey responses received (non-duplicative) | Response rate | Total individuals invited to complete survey |
|---|---|---|---|---|---|
| 14:19 Fund | 22 | 21 | 21 | 100% | 47 |
| Go Play Fund | 27 | 27 (19) | 18 (11) | 67% | 32 |
| Go 2 Play Fund | 8 | 8 | 7 | 88% | 9 |
| Early Years Early Action | 22 | 22 | 20 | 91% | 57 |
| Total | 79 | 70 | 59 | 84% | 145 |

The within-fund response rates are based on the percentage of eligible organisations that replied. An organisation was counted *if and only if*:

1. The organisation was in the fund.

2. The response was the only response for the organisation. There were three cases where multiple staff members responded on behalf of one organisation with a fund; the extra responses were removed, and the retained response was chosen by random number generator.

3. The organisation had not already answered based on being in another fund. In cases where an organisation responded only once as a member of Fund A, but was also in Fund B, there was a challenge in how to report the response rate of Fund B. We care about response rate primarily to indicate how skewed our sample might be, so when an organisation does reply, but only once, it is important to indicate that the organisation did reply. In these cases, Fund B simply excludes the organisation entirely, removing one from the denominator for the response rate calculation. This was primarily an issue in the Go Play and Go 2 Play funds; all eight Go 2 Play SPOs had already been in Go Play.

4. The organisation is not otherwise exceptional (one organisation in the 14:19 Fund, The Prince’s Trust, was excluded based on being a funder, not a delivery organisation).

# Appendix 5: Evolution of the Impetus Trust Model as Represented by its Website in 2003, 2008, and 2013

This appendix includes the descriptions Impetus Trust shared on its website to define both venture philanthropy broadly and its specific programs and goals. I include snapshots from 2003, 2008, and 2013 to help capture the evolution of Impetus Trust, discussed in Chapter 4. All content is now hosted by the Internet Archive, and permanent links are provided for each page.

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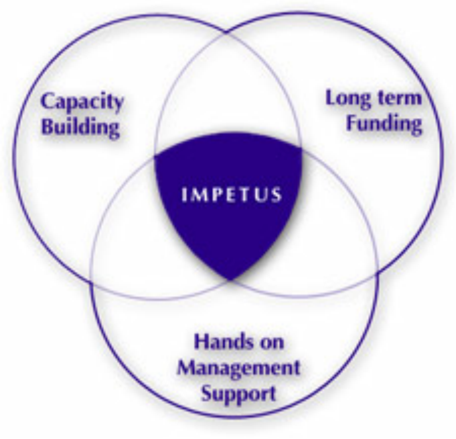
December 8, 2003

Impetus Trust Homepage: The Impetus Approach"

https://web.archive.org/web/20031208192128/http://www.impetus.org.uk/index.php?id=0

Impetus Trust is believed to be the first general venture philanthropy charitable fund in the UK. Impetus Trust will strive to make the biggest difference with donors' money by helping the charities it supports to achieve a step-change in their performance. The ultimate goal is to enable these charities to have a greater impact on the lives of more people in need by improving the quality, efficiency, and effectiveness of the services delivered. Our aim is to maximise the social return on investment for these charities, for our donors and for Impetus Trust.




Impetus Trust is applying the experience built up in the venture capital industry to the voluntary sector by providing long term investment funding and hands-on support to those charities whose vision, business plan and management team we believe in and commit to. The approach is based on partnership and long term collaboration to build the capacity of these charities.

Impetus Trust seeks to support established charities facing a critical change either because they are poised for rapid growth, they need a turnaround in performance or they are planning a merger or alliance. Impetus Trust will focus on medium-sized charities delivering services directly to a substantial number of socially or economically disadvantaged beneficiaries. We believe this is where we can make the biggest difference.

We aim to lead the way in the development of venture philanthropy in the UK by helping the charities we support to make a step-change in their performance and by demonstrating to our donors that we can make the biggest impact with their money. Through winning recognition for this pioneering and innovative approach we will ultimately expand the resources and support available to charities delivering innovation and excellence.

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Nov 28, 2003

"Impetus Trust: Donors: Why support Impetus?"

https://web.archive.org/web/20040218122553/http://www.impetus.org.uk/index.php?id=2

The Impetus approach enables you to make the biggest difference with your money. Impetus will:

tackle the greatest need by focusing on:
- unfashionable, under-resourced sectors with management capacity problems
- people-focused, medium size, UK based charities with minimum 3 years operations

maximise impact by selecting a small number of charities which are:
- tackling root causes of problems
- capable of achieving high and sustainable impact
- aspiring to become major regional or national forces over time
- ready to embrace Impetus's approach and values

facilitate step change in these charities' performance with:
- 3-5 year funding of agreed core costs
- hands-on management support through monthly meetings and active monitoring

add value by:
- delivering matched expertise sourced from the Impetus team and its network of associates and trustees.

How can you contribute?

Impetus is asking for support from individuals, companies and grant-making charities. We are looking for your money and also for your skills (check out our Associates page if you are interested in making this contribution too).

Our target for the first phase is to raise £3 million for investment in charities and as at September 2003 we had secured pledges totalling more than half this amount from individuals and grant-making charities.

Approximately 95% of individuals' donations will flow through to our selected charities as our own core costs will, initially, mostly be funded by the grant-making charities.

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Nov 28, 2003

"Impetus Trust: Charities: Selection Criteria"

https://web.archive.org/web/20031209082224/http://www.impetus.org.uk/index.php?id=3

Our objective is to support charities delivering services aimed at tackling the root cause of problems in society and providing sustainable long-term solutions for their beneficiaries.

**Change**

Impetus seeks to work with charities at a critical stage in their strategic development. These charities might be:

- at a point where they could grow significantly
- under performing and seeking to turn around their performance
- viewing a merger or alliance as a potential and critical step in their development.

**Key characteristics**

Impetus has identified some key characteristics for the charities it hopes to work with. The charity will have:

- more than £250k and less than £10 million charitable income p.a.
- operated, and produced audited accounts for at least 3 years
- its HQ and a significant portion of its management in England and Wales
- an aspiration to become a major regional or national player over time
- openness of its Chief Executive and trustees to the Impetus approach and values
- services that address root causes and which can deliver sustainable long-term benefit
- a focus on beneficiaries from disadvantaged groups

- a potential for reaching a substantial number of beneficiaries
- a delivery focus directly to the beneficiaries.

We intend to provide at least 50% of our funds to supporting charities outside London and the Southeast.

We will not look at charities which focus on the following:

- animals, culture and heritage rather than people
- aiming to proselytise and convert people
- substantially/exclusively working in the areas of research or advocacy.

Impetus commitment

The Impetus commitment is to:

- provide long-term funding of core costs
- help to build capacity in our selected charities and
- develop hands-on collaborative relationships with the charities we support.

If you believe your charity fits these criteria, please now go to How to approach Impetus.

January 15, 2008

"Impetus Trust: About Us: Investment Approach"

https://web.archive.org/web/20080124095248/http://www.impetus.org.uk/investment.html

We provide charities with strategic funding, expertise and capacity building support over a defined period of time, usually between three and five years, so that they can focus on transforming more lives. We bring our business skills, our energy and our passion to help charities at a critical stage in their development to create maximum social impact.

Impetus provides an integrated venture philanthropy package, translating venture capital and business frameworks for the not for profit sector.


We are results-focused. Each one of our charities is accountable for their performance. We work with them to set specific goals, milestones and other mutually agreed benchmarks. This provides them with the necessary framework to ensure they reach their targets by the end of our involvement.

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January 21, 2013

“Impetus Trust: About Venture Philanthropy”

https://web.archive.org/web/20130218020032/http://www.impetus.org.uk/about-venture-philanthropy

Venture philanthropy is an active approach to philanthropy, which involves giving skills as well as money. It uses the principles of venture capital, with the investee organisation receiving management support, specialist expertise and financial resources. The emphasis is on a social, rather than financial, return.

Most venture philanthropy organisations work closely with the charities or social enterprises they invest in for a defined period of time. Clear targets will be set, and most commonly the impact of the charity will be measured. The ultimate aim is for the charity or social enterprise to greatly increase its social impact.

Impetus Trust is the pioneer of venture philanthropy in the UK. Read about the Impetus model of venture philanthropy.

The leading European member association, the European Venture Philanthropy Association (EVPA) lists the four main characteristics of venture philanthropy as:

A highly-engaged partnership between the charity and venture philanthropy organisation to achieve agreed outcomes

Using a variety of financial tools (not only grants), depending on which are most appropriate to the charity's needs

Building the capacity of the charity

Maximising donors' social return on investment.

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January 21, 2013

“Impetus Trust: Our Innovative Approach”

https://web.archive.org/web/20130218085121/http://www.impetus.org.uk/whats-special-about-impetus/our-innovative-approach/

Impetus carefully selects ambitious charities and social enterprises and works with them to transform their impact. We use a highly effective model of investment - based on the venture philanthropy model - to substantially increase the impact of the organisations we work with.

Our venture philanthropy model has three key components:

**1. Strategic funding**
We give long-term core funding to our charities and social enterprises so they can build their capacity. This funding is linked to the organisation meeting pre-agreed milestones, which are tracked on a quarterly basis.

In addition, an important part of the Impetus model is that we are often able to leverage our funding with additional funding from co-investors.

Read more about the charities and social enterprises we work with.

**2. Hands-on management support**
The 'secret ingredient' of our investment model is the hands-on management support given to the chief executive and senior management of the charity by an experienced, in-house Impetus Investment Executive. Our Investment team members have substantial consulting, financial and voluntary-sector experience, and the investment executive's support spans the entire investment period.

Read a first-hand account of what it is like to work with Impetus, from Rachel Carr, Chief Executive of Impetus charity IntoUniversity.

**3. Specialist expertise**

We have a pool of highly skilled experts, who volunteer their skills to our charities and social enterprises. This expertise is deployed for specific, mutually agreed projects, with the expert and investee organisation agreeing the brief before a project starts. Each project has a defined period of time and objective, to ensure results.

Example projects include:

- Business model review and business planning
- Financial planning and reporting
- Development of performance measures
- Senior management team coaching

# APPENDIX 6: SPOs SUPPORTED BY IMPETUS TRUST, FY2012

## 2011/12 INVESTMENT SUMMARY

**CUMULATIVE IMPETUS PACKAGE TO DATE (audited figures)**

| PORTFOLIO ORGANISATION | Grant funding * | Pro bono services donated | Investment management value ** | Total funding package received to date |
|---|---|---|---|---|
| Youth and Social Opportunity Initiative | | | | |
| Camfed International | £545,000 | £272,941 | £233,807 | £1,051,748 |
| Fairtrade Foundation | £500,000 | £1,035,071 | £214,695 | £1,749,766 |
| IntoUniversity | £613,169 | £432,328 | £214,695 | £1,260,192 |
| Resurgo Trust | £125,000 | £268,698 | £133,031 | £526,729 |
| Street League | £722,800 | £810,401 | £191,013 | £1,724,214 |
| Teens and Toddlers | £835,306 | £479,715 | £191,013 | £1,506,034 |
| New investment - contractual agreement awaiting finalisation as of 30 June 2012 | £1,000,000 | n/a | n/a | n/a |
| Graduated investments | | | | |
| Acumen Development Trust | £25,000 | £40,859 | £24,966 | £90,825 |
| beat | £335,000 | £357,810 | £177,042 | £869,852 |
| FRC Group | £55,000 | £526,918 | £116,906 | £698,824 |
| Keyfund Federation | £640,907 | £531,677 | £184,666 | £1,357,250 |
| Leap Confronting Conflict | £542,500 | £451,427 | £131,693 | £1,125,620 |
| Naz Project London (NPL) | £285,000 | £434,667 | £165,012 | £884,679 |
| Speaking Up (VoiceAbility) | £410,000 | £246,969 | £98,849 | £755,818 |
| St Giles Trust | £530,000 | £454,404 | £131,693 | £1,116,097 |
| **TOTAL IMPETUS SUPPORT FOR CHARITIES FROM YOUTH AND SOCIAL OPPORTUNITY INITIATIVE** | **£6,164,682** | **£6,343,885** | **£2,209,081** | **£14,717,648** |
| Education Endowment Foundation | | | | |
| **TOTAL IMPETUS SUPPORT FOR THE EDUCATION ENDOWMENT FOUNDATION** | **£127,000** | **£184,232** | **£87,681** | **£398,913** |

**CUMULATIVE IMPETUS PACKAGE TO DATE (audited figures)**

| PORTFOLIO ORGANISATION | Grant funding* | Pro bono services donated | Investment management value ** | Total funding package received to date |
|---|---|---|---|---|
| Impetus for Reducing Reoffending Initiative | | | | |
| Blue Sky Development & Regeneration | £462,500 | £170,611 | £191,013 | £824,124 |
| Kainos Community | £50,000 | £33,181 | £133,031 | £216,212 |
| Prison Radio Association | £160,000 | £236,337 | £133,031 | £529,368 |
| Prisoners' Education Trust | £55,091 | £197,681 | £133,031 | £385,803 |
| Shannon Trust | £100,000 | £450,054 | £133,031 | £683,085 |
| Working Chance | £26,356 | £59,883 | £49,141 | £135,380 |
| **TOTAL IMPETUS SUPPORT FOR IMPETUS FOR REDUCING REOFFENDING INITIATIVE** | **£853,947** | **£1,147,747** | **£772,278** | **£2,773,972** |
| Early Years Initiative | | | | |
| Family Links | £50,088 | £239,260 | £87,681 | £377,029 |
| I CAN | £54,594 | £170,465 | £87,681 | £312,740 |
| Ripplez | £100,000 | £122,371 | £87,681 | £310,052 |
| New investment - contractual agreement awaiting finalisation as of 30 June 2012 | £100,000 | £56,058 | £49,141 | £105,199 |
| **TOTAL IMPETUS SUPPORT FOR CHARITIES FROM EARLY YEARS INITIATIVE** | **£204,682** | **£588,154** | **£312,184** | **£1,105,020** |
| Pro bono total for due diligence/charity support | n/a | £1,356,275 | n/a | £1,356,275 |
| **TOTAL SUPPORT ACROSS ALL INITIATIVES TO DATE (EXCLUDING AMOUNTS APPROVED BUT NOT YET PAID)** | **£7,350,311** | **£9,620,293** | **£3,381,224** | **£20,351,828** |

TOTAL INVESTMENT ACROSS ALL FUNDS TO DATE
(excluding amounts approved but not yet paid)

# APPENDIX 7: DATA TABLES: SPO ENGAGEMENT AND IMPETUS TRUST

**Table 11.4: Paired samples T-test: engagement between SPOs and Impetus Trust compared to SPOs and other funders, as reported by SPO managers**

| Paired Samples T-Test: Engagement with Impetus Trust Compared to Other Funders | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | N | Paired Differences | | | | | t | df | Sig. (2-tailed) |
| | | Mean | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | | Lower | Upper | | | |
| Impetus – Other Foundations | 21 | 4.62 | 2.44 | .53 | 3.51 | 5.73 | 8.68 | 20 | .00** |
| Impetus – Individual Donors | 18 | 4.72 | 2.54 | .60 | 3.46 | 5.99 | 7.89 | 17 | .00** |
| Impetus – Local Gov Funders | 18 | 3.00 | 2.77 | .65 | 1.63 | 4.38 | 4.60 | 17 | .00** |
| Impetus – National Gov Funders | 19 | 3.37 | 2.77 | .64 | 2.03 | 4.71 | 5.30 | 18 | .00** |
| Impetus – Corporate Funders | 18 | 4.28 | 2.74 | .65 | 2.92 | 5.64 | 6.62 | 17 | .00** |
| **Significant at the .01 level | | | | | | | | | |

# Appendix 8: Data Tables: SPO Capability Shift and Impetus Trust

**Table 11.5: One-sample T-test: capability improvements among SPOs supported by Impetus Trust explicitly due to Impetus Trust support, as reported by SPO managers**

| One-sample T-Test: Capability Improvements Among SPOs Supported by Impetus Trust | | | | | | | |
|---|---|---|---|---|---|---|---|
| | N | t | df | Sig (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| | | | | | | Lower | Upper |
| Increase number of beneficiaries | 23 | 2.612 | 22 | .016* | .60870 | .1254 | 1.0920 |
| Effectiveness in producing target outcomes | 23 | 1.367 | 22 | .186 | .26087 | -.1350 | .6567 |
| Develop a cost-effective solution | 23 | 1.096 | 22 | .285 | .21739 | -.1940 | .6288 |
| Gain government support | 23 | -.439 | 22 | .665 | -.08696 | -.4975 | .3236 |
| Build and sustain top quality leadership | 23 | 3.678 | 22 | .001** | .73913 | .3224 | 1.1559 |
| Effectiveness of operational managers | 23 | 2.472 | 22 | .022* | .43478 | .0700 | .7995 |
| Effectiveness of board governance | 23 | 2.712 | 22 | .013* | .47826 | .1125 | .8440 |
| Implement robust financial management systems | 23 | 3.347 | 22 | .003** | .65217 | .2480 | 1.0563 |
| Achieve sustainable income streams | 23 | 1.931 | 22 | .066 | .43478 | -.0322 | .9017 |
| Use data to improve services and outcomes | 23 | 2.826 | 22 | .010** | .60870 | .1620 | 1.0554 |
| Demonstrate impact | 23 | 2.787 | 22 | .011* | .52174 | .1334 | .9100 |
| Enhance front-line service delivery | 23 | -.272 | 22 | .788 | -.04348 | -.3753 | .2884 |
| *Significant at the .05 level<br>**Significant at the .01 level | | | | | | | |

# Appendix 9: Inspiring Scotland's Evolution and the Launch of its Second Fund, Go Play

This appendix provides additional context surrounding the evolution and launch of Go Play, Inspiring Scotland's second fund.

The two aims of Go Play were to increase the number of opportunities for Scottish children to play freely and to develop the "play sector" more broadly. As explained by the Minister for Children and Early Years, the goal was to support and strengthen the play sector within civil society:

> *…our Early Years Framework and Equally Well: The Health Inequalities Framework, included a commitment to work with Inspiring Scotland to support the third sector to increase opportunities for play and [that is] why we commissioned research earlier this year to identify the support required to make the sector more sustainable. (Scottish Government, 2009)*

As with the 14:19 fund, IS conducted "baseline research" about the distribution of need and the efficacy of various interventions. Along with outcomes analysis from their supported SPOs, this was an explicit deliverable to the government. There were three audiences for the research: local and national governments interested in learning about the potential benefits of supporting the play sector; organisations in the sector trying to explain the benefits that they create; and other philanthropic funders interested in how to support, monitor, and evaluate organisations that support play. Generating, reporting and packaging SPO research is one area in which Inspiring Scotland met Scottish government needs, and strengthened the third sector as a whole.

After launching in September of 2009, the first stage in the process was publicising the fund and encouraging applications. According to a Go Play performance advisor:

> *People had to call in to talk to us before they received an application for it. At that stage, we were doing a lot of education, but we were also screening, just to an extent, both for the quality of ideas and for the eligibility criteria. —Performance adviser, Inspiring Scotland, Interviewee 2, 2011*

By intentionally serving as gatekeepers to the application process, Inspiring Scotland was attempting to reduce transaction costs both for potential applicants and for its own selection process. This highlights the challenges in working in a somewhat fuzzy service area like play, which is itself often a tangential element of programming for organisations focused on children more broadly. By attempting to learn about SPOs *before* they saw the application and could tailor a case that they fit the requirements, Inspiring Scotland attempted to reduce wasted time for themselves and SPO.

In making funding choices, trusts generally want to see evidence of an organisation's past and current work, including outcome measurements—the more rigorous the better. Smaller organisations rarely have the capacity to collect and analyse such information (or pay others to collect it), so larger organisations and organisations that have previously received grant funding (and conducted the reporting and analysis required for those grants) often are at an advantage (Isserman, 2012). To counteract the bias against smaller and newer organisations, Inspiring Scotland provided one or two days of dedicated consultant time, provided by staff or external consultants, to help organisations represent themselves fully in their applications. The consultants were provided based on need, with larger organisations with dedicated development and fundraising staff not receiving additional help. The application process, however, was very engaged regardless of organisation size. According to a performance advisor of the Go Play fund:

> *There was continuous engagement with them during working out the application process, particularly if they were small individual organisations, we sent out a consultant to work out the application with them. ... there was actually capacity-building support going into organisations that ended up not being successful. —Performance adviser, Inspiring Scotland, Interviewee 2, 2011*

From approximately 300 phone calls for information, 112 applications were submitted. In the end, after review by Inspiring Scotland staff and board members, 27 organisations located in 9 local authorities were invited to join the portfolio. Support was also provided to the national association for play organisations, Play Scotland.

Although building the capacity and sustainability of organisations was the goal from the outset, learning and adaptation on the part of Inspiring Scotland took place almost immediately. According to a Go Play performance advisor:

> *In terms of our capacity building and those things… it became clear as we went along that…, there was a need for much more happening in terms of events, training, whatever. And they hadn't built that in [to their applications] because they didn't know to apply for that. And we didn't know to ask because we didn't know there would be that need. So it's evolving. So you have to make sure you have kept a capacity building pot of money, which we'll assess that, and facilitate it as you go, which is one of the reasons not to have all the money out the door immediately, which is more of a grant model. Performance adviser, Inspiring Scotland, Interviewee 2, 2011*

The Inspiring Scotland staff member pointed out an important distinction between funds provided by government or philanthropic grants and venture philanthropy organisations. Grants tend to be one-time events. In contrast, VPOs engaging with an SPO over multiple years can exercise a degree of control over what kind of support is provided and when. The lesson learned by Inspiring Scotland through its second fund is that it needed to keep a larger proportion of its funds aside for unforeseen or changing capacity building needs.

Over the 24 months of the Go Play fund, Inspiring Scotland's relationships with and support provided to ventures were guided by its venture philanthropy model, with its concomitant focus on monitoring and proving the efficacy of the programmes conducted by the supported organisations in order to meet Scottish government priorities and targeted outcomes.

# APPENDIX 10: DATA TABLES: SPO ENGAGEMENT AND INSPIRING SCOTLAND

**Table 11.6: Spearman's correlation: engagement between SPOs and Inspiring Scotland compared to other funders, as reported by SPO managers**

| Spearman's Correlations: Engagement between Inspiring Scotland Supported SPOS and Funders | | | | | | |
|---|---|---|---|---|---|---|
| | | Engage IS | Engage Other Foundations | Engage Indiv Donors | Engage Local Gov Funders | Engage Nat Gov Funders |
| Engage IS | Correlation Coefficient | 1.000 | .028 | .059 | .039 | .136 |
| | Sig. (1-tailed) | . | .416 | .337 | .386 | .173 |
| | N | 58 | 58 | 54 | 57 | 50 |
| Engage Other Foundations | Correlation Coefficient | .028 | 1.000 | .321** | .313** | .328** |
| | Sig. (1-tailed) | .416 | . | .008 | .008 | .009 |
| | N | 58 | 59 | 55 | 58 | 51 |
| Engage Indiv Donors | Correlation Coefficient | .059 | .321** | 1.000 | .196 | .464** |
| | Sig. (1-tailed) | .337 | .008 | . | .078 | .000 |
| | N | 54 | 55 | 55 | 54 | 50 |
| Engage Local Gov Funders | Correlation Coefficient | .039 | .313** | .196 | 1.000 | .224 |
| | Sig. (1-tailed) | .386 | .008 | .078 | . | .059 |
| | N | 57 | 58 | 54 | 58 | 50 |
| Engage Nat Gov Funders | Correlation Coefficient | .136 | .328** | .464** | .224 | 1.000 |
| | Sig. (1-tailed) | .173 | .009 | .000 | .059 | . |
| | N | 50 | 51 | 50 | 50 | 51 |
| **. Correlation is significant at the 0.01 level (1-tailed). | | | | | | |

# Appendix 11: Data Tables: SPO Capability Shift and Inspiring Scotland

**Table 11.7: One-sample T-test: capability improvements among SPOs supported by Inspiring Scotland explicitly due to Inspiring Scotland support, as reported by SPO managers**

| One-sample T-Test: Capability Improvements Among SPOs Supported by Inspiring Scotland | | | | | | | |
|---|---|---|---|---|---|---|---|
| | N | t | df | Sig (2-tailed) | Mean Difference | 95% Confidence Interval of the Difference | |
| | | | | | | Lower | Upper |
| Increased governance capacity | 58 | 5.778 | 57 | .000** | .67241 | .4394 | .9055 |
| Increased management capacity | 58 | 7.979 | 57 | .000** | .87931 | .6586 | 1.1000 |
| More effective delivery organisation | 58 | 12.251 | 57 | .000** | 1.17241 | .9808 | 1.3640 |
| Better at identifying outcomes and impact | 58 | 15.208 | 57 | .000** | 1.39655 | 1.2127 | 1.5804 |
| Better systems for recording outcomes | 58 | 12.748 | 57 | .000** | 1.29310 | 1.0900 | 1.4962 |
| Better links with local strategic planners | 56 | 7.748 | 55 | .000** | .91071 | .6752 | 1.1463 |
| Better links with commissioners in local authorities | 58 | 3.076 | 57 | .003** | .29310 | .1023 | .4839 |
| Better links with government officials | 57 | 6.187 | 56 | .000** | .631579 | .42708 | .83607 |
| Better links with other charitable funders | 58 | 5.123 | 57 | .000** | .55172 | .3361 | .7674 |
| Able to attract more funding from trusts and charitable funders | 57 | 3.639 | 56 | .001** | .45614 | .2051 | .7072 |
| Increased income from contracts | 58 | 2.977 | 57 | .004** | .37931 | .1242 | .6344 |
| Increased capacity to identify and develop new opportunities | 57 | 8.204 | 56 | .000** | .82456 | .6232 | 1.0259 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| More sustainable in the longer term | 58 | 7.749 | 57 | .000** | .93103 | .6904 | 1.1716 |
| **Significant at the .01 level | | | | | | | |