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EXPERT ROUNDUP

Commit time not only money. How social purpose organisations grow through non-financial support.

Experienced CEOs of leading Venture Philanthropy Organisations and Social Investors (VPO/SIs) have shared with us what works and what doesn't work in planning and delivering *non-financial support (NFS)* – and the challenges the sector faces going forward. This document summarises the main learnings they shared, the open challenges for the sector, and how EVPA can help VPO/SIs tackle them.

WHAT IS NFS AND WHY DOES IT MATTER?

VPO/SIs believe that **providing only financial support is a recipe for failure**, as non-financial support (NFS) is crucial to ensure that the Social Purpose Organisation (SPO) achieves its goals.

TOP 6 REASONS TO PROVIDE NFS

1. ***To make sure the SPO/investee spends the money as well as possible,*** by ensuring the investee has the capacity for decision making and helping them take the right decisions.
2. ***To prepare the investee for exit***. Exit happily is the final goal of the VPO/SI. By giving the SPO the tools to develop its own capacity the VPO/SI makes sure it doesn't let the SPO fall off the cliff once exit comes.
3. ***Help the social entrepreneur develop him/herself.*** Social entrepreneurs invest their personal life into what they're working on – and sometimes burn out. Social entrepreneurs failing personally is a massive risk, so support is needed to strengthen the resilience of the entrepreneur, avoiding feelings of personal failure and ultimately burnout.
4. ***To build the foundations to scale.***
5. ***To prove impact to funders and investors.*** Engaging the VPO/SI's own funders and investors directly in the work of the social entrepreneurs (i.e. by allowing them to use their professional skills) is the most tangible way of showing the impact the VPO/SI is having. This motive is particularly important for VPO/SIs that fundraise.
6. ***To build the VPO/SI's pipeline.*** New potential investments are attracted to the VPO/SI by the NFS offered. Hence, NFS works to build a "referral network" for the VPO/SI.

WHAT LEARNINGS LOOKING BACKWARDS?

Learning # 1 – Start by planning what to offer

When asked what is the most important piece of non-financial support a VPO/SI should always offer, CEOs tend to agree that it **depends on the investment strategy of the VPO/SI**. If, for example, a VPO/SI is investing in early stage ventures it will need to offer basic financial competences, help the SPO define its business model and the organisational structure including the Board, the impact measurement and management system, the fundraising strategy, etc. A VPO/SI investing in a later stage SPO will need to provide different support, including market knowledge, help to revise the business model and the organisational structure to adapt it to new markets and larger size of operations, etc.

Based on its investment strategy the VPO/SI defines what is **core** to offer. The core competences – i.e. the competences to deliver what the SPOs in the portfolio need – should be available in-house. If, for example, the VPO/SI realises all investees need support on working out the funding model, an in-house finance manager is needed, who can sit on the Board of the investees and provide advice on how to reach financial sustainability.

In the report *"A Practical Guide to Adding Value through Non-Financial Support"*, EVPA proposes three tools to help VPO/SIs map available forms of NFS, look at what is core and non-core and develop the NFS plan, by assigning the internal and external resources available to deliver core and non-core forms of non-financial support.

It is impossible to make sure the VPO/SI's team has all the capabilities the investees will ever need. Therefore, VPO/SIs working with a diverse set of investees train their team members to become **experts in helping the SPOs identify their organisational needs** and connecting them with the network of experts (pro-bono, low-bono and paid consultants) the VPO/SI can tap into.

The SPO's needs assessment developed by EVPA with a pool of expert practitioners guides the VPO/SI and the SPO through the assessment of the developmental needs of the SPO on social impact, financial sustainability and organisational resilience.

But what is that most SPOs need? According to expert CEOs, VPO/SIs should always expect to provide:

- ***Legal support.*** This type of very specialised support is often the first thing SPOs need, both at the early stage, when the organisation needs to be structured, and at a later stage when, for example, specialised legal support is needed for scaling or for entering a new market. As this type of support is highly specialised, VPO/SIs don't have it in-house, but provide it via pro-bono partners.
- ***Leadership skills.*** Start-ups, which often consist of one young social entrepreneur with an idea, need the basics, while the social entrepreneurs of growing SPOs need support coping with the changes.
- ***Market knowledge.*** VPO/SIs can underestimate the importance of strong market knowledge but – as also pointed out in EVPA's failure research – not knowing the market the investee is active in increases the risk of failure, and makes it more difficult for the VPO/SI to offer adequate support.
- ***Impact measurement and management.*** Most SPOs struggle with concepts like "theory of change", "impact metrics", etc., thus it is important to provide guidance on these aspects and to align expectations at the outset of the relationship and provide tailored support to develop and implement impact measurement throughout the investment.

Learning # 2 – You need to build a real partnership with the investee

Over the years VPO/SIs have developed the delivery of non-financial support as a **partner model.**

The business competences of the VPO/SI's staff (such as the operational, financial and HR-related know-how) are part of the success formula, but the SPO comes to the table with its social competences. Only the sum of the two makes a successful company.

The social entrepreneur is the "expert" in the specific social issue. It is his/her journey, he/she is the one who is losing sleep at night if the project isn't going well, so the VPO/SI's role is to be very respectful of that and to be an all-time support the social entrepreneur can access when needed. The role of the VPO/SI is to guide the social entrepreneur, giving it freedom of choice, unless the choice means going off a cliff. This is especially true in the case of VPO/SIs investing through grants, debt instruments or who have a minority equity share in the SPO. In such cases the VPO/SI is sitting on the board not as the owner but as an interested partner, and should behave as such.

Therefore, the VPO/SI needs to be **humble** and not "instruct" people, but be respectful, supportive and be the **"critical friend"** who gives honest reflections.

The VPO/SI should always remember that non-financial support is not only about mapping the SPO's weaknesses and tackle them, but also a learning journey for the VPO/SI to become a good advisor.

Learning # 3 – Social Entrepreneurs need a network of peers, not group trainings

Getting the investees together for **networking** (typically once or twice a year, depending on the geographical spread of the investees) works very well, especially when organisations that are ten years in business commit to passing their knowledge on to the new generation of social entrepreneurs. Through networking with peers social entrepreneurs:

- Learn from each other what works and what doesn't, and continue doing so after the VPO/SI has exited
- Feel like a community, less lonely and more motivated.

- Can access new business opportunities, by cooperating with other businesses that are working in similar sectors, offering new distribution channels, etc.

However, if networking among peers has proven to work well, gathering SPOs to offer **group trainings on "general" skills hasn't worked** as well as expected, despite the attempts of VPO/SIs to segment the social entrepreneurs supported to create groups of peers. Social entrepreneurs tend to be focussed on their own idea and the specific needs of their own business, and fail to pick out what is relevant for their own project during a group training on more general skills. Hence, VPO/SIs often find it more effective to work one-on-one with the SPO.

Learning # 4 – Non-financial support is crucial during due diligence

During due-diligence, i.e. before the financial investment is made, VPO/SIs invest a significant number of hours to understand:

- The **social entrepreneur**, and what he/she needs to strengthen his/her leadership and management capabilities
- The **business model** of the SPO, if any, and how it can be improved
- What the **market** looks like. As shared by an expert CEO "we hadn't realised how much we had to learn about the social entrepreneur's market place in our own country".

On top of spending time to understand the situation, many VPO/SIs offer most of their NFS during the due-diligence phase, to get the SPO to a point where it is investment-ready[1]. In fact, **VPO/SIs perform due diligence by giving non-financial support**.

The provision of NFS during the due diligence phase has evolved into a largely diffused model, which foresees to **give only NFS during the first year of partnership** with the SPO, providing very little to no financial support. This first period, which lasts typically twelve months, is used to test the idea of the social entrepreneur, to build the organisation, and to align expectations to see if there is a match between the SPO and the VPO/SI, ultimately allowing the VPO/SI to make a well-informed decision on whether or not to invest in the SPO. The main reasons why some SPOs don't pass the "year test" are that (i) they don't do what the VPO/SI expects them to do, (ii) they don't "match" with the VPO/SI, or (iii) they are not ready for the VP model.

WHAT CHALLENGES LOOKING AHEAD?

Challenge # 1 – Matching the SPO with the right (pro-bono) support

Venture philanthropy is – ultimately – a people's business. Social entrepreneurs are demanding people, who expect the VPO/SI to provide timely and useful support without destroying too much of what they are building. Personal relations can be difficult and can hence be a problem. By conducting in-depth due diligence, also providing NFS and aligning expectations, the VPO/SI can decrease the chances that personal issues with the SPO arise.

However, if aligning expectations between the VPO/SI and the SPO is difficult, it is even harder to make sure that there is a perfect **match** between the **SPO and the pro-bono supporter**. Some VPO/SIs realise that although they have an amazing network of pro-bono supporters, linking them with the SPOs in the portfolio is sometimes hard.

As advised by EVPA[2], many VPO/SIs already have hired a **"pro-bono manager"**, a person in charge of managing the CRM system and match the consultants with the SPOs' needs. However, this system poses two challenges:

- The CRM system does not capture all the "soft" data, i.e. feedback on the personality and way of working of each specific pro-bono supporter, which may remain only in the minds of the most expert team members of the VPO/SI.
- There is no system to measure the value of the pro-bono support offered, and monetisation is difficult. VPO/SIs are experimenting with building mentoring platforms, where skills and competences are matched. However, no system is yet in place to provide feedback on the work of the pro-bono supporter.

1. For an early stage venture, for example, the NFS provided in the due diligence phase will focus on helping the setup of the legal structure and of its financial model.

2. See EVPA report on "Learning from failures in venture philanthropy and social investment", p. 43 and "A Practical Guide to adding value through non-financial support", p. 50.

Challenge # 2 – Too much love will kill you

There is a fine balance between giving the entrepreneur freedom to act and being heavily engaged to decrease the risk of failure. "Falling in love" with the SPO can result in leaving the investee too much freedom while being too involved in running the SPO's business can ruin the relationship with the social entrepreneur and increase the risk of the SPO becoming over dependent on the VPO/SI's support.

Hence, the question becomes: how do you **set expectations** and boundaries without reducing the effect of your intervention?

> EVPA's non-financial support plan tool helps VPO/SIs and SPOs co-develop the non-financial support plan, setting objectives and milestones for each goal, clarifying expectations and helping the two parties better manage their relationship throughout the period during which NFS is provided.

Some VPO/SIs have tried to avoid getting too close to the SPO by **swapping social entrepreneurs between team members**. This system, which worked well in a couple of cases, brings in a new face and mind-set, new ideas and – sometimes – makes it easier to bring the difficult messages.

Challenge # 3 – Who pays?

As many VPO/SIs start offering less money and more hours to the SPO, the issue of how to finance NFS becomes more apparent. This is particularly true in the case of the NFS offered during due diligence, which is also provided to organisations the VPO/SI will ultimately not invest in.

In some cases the VPO/SI can **ask the SPO to pay** for part of the NFS received, for example by using a percentage of the grant or loan received. This system ensures the SPO uses the support it is given, and that it recognises its quality and value. However, cost sharing is not always possible, especially when the NFS is offered before the investment is made.

Some VPO/SIs **share the cost of NFS with the co-investors,** but this set-up only works with co-investors whose vision is aligned with that of the VPO/SI.

Some VPO/SIs **factor in the cost of NFS in the overall budget needed for the SPO** provided to the VPO/SI's funder. By doing so, the VPO/SI bundles the financial and non-financial support needed to take the SPO to the next level in one unique package, and instead of looking for funding for the NFS, provides investors and funders with one unique figure, which includes the financial and NFS needed by the SPO to make the step change (hence including costs such as renting an office space, but also the time spent with the SPO). This approach prevents the VPO/SI from underselling the NFS provided to the investee while making sure NFS is not an add-on for which there will be the need to fundraise separately.

Challenge # 4 – How to assess the cost?

One of the biggest challenges, when delivering NFS, is **measuring its cost**.

First, measuring the **total cost** of the NFS provided is a challenge. How do you factor in the time your team members are spending in meetings with the boards of your investees? What is a pro-bono supporter's time really worth?

> EVPA's report *"A Practical Guide to Adding Value through Non-Financial Support"* provides clear guidelines on how to calculate the total cost of the non-financial support provided by VPO/SIs, including how to monetise the cost of the pro-bono and low-bono consultant and how to factor in the cost of the team members.

Second, determining the **cost efficiency** of the NFS provided is a complex task. How do you assess which cost is realistic in terms of the input you provide?

Expert CEOs agree that a **benchmark** is needed to have an idea of the cost structure of other VPO/SIs when providing non-financial support and assess whether the own cost-structure is realistic.[3]

It is important that VPO/SIs consider all the NFS that is delivered when calculating the total cost, including the NFS delivered during due diligence.

3. There is a caveat to this approach: different phases and different areas have different costs, so it is hard to find one unique benchmark. Each VPO/SI has an investment strategy which is the combination of sector, country, beneficiaries and stage of development of SPO, which means there might be differences in the cost structures (i.e. providing non-financial support in CEE and in Zimbabwe is different).

Challenge # 5 – How do I know if I am really effective?

VPO/SIs struggle with demonstrating – internally and to an external audience – the **effectiveness** of the NFS they provide, i.e. the impact the VPO/SI has on the SPO.

> The NFS' impact assessment tool developed by EVPA with a pool of expert practitioners can be used by practitioners to assess how SPO value the NFS received, link it to the cost for the VPO/SI and to objective measures of organisational improvement.
>
> The tool helps VPO/SIs assess whether the resources available (human and capital) are used in the most effective way to support the SPOs in the portfolio. The tool is centred on the three objectives of the SPO: social impact, financial sustainability and organisational resilience.

To assess the impact of NFS, some VPO/SIs have elaborated "impact dashboards" to track (i) how all the companies in the portfolio are performing in terms of delivering impact to their final beneficiaries and (ii) what is the value that the VPO/SI is providing to them. Often the added value of the VPO/SI is measured in terms of increased **resilience** and **financial viability**, clear and broadly understandable proxies of value.

However, these measures leave open the issue of **attribution**: the VPO/SI can't assess how much the change measured depends on its intervention. Although difficult to measure, attribution is important, especially for VPO/SIs that fundraise, as they want to show their own funders the impact they had on the SPOs in the portfolio.

Measures of perception of value by the SPO can constitute good proxies of the VPO/SI's impact. Hence, often VPO/SIs try and assess whether the SPOs valued positively the NFS received, by conducting **yearly surveys with the portfolio companies**. Such surveys ask SPOs to rate the support received, assess whether the VPO/SI has met the needs of the SPO, and in which areas the VPO/SI could improve.

Although motivated by a genuine interest in improving the VPO/SI's services, often these surveys do not get the honest feedback they are designed for – even when asking external evaluators to conduct the survey.

Moreover, evaluations are rarely shared among VPO/SIs, so no benchmark is possible with peers in the VP/SI space.