Keystone Social Investment Performance Survey 2010

CAF Venturesome response to our investee feedback report

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Introduction

In early autumn 2010, CAF Venturesome was the only UK social investor to take part in the world's first benchmarked investee perception survey for social investors. The aim was to capture the perceptions of recipients of social investment. The survey was sent to thirty of our investees, representing all current recipients of Venturesome development capital.

Venturesome had two aims in taking part in the survey:

- to encourage investees to feedback in a safe (anonymous) manner on a number of areas relating to our investment in them, for our own learning and development; and
- to help gather more data on social investment for the benefit of the market as a whole.

With the results in hand, we are pleased to have taken part in the survey and would recommend other social investors to take part in the future. Although the cohort was small and diverse[1], benchmarking helps put our investees' responses in context. The personal report received[2] contains valuable feedback to which we respond below, focusing on areas for improvement.

Areas of positive feedback

Overall, respondents seem happy with the relationship they have with Venturesome. Venturesome respondents' scores were relatively high with regards to their general satisfaction, our perceived efficiency, transparency and credibility.

- Venturesome scored highest in the cohort regarding interactions with staff. Particular strengths highlighted were the ability of staff to listen and respond to concerns and questions, and the perceived respectfulness, helpfulness and capability of staff. At 80%, Venturesome had the highest response rate for the survey as a whole; this may reflect the generally positive feedback regarding the investor-investee relationship. It could also explain why Venturesome respondents on average perceived the Keystone survey to be less useful than other cohort respondents did.
- Venturesome ranks highest in the cohort in terms of efficiency. This relates to responsiveness and the perception that investment provided is adequate to achieve agreed objectives. Our high score is also driven by respondents' little need to collect extra information to fulfil reporting requirements.[3]
- The average rating of Venturesome's respondents for their overall satisfaction is 8.2 on a -10 (extremely dissatisfied) to +10 (extremely satisfied) scale. Venturesome is consistently rated 'better' when compared to other investors respondents may have

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[1] Seven social investment funds took part. CAF Venturesome was the only UK participant, and the only fund working with UK-based charities and social enterprises.

[2] Available for download at www.venturesome.org

[3] The flipside of this is that it links to the feedback that our reporting requirements are not seen to be particularly useful (an area for improvement, as discussed later). The more we require, the greater the burden, but potentially (if we get it right) the greater the usefulness of the reporting.

worked with.[4] Venturesome is perceived to add value to respondents' businesses and 96% would recommend us to their peers.

The challenge is for us to ensure we maintain standards and continue to seek improvements wherever possible.

Areas for improvement

1. Reporting requirements

Although respondents feel we provided a moderately or very thoughtful response to their last report, they only have a moderate understanding of how we use the information.

Action: We will work on this immediately, by explaining more clearly to investees why we request the information we do, and how it is used.[5]

Although over 90% of respondents feel we get it just right in terms of *frequency* of contact, Venturesome scored low in terms of how *helpful* our measurement and reporting processes are in terms of the respondents' own learning and improving. Financial reporting was only deemed to be moderately helpful, at 4.9 on a scale of 0 (not at all) to 10 (very significantly). We scored lowest in the cohort on measuring and reporting against social / environmental impact (only 2.4, on the same scale).

This could link to the earlier feedback that respondents feel we require little of them over and above what they already collect – as such, there is little impact of us requesting this information, positive or negative. This has been a conscious effort by Venturesome, to avoid unnecessary burdens on our investees.

But it likely goes beyond this; one respondent commented, '*there seems to be very little request on our social impact reporting or evidence in update meetings*'. Worse, it is not that our investees feel they have mastered reporting of social / environment impact and have no need to improve; our respondents rate the strength of evidence of their impact below the cohort average, at 6.1 on the scale of 0 (anecdotal only) to 10 (evidence allows no doubt). This despite the fact that our respondents report a much stronger focus on social / environmental impact compared to the respondents of all other investors in the cohort, who are more likely to be social businesses targeting financial as well as social returns.

[4] This could have been interpreted as social investors and/or grant-makers.

[5] Broadly speaking, we gather regular financial information for two reasons: 1) to ensure it is being produced regularly and satisfactorily as a management tool, in line with best practice; and 2) to monitor financial risk, for our own financial reporting and for the financial health of the investee. Social/environmental reporting is important for different reasons at different stages, but in general: a) at the outset we assess the social impact of the investee in order to balance the financial risk of the proposed investment against the actual / potential impact of the investee; and b) we require reporting against social and financial indicators throughout the facility in order to continue to balance the risk and return and also to assess the impact of our own investment. As discussed later in this report, we aim to strengthen this latter approach.

Action: This feedback reaffirms our commitment to improving our social / environmental impact reporting. We have been working on this since May 2009, when we began a new fund exclusively focused on development and growth capital investments. For all of our investments, we make an assessment of social impact (actual and potential) at the outset.[6] For each individual investment in the fund, we set a clear and measurable overarching objective, as well as social and financial indicators to be tracked throughout the life of the facility, in discussion with the recipient. We have also adapted a capacity assessment tool, although it is not in systematic use.

When we undertook the survey, we were one year in to this new fund and had made ten investments (all of whom were sent the survey). A minority of respondents, therefore, will have experienced this new approach to impact measurement and reporting.[7] It could be that this poor average score reflects earlier practices; we cannot delve into this level of detail given the need to protect anonymity of respondents. To check this, we would have to run a survey again in a few years' time.[8]

That is not to say our new approach would necessarily have provided better responses. Eighteen months in to this strengthened approach to reporting, our perception is that many of our investees need more help than we are currently providing in strengthening their social impact measurement systems. Given the breadth of work of our investees, our approach has been to work with what investees are already using rather than impose a particular measurement system. For some, however, their existing approach to impact measurement is lacking or insufficient. Furthermore, our experience so far suggests that setting the objectives and indicators is one of the last elements to come together in our due diligence and ongoing reporting processes; it is rare for our investees to prioritise it and we are not doing enough to encourage them to prioritise it. Incentives are lacking.

We are currently investigating how we might offer further support in this area; it is not a core area of expertise for Venturesome staff, while the survey feedback indicates that it is not an area of non-financial support that respondents would consider most useful to receive (only 20% indicated they would prioritise this). Nonetheless, we are committed to improving our collection and reporting of data relating to our impact and that of our investees. The challenge will be to achieve this with new investees whilst maintaining the equilibrium commented on by one respondent, *'Venturesome have struck the perfect balance of interested rather than interfering investor'.*

[6] See *Venturesome's approach to assessing social impact* (2008), available at www.venturesome.org. We are likely to update this in the coming year.

[7] Indeed, 25% of respondents indicated it was less than a year since the first investment made by Venturesome while 29% indicated they had been working with us for four years or more.

[8] Even so, it may take several years before we see the real results. Given that the development capital investment we provide is usually intended to develop organisational capacity (when indicating the type of investment they had received from us, this was the single biggest category respondents selected), the more immediate reporting we require links to developments in capacity. Only in the long-term, towards the end of the facility or even after the facility has been fully repaid, will the desired knock-on impact on social outcomes be identifiable.

2. <u>Non-financial support</u>[9]

The cohort's scores as a whole were only moderate in terms of the value investors are perceived to bring over and above the financial investment itself. For Venturesome, the rating was partly influenced by the fact that reporting requirements were not perceived as being that valuable, which we discuss above. But it was also influenced by our perceived provision of non-financial support. Non-financial support was assessed across a range of categories, and in nearly all categories, Venturesome seems to provide less non-financial support than the cohort average.

This was anticipated; Venturesome does not particularly offer non-financial support. We mainly provide debt, and to relatively established organisations. Whereas the survey indicates that the rest of the cohort is more likely to provide equity and to younger organisations, which by their nature are more likely to require more hands-on support.

Where we do provide non-financial support, it is likely to take one of two forms;

1) As an indirect outcome of the pre-investment due diligence and post-investment reporting processes. It is perhaps not a surprise therefore that we scored highest (and higher than the cohort average) with regards to support linked to 'financial analysis and reporting abilities'. Less than 15% had received support on social impact assessment and reporting; as indicated above, this is an area we are exploring and would seek to improve upon.
2) Until recently, we had access to a small CAF grant fund which we used on occasion to enable investees to pay for capacity building support from a third party, averaging less than £5,000 per grant. Less than 20% of the thirty we surveyed would have received this, so we were surprised that 63% of respondents indicated they had received non-financial support.

Also of surprise was that where we had provided non-financial support, the usefulness of it was rated as being above the cohort average in all but one area. This could be because the support was unanticipated (we do not formally advertise or offer such support) and this response reflects the element of pleasant surprise. It may also reflect the seemingly poor experience investees report having elsewhere.

Of most interest to us in the feedback relating to non-financial support were our respondents' views on what areas they would prioritise for potential future support – the top three were access to further investment (by a long shot, with four in five requesting this), market access and financial analysis and reporting abilities.

Action: We see ourselves as a relatively hands-off investor and are limited in what we can provide over and above the finance. Yet we are perceived to provide non-financial support

[9] The question was phrased as follows; '*Please say on a scale from 1 to 7 how useful you found any non-financial support that you may have received from Venturesome or a third party paid for by Venturesome*.'

by the majority of respondents and in a range of different areas; furthermore that support is on the whole well regarded.

One respondent commented, '*We feel we need to allocate more time to realise the full potential in the relationship. Perhaps if Venturesome were to make it very clear what type and amount of support is possible / available to make sure we don't feel like we are asking too much.'* Our answer is likely to be that we are limited in what we provide; but we should indeed make this clear at the outset of any investment, yet continue to encourage investees to be open regarding their challenges and where they feel they need support. If we have sufficient requests in particular areas, we could look to develop our practice so that we may ourselves help or at least or refer more confidently and readily to external sources of support.

Focusing on the three areas respondents deemed to be most useful:

1) Financial analysis and reporting abilities are within our existing core skill set so we could provide more support in this area, if it is welcomed, so long as we maintain our general approach of steering and supporting as opposed to stepping in ourselves.

2) Market access[10] is trickier. Given the breadth of the activities and organisations we support it would be rare that we know more than the investee regarding their own route to market.[11] This is something we can clarify with investees.

3) Access to further investment[12], the top requested category, could be improved. Social investment in the UK is still in its infancy and there are only a handful of providers, with whom we have informal links. Where possible and applicable, we refer our investees to other sources of investment. However, the market is developing and new providers are emerging. There have been various calls, from Venturesome and others, to improve the matching of demand and supply but we will see what more can be done to systematise referral mechanisms.

Conclusion

To revisit our aims in taking part in the survey:

- To encourage investees to feedback in a safe (anonymous) manner on a number of areas relating to our investment in them, for our own learning and development.

We are very pleased that so many of our investees took the time to respond to the report. We hope that this response is both a fair summary of our personal feedback report and a reasonable route forward having reflected on the areas for improvement that we feel were

[10] Interpreted by Venturesome as meaning access to purchasers of respondents' services or products / route to market – this may not be the interpretation of respondents.
[11] We note however that we score highly regarding Venturesome's perceived understanding of respondents' organisational strategy and context, at 8.5 on a scale of 0 (poor understanding) to 10 (excellent understanding), which is above cohort average.
[12] We have interpreted this as access to further *capital* investment, as opposed to income, but this may have been interpreted differently by respondents.

highlighted by the feedback report. Given the strong relationships reported in the feedback report, we would hope that we can discuss this openly with our investees, but we also publish the full report and this response in the spirit of full disclosure.

It is worth reiterating the fine balance to be struck between being an engaged investor and an interfering investor, as one respondent so neatly put it. It is a hard balance to maintain and one which we will not get right for every investee, given the sheer variety of organisations we work with and their different needs. Our challenge is to try and improve the elements highlighted here but without undermining or weakening the strengths that are reported elsewhere. If we request greater data on impact reporting and are not perceived to add value in doing so, we are likely to weaken our perceived efficiency and negatively impact investee satisfaction and the quality of our relationships.

- To help gather more data on social investment for the benefit of the market as a whole.

Although the cohort was small and diverse, benchmarking helps put our investees' responses in context. We would be keen for our UK peers to take part in the future so that the benchmarking is more meaningful but moreover to ensure that as the social investment market grows we do not lose sight of who we are here for. We hope that by publishing our report others might be encouraged to pursue the feedback path.