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Can public venture capital support sustainability in the social economy? Evidence from a social innovation fund.

Ellen Vanderhoven [a,*], Artur Steiner [b], Simon Teasdale [b], Francesca Calò [b]

[a] University of Glasgow, UK
[b] Glasgow Caledonian University, UK

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ABSTRACT

The Social Innovation Fund (SIF) - funded by Scottish Government and the European Social Fund - adopts a 'public venture capital' model to support socially innovative organisations. This article critically explores the use of public venture capital programmes to fund and grow the social economy through the case study of Heavy Sound Community Interest Company. We conclude that, while SIF funding helped Heavy Sound to scale-up an effective intervention in the short term, further significant scaling might undermine the project's success and long-term sustainability was not assured. We call for further research into the long-term consequences of public venture capital programmes coming to an end, including coordinated evaluation of the SIF.

1. Introduction

Over the last decades, social innovation - broadly understood as new forms of collaboration aimed at addressing societal needs and/or achieving social change - has been increasingly promoted in public policy (Ayob et al., 2016). The policy emphasis has been on new ways of governmental working that prioritise collaboration between citizens and public actors (Hubert, 2010). Despite the growing momentum in policy and public debates, social innovation remains a contested concept, mainly concerning the magnitude of the (intended) social change. One school of thought sees social innovation as any innovation outcome which better addresses societal needs (see Pol and Ville, 2009). A second, more radical, tradition sees social innovation as a process embedded in socio-cultural and political contexts (Moulaert, 2009), which invites collaboration from all sectors of the economy and seeks to address unjust power relations (Ayob et al., 2016; Montgomery, 2016; Ziegler, 2017). In practice, most approaches fall someway between these two extremes (Mulgan et al., 2007). This is perhaps most evident in the European Commission's definition of social innovation as "developing new ideas, services and models to better address social issues. It invites input from public and private actors, including civil society, to improve social services.[1]" In essence, social innovation can be seen as a new approach to governing which involves wider stakeholders in the design and delivery of goods and services aimed at addressing social needs.

This collaborative approach to service design and delivery is also mirrored in funding for social services, as the state increasingly transitions from direct welfare provision an 'enabling' role (Elvidge, 2013; Markantoni et al., 2018). There is an increasing tendency for government to promote private investment in the social economy (Allinson et al., 2011; Harrow and Jung, 2016; Steiner and Teasdale, 2016) and reformulate its funding instruments towards social investment mechanisms inspired by private sector practices (Bruton et al., 2015; Hall et al., 2012; Wilson, 2014). For example, social enterprise has increasingly emerged as "a normative aspirational form

* Corresponding author. University Avenue, Glasgow, G12 8QQ, Scotland, UK.
E-mail address: ellen.vanderhoven@glasgow.ac.uk (E. Vanderhoven).

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towards which other third sector organisations [are] encouraged to move" (Nicholls and Teasdale, 2017: 334) due to its (purportedly) financially self-sustaining model. The Scottish Government's Social Innovation Fund (SIF) is one manifestation of this social investment logic, requiring research institutions and Social Economy Organisations (SEOs) to 'pitch' competitively for venture capital investment. However, many SEOs including social enterprises depend on public sector support in the long term (Alcock, 2012; Stumbitz et al., 2018) and the pursuit of financial self-sufficiency through trading remains more rhetorical than real for many organisations (Dey and Teasdale, 2015; Mair et al., 2015).

This suggests that critical appraisal of such funding models is needed as "the mechanisms that work in the market cannot be assumed to produce the same results in the civil society" (Muñoz, 2017: 74). The Social Enterprise Investment Fund in England was found to be perpetuating a short-termist and unstable funding environment, helping to establish new organisations but failing to produce long-term sustainability (Hall et al., 2012). In essence, such measures may distort markets such that new projects emerge, but there is often little consideration as to how SEOs will continue to provide effective and sustainable interventions when time-limited funding comes to an end (Chalmers, 2013). Indeed, existing evidence suggests that successful SEOs draw upon diverse sources of public sector support in the long-term, including grants, public service contracts, in-kind support from public service providers and community development experts, as well as the use of publicly owned assets (Farmer et al., 2008; Muñoz et al., 2015). In addition, previous research suggests that efforts for SEOs to pursue economies of scale are not always appropriate to community contexts (Steiner and Teasdale, 2018): when designing and implementing interventions to support vulnerable groups of people, the principle of 'bigger is better' may not be applicable and drawing on the expertise of smaller-scale and less formal community organisations may be more efficient (Cornforth, 2014). Considering such challenges faced by SEOs, this paper offers a critical examination of public venture capital programmes, such as the SIF, designed to fund and grow the social economy.

Mixed-stakeholder qualitative interviews and a research diary were used to investigate the effects of public venture capital, in the form of SIF funding, on SEO Heavy Sound Community Interest Company. Our findings suggest that while SIF funding successfully supported Heavy Sound to scale-up their principal intervention (COOL Music) during the lifetime of the fund, the future of Heavy Sound remains highly uncertain and sustainability was not ensured. Furthermore, there were indications that further significant scaling might undermine the flexible, high-contact, participant-led approach that was seen as underpinning the project's success. We conclude that public venture capital funding models rely heavily on an assumption of rapid scaling, which may not be suitable in the SEO context and may undermine the original aim of fostering lasting social innovation. We close the paper by outlining future avenues for research.

2. Research setting

In 2017, Scottish Government launched the SIF - supported by the European Social Fund - to promote "collaborative partnerships between social economy organisations and research institutions to develop, test and scale up new ideas and solutions to tackling poverty and disadvantage" (Scottish Government, 2017: 2). Echoing public venture capital programmes for commercial start-ups (Leleux and Surlemont, 2003; Lerner, 2002; Lerner and Watson, 2008), projects were awarded seed funding to help develop (Stage 1), test (Stage 2), and scale and sustain (Stage 3) interventions. Scottish Government (2017: 2) predicted that many applicants would not progress through all of the stages, stating that "social innovation is highly experimental and it is likely that some ideas and innovations will not work". This indicates an encouraging awareness of the uncertainty and experimentation involved in the social innovation process (Kimmitt and Muñoz, 2018; Mulgan et al., 2007; Ramoglou and Tsang, 2017). Although the SIF is intended to recognise the expertise of smaller-scale community organisations rather than relying on a 'bigger is better' approach (Millar et al., 2019), documentation nonetheless strongly encourages projects to scale up and demonstrate sustainability within the funding lifetime (Scottish Government, 2017). Notably, mechanisms for supporting projects beyond the end of the fund are not accounted for, implying a tacit assumption that organisations can and will sustain themselves through private trading.

Heavy Sound has been intermittently supported by the SIF since 2017, partnering with researchers at Glasgow Caledonian University (GCU) to co-design, co-deliver and co-evaluate the Community Oriented and Opportunity Learning (COOL) Music project. The five to six-person team of music and youth-work practitioners offers interventions to young people and adults in Eastern Scotland who have experienced trauma or are deemed to be 'at-risk' of negative outcomes such as substance abuse, educational failure, and offending. Through non-formal, participatory music-making activities, participants reflect on difficult social and emotional experiences in order to increase well-being and engagement with services (Millar et al., 2019). As such, COOL Music offers an alternative to previous top-down interventions for vulnerable individuals, involving a variety of stakeholders (Heavy Sound, GCU and the Scottish Government) in project design and delivery in pursuit of improved social outcomes.

Previous research has found COOL Music to be an effective and impactful intervention (Calò et al., 2019; Millar et al., 2019). However, there is a need to examine how successfully SIF Stage 3 funding has supported Heavy Sound to scale-up and sustain COOL

Table 1
Summary of interviews.

Role	No. of individuals	No. of interviews
CEO and Founder	1	3
Senior HS staff	2	3
HS project staff	6	6
Teachers	3	3
Total	12	15

Music, thus offering critical exploration of the impact of using public venture capital to fund and grow SEOs.

3. Methods

This paper draws on 12 qualitative interviews conducted with all Heavy Sound staff employed on the COOL Music project from 2017 to 2019, three interviews with teachers from Stage 3 school projects (see Table 1) and a reflective diary kept by the lead researcher from April to August 2019. Repeat interviews were conducted with the CEO and one senior member of staff who remained at Heavy Sound for the duration of the research in order to capture how progression from Stage 2 to Stage 3 funding had impacted the intervention and the organisation. Interviews were semi-structured (Saunders et al., 2003) and explored interviewees' perceptions of: i) project outcomes; ii) managing hybridity; iii) organisational growth; and iv) project sustainability and the future of Heavy Sound. The organisational roles of interviewees are indicated (see Table 1) to reflect that senior staff more readily commented on managerial activities and concerns, while project staff and teachers focused on their personal experiences of working with a growing SEO. The diary was used by the researcher to record observations, informal conversations and personal reflections during the implementation of COOL Music Stage 3. This supported a reflexive approach to data collection and ensured there was a contemporaneous record of developing narratives, minimising retrospective bias on the part of the researcher (Nadin and Cassell, 2006). Ethical approval was obtained from the University's Ethics Committee and all participating institutions. Confidentiality and anonymity of all participants was maintained throughout data collection, analysis and reporting.

Analysis of mixed-stakeholder interview data and diary notes allowed triangulation of claims (Patton, 2001) about the impact of funding mechanisms. All data were collated, coded and thematically analysed using NVivo software using an iterative inductive approach, beginning with a period of immersion in interview and diary transcripts before an initial round of coding by the lead researcher (Green et al., 2007). Discussion of tentative codes with the full research team was used to verify inter-subjective validity, leading to subsequent rounds of recoding. Final coding and categorisation produced three key themes related to scaling and sustainability: i) SIF facilitating growth; ii) too big is not better; and iii) the need for public sector support.

4. Results

4.1. SIF facilitating growth

The research produced evidence that receiving Stage 3 SIF funding was crucial in allowing Heavy Sound to grow and expand its reach, maximising the benefits of an effective intervention. Increased funding was used to employ senior staff and three music practitioners on stable contracts (a rarity in the music sector), which was deemed to offer new avenues for development: *"because there's far more possibilities now […] because we've got more people and more strengths and more talents and stuff, you can just go anywhere with that"* (Senior Staff 2). Progression to Stage 3 was also identified as an opportunity to build on connections established but not fully exploited at Stage 2, solidifying the reputation and scope of the intervention*: "a lot of the partnerships were formed in Stage 2 so that now we've got a much wider network that we can work with and refer people onto"* (Senior Staff 1). Increased funding also allowed significant expansion of project activities, meaning that more than double the number of school-based projects could be delivered than during Stage 2 and a new prison intervention and community outreach bus were developed. Consequently, scaling up was achieved through a growing number of service recipients as well as diversification of services. Furthermore, there was evidence that *"the perspective of Heavy Sound leaders has been altered by the process of scaling up and the transition to Stage 3 […] [including] a new appreciation for the struggle to organise a growing team, recognising the value of institutionalised processes and approaches"* (research diary). Dave,[2] the founder and CEO of Heavy Sound, framed this in both personal and organisational terms, illustrating how the project developed from an individual with an idea to a systemic intervention: *"this structure has definitely helped me to grow, and it has helped Heavy Sound to provide opportunities which have created […] benefit for the people we have worked with"*. In addition, project staff identified Stage 3 funding as providing space and resources for the project to become less dependent on Dave as an individual. Where previously Dave had formed the core of all project interventions, responsibilities were becoming more evenly spread across a larger team of support staff and practitioners: *"It is a good combination of […] him and [us] as music practitioners and I think that works quite well, rather than putting it all on [Dave]"* (Project Staff 3). Transition away from Dave as the "*the be all and end all"* (CEO and Founder) was viewed positively, echoing criticism of a tendency towards individualist heroism among social entrepreneurs (Seelos and Mair, 2017) and the limited staff capacity that many SEOs face (Steinerowski et al., 2008).

4.2. Too big is not better

Continued growth was not only viewed in positive terms and tensions typical of scaling activities (Seelos and Mair, 2017) were apparent: *"[Dave] is finding the scaled-up form of the project very demanding and difficult to manage at times […] this is still a way of working with which he struggles, not suiting his preferred informal approach"* (research diary). There was already evidence that this informal approach conflicted with the demands of running a larger and more complex organisation, particularly as it steered Dave towards a managerial role: *"[Dave] was meant to have stepped back from the frontline delivery but hasn't done so […] He noted however that this has resulted in significant stress and insufficient time to complete administrative tasks"* (research diary). However, it was the project's *"off the cuff"*

[2] Pseudonyms are used to protect participants.

(Project Staff 2) and *"person centric"* (Project Staff 4) approach that was particularly valued by staff and teachers, and it was suggested that the success of the project derived from its small scale and close connection to beneficiary communities, which might be lost with further expansion*: "yes, it could be scaled up, but if the result of that is the likes of [Dave] sat behind a desk and managing it all, and not actually out there doing the work then I think it will lose something"* (Teacher 3). Furthermore, the very high level of flexibility Heavy Sound was able to offer as a small organisation was crucial to effective working relationships with diverse organisations: *"I don't think you'd ever get a project where you're just like, 'This is what we do, we're going to come in and do this', you're always going to have to tailor it slightly to whatever the school needs"* (Teacher 1). There was also a perception that if continued expansion were to depersonalise the intervention, this would undermine its effectiveness for participants – *"If you've not got a relationship with someone, how are you supposed to sit and talk about your life with them?"* (Project Staff 1) – and the standardisation typical of large-scale interventions was viewed as antithetical to the COOL Music approach: *"we have to be absolutely adaptable and I just can't say that I would* support *any notion of one size fits all"* (Project Staff 4).

4.3. The need for public sector support

Although SIF funding facilitated scaling-up in the short term, financial uncertainty remained a feature of COOL Music and Heavy Sound. Interviewees ultimately agreed that *"barriers to sustainability? 100% is funding, is money. That's it."* (Senior Staff 1). In particular, the fragmented, short-term stages of SIF funding left project staff and the intervention vulnerable at regular intervals: "*it has been quite kind of [makes gasping sound] quite kind of stressful [...] there was stresses beforehand about 'will it be on, will it be off', 'is it here, is it then?'"* (Project Staff 6). It was even suggested that the use of a venture capital funding model could be undermining the aims of the SIF: *"[Dave] made the point that [...] fixed-term contracts resulting from short-term funding make it much harder to hold on to staff, creating serious disruptions and making it hard to reach funders' targets"* (research diary).

Beyond the end of SIF funding, a variety of stakeholders suggested that financial independence was not a viable future for the organisation: *"we're not a business, that's the way I look at it. We're not selling anything. [...] the first thing is how you generate an income, well we can't"* (Senior Staff 2). On the one hand, there was an aversion to concentrating already limited resources on income-generating activities with less vulnerable groups – *"I wouldn't jeopardise the integrity of the work that we are doing just for the sake of making cash out of doing it to sustain it"* (CEO and Founder) - indicating a fear of mission drift (Ebrahim et al., 2014). On the other hand, limited success in ongoing efforts to pursue self-sustainability led to the belief that the organisation would continue to require public sector support: *"it just needs some sort of funding. The schools just haven't got that money"* (Teacher 3).

Interviewees framed ongoing public sector support as both morally and financially justifiable, some suggesting there was a need for longer-term and more stable funding structures: *"if you want them to focus on the positives and move forward, they are not going to be able to do that if they are constantly having to think about funding and where the next pot is coming from. If they had a longer-term opportunity through the government for example"* (Teacher 2). Social returns were presented as a rationale for continued state investment in the project, which could offer value-for-money to the state: "*the cost of secure children's homes and keeping people in prison means that almost anything is cheaper than that. I think, it should be saving money"* (Project Staff 3). There was a frustration, however, at a perceived abdication of responsibility by government, with support understood as more than just funding - *"[it's] all about weakening the government and giving it more to private things, and kind of giving money while letting someone else deal with it."* (Project Staff 5). Rather than working in partnership with government, it was felt that SEOs were compensating for inadequacies in essential public services, equipped with limited funding: *"We're [SEOs] scooping up the bits that should be covered by public services [...] Scotland has become entirely dependent on community interest companies, social enterprises, third sector organisations, and yet the funding is being withdrawn [...] and the funding pots are becoming less"* (Senior Staff 1).

5. Discussion

The case of Heavy Sound offers insight into the effects public venture capital can have on SEOs as they attempt to scale and sustain their interventions. Presented evidence suggests that Stage 3 SIF funding was pivotal in allowing Heavy Sound to scale COOL Music from pilot form to a developed and diversified package of interventions working with a variety of stakeholders. However, there were fears that further expansion might jeopardise the flexibility and responsiveness of the project, impacting working arrangements with partners and outcomes for participants. Furthermore, 'start-up' funding alone has not been sufficient to prepare the organisation for long-term sustainability. Echoing criticisms of similar funding mechanisms aimed at sparking social innovation (Hall et al., 2012; Markantoni et al., 2019), resource constraints faced by Heavy Sound's target beneficiaries, primarily public institutions and low-income individuals, leave the organisation with limited scope for income generation. Consequently, SEOs such as Heavy Sound are likely to require longer-term forms of public sector support beyond venture capital, which are embedded within a broad and diverse social innovation funding model. In addition, for SEOs such as Heavy Sound, scaling may not result in economies of scale and increased efficiency, instead jeopardising the focus on beneficiaries and diluting the social mission (Ebrahim et al., 2014). In many cases, the state will therefore need to compensate for the (enduring) costs experienced by smaller SEOs if it is to benefit from the social returns they produce (Chaves and Monzón, 2012). Without such support, innovation failure costs can be high (Seelos and Mair, 2017): the collapse of successful projects often produces greater demands on public services from former beneficiaries (Scheirer and Dearing, 2011) and can reduce target populations' willingness to adopt new interventions in the future (Durlak and DuPre, 2008).

Given Scottish Government's aim of promoting social innovation - involving wider stakeholders in the design and delivery of goods and services in order to address social needs – we must question whether the SIF and other public venture capital programmes of this kind foster genuine collaboration with social economy actors, or whether they facilitate an abdication of responsibility for public service delivery. Arguably, the expectation that SEOs rapidly become wholly self-sufficient risks exacerbating inadequate provision for the most vulnerable groups, who as a result of structural inequalities are both less likely to have internal access to funds and more likely to be disconnected from markets (Shucksmith, 2012). There is a need to recognise that some SEOs and beneficiary communities will require greater and more long-lasting forms of support than others, and that efforts to establish an enabling state (Elvidge, 2013; Markantoni et al., 2018) must not result in an 'absent' state (Shucksmith, 2012: 14). Indeed, there is a danger that narratives of self-reliance contained within public venture capital programmes are used to mask state withdrawal from redistributive functions (Bock, 2016).

6. Conclusions

Evidence from our research demonstrates that public venture capital funding models such as the SIF have a place in the social economy, supporting the inducement and development of social innovation. Nonetheless, although they assist in the emergence of new ideas, such as COOL Music, that can tackle social inequalities, public venture capital programmes rely heavily on the assumption that continued scaling is the most appropriate route to long-term sustainability. Although this may be the case for many commercial enterprises, this rule does not necessarily apply in the SEO context and we observe that the idiosyncratic nature of SEOs makes the idea of 'scaling' inherently problematic. While some SEOs can effectively develop and 'scale up' their operations, an organisation firmly embedded in its community context is often at risk of 'mission drift' if it grows too big and/or too far from the community it was set up to serve. However, even relatively small SEOs with seemingly limited capacity to scale may generate societal benefits and be relatively efficient in complementing and filling in gaps in existing service provision, particularly for isolated, disenfranchised and 'hard-to-reach' groups. Therefore, it should not be assumed that the rapid scaling required by public venture capital models is the most effective route to growing the social economy and fostering social innovation. Instead, pursuit of social innovation will require an approach to governing founded on genuine and long-term collaboration with SEOs, rather than a simple transfer of both finances and responsibility.

Our findings have a number of practical implications. Firstly, those designing public venture capital programmes need to consider the context in which a programme is embedded: transferring commercial venture capital tools into an SEO environment may not work. Secondly, those running SEOs need to be aware of potential negative consequences of rapid growth. Finally, policymakers who see the potential of SEOs for solving persistent social problems need to consider a holistic approach to SEO development; financial investments do not offer a 'quick-fix' and more comprehensive support including, for example, capacity building is needed.

We acknowledge that time-scale and the single-case nature of this research present limitations. We therefore encourage further research into the trajectory of SEOs in receipt of public venture capital once funding is withdrawn, examining whether these organisations are able to survive in the long term and with what effects on their beneficiaries. There is also scope to develop a coordinated evaluation of the SIF, exploring its success in producing sustainability for a variety of SEOs and examining the conclusions reached in this study with a larger sample. Given that all SEOs funded by the SIF are required to work collaboratively with research institutions to evaluate their work – as in the case of Heavy Sound and GCU – this would appear to present a rich seam of data for future analysis.

Author statement

Ellen Vanderhoven: Conceptualization, Methodology, Formal Analysis, Investigation, Writing – Original Draft, Writing – Review & Editing **Artur Steiner:** Conceptualization, Methodology, Writing – Original Draft, Writing – Review & Editing, Supervision, Project administration, Funding acquisition **Simon Teasdale:** Conceptualization, Methodology, Writing – Review & Editing, Supervision, Funding acquisition **Francesca Calò:** Conceptualization, Methodology, Writing – Review & Editing, Supervision, Project administration, Funding acquisition.

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Declaration of competing interest

None.

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