INCREASING EFFECTIVENESS THROUGH LEARNING FROM FAILURES

NOTES FROM EVPA16

SPEAKERS

Nicole Etchart, Co-founder and CEO, NESsT

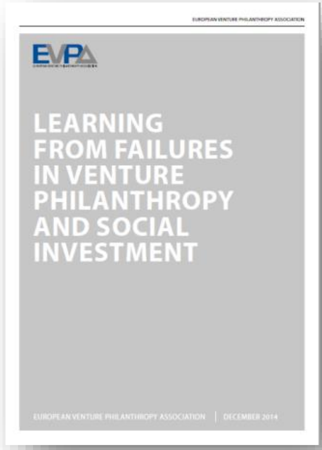
Deirdre Mortell, CEO, Social Innovation Fund Ireland

Caroline Mason, CEO, Esmée Fairbairn Foundation

Coordinator; Chris Carnie, Director, Factary

BACKGROUND READING

Learning From Failures In Venture Philanthropy And Social Investment, Lisa Hehenberger and Priscilla Boiardi, EVPA, 2014.



The report identifies three types of risk:

- Organisational risk
  - Challenges related to the internal organisation of the VPO:
    - Funding model
    - Pitfalls in governance
    - Staff issues
    - Other key stakeholders
- Strategic risk
  - Misalignments in the investment strategy of the VPO:
    - Investment focus
    - Models of intervention
    - Type of SPO
    - Financing instruments
    - Co-investment policy
- Execution risk
  - Failures in the implementation of the investment process:
    - Deal screening
    - Due diligence
    - Deal structuring
    - Investment management
    - Exit

The report suggests we should learn to fail intelligently:

1. Admit failures are possible
2. Detect failures
3. Analyse failures
4. Learn from failures

SPEAKER PRESENTATIONS

Deirdre Mortell told the story of a 3 year €750,000 investment in a youth unemployment project where there had been changes in CEO and in portfolio manager, and traffic (on the project's website) but not impact. At the point when the investment would be renewed, the board had said No.

As the result of the failure the investor learned that a small investment in a portfolio of large ones was not going to get the attention it needed; that handovers between portfolio managers could be handled better; and that a cry for help from a portfolio manager had to be heeded.

Nicole Etchart described a talents programme in which the issue had been the limitations of the leader, who could not delegate, did not trust others, lacked focus and, in the end, did not want to grow the programme. She learned from this failure to focus more on due diligence, on selection and pairing of leaders, and that it is difficult to change the views of a leader with a fixed mind-set.

Caroline Mason described the lack of information at her grant-maker/investor organisation. The organisation, which has around 300 clients per year and 1,000 in their portfolio, lacked information on where they were doing well, and where they were not. They introduced a ratings system and are now measuring their own performance, and the sustainability of investee organisations. Caroline gave three case studies, including an organisation that had developed a translation service that was not part of their core business, and which failed. She described the use of the website as a 'learning platform' for interaction with investees, and for sharing with the wider investor/grant-maker community.

GROUP WORK

We asked you to talk to your neighbour about a failure, and then to analyse it as Organisational, Strategic or Executional Risk. We asked you:

- How would you have **detected** this failure earlier?
- How would you help others to **learn** from this failure?

Here is your **feedback**

EXECUTION RISK	
Detect	**Learn**
Earlier engagement with stakeholders	Stronger partnership and strategy
Lack understanding of financing needs when striking deals	
Early Due Diligence. Does CEO take responsibility for finances?	Do not accept outsourcing of financing governance
We fell in love with the entrepreneur	Improved our due diligence
Better Due Diligence	Looking for specific skills and characteristics in the people you are interested in. **Good ideas are not enough.**
CEO/Founder not ready for exit	When taking equity, prepare the exit plan, express it and prepare the CEO
Lack of enough market research (Due Diligence)	Need to understand what people (beneficiaries) really need
Due Diligence: CEO/Board painting overly positive picture. Appeared lack of implementation, failing Board governance in the organisation	Due Diligence: [Go] two levels deeper in the organisation. Don't accept time pressure. [Carry out a] thorough review of Board functioning
Having earlier discussions with key stakeholders to monitor the situation and ability to repay	Utilise local funding providers to encourage better accountability
More research on local contexts needed	
Better Due Diligence	Research individuals and management team
Separate execution, project management, from ideas sales person	
Deal structure	Staged investment
Fund core established business	IT development derailed main business
Better expectation management in Due Diligence	Early conversations about the risk that after a year maybe investment is not going to happen.

ORGANISATIONAL RISK	
Detect	**Learn**
Leadership profile matched with stage of organisation	Put issue on the table and assure mutual understanding. Create an action plan for potential transition Hire complementary expertise…or replace.
Different objectives within the leadership team	Develop a common understanding before venturing out for financial support
Corporate governance not clear with the mission and the growth	To be clear from the beginning and explain the objectives very clearly
Not really knowing your investee on a personal level	Having governance model for legacy consequences (i.e. after exit)
Transparency in procedures and expectations	Trust your instincts. Investigate your doubts
No clear, agreed milestones	Have early external review Have regular management meetings
Lack of understanding, cultural differences	Education and creating awareness
Leadership crisis	Better communication, earlier intervention
Lack of understanding of the commitments that come with a grant	Systems for regular check-ins
Leadership crisis	In-depth conversations and agreement
Leadership – key person risk	Reveal problems sooner More due diligence on the person
Governance – inertia	
Corruption	Failure is part of how we learn. Tighter controls, shorter reporting lines
Leadership profile not appropriate	
Create specific Terms of Reference for leader and performance appraisals	Defining standards for the entrepreneur
Create new funding models	Leader should have strategic skills
STRATEGIC RISK	
Detect	**Learn**
Clarify politics of government bodies needed for approvals	Limit investment until government licences obtained Work with inside expert of government relations
No acceptance of the project concept/strategy	Stakeholders communication before setting up the strategy
Investors with different goals	To make sure that all the investors understand impact-first investments
Over-ambitious growth plans	Critical questioning by outsiders

Over focus on execution risk over strategic risk	Start conversation (at foundation and grantee level) that evaluates strategic risk and accepts much higher levels of it (there is much that we can't control)
That systems are not in place even if the amazing entrepreneur seems to have them…	Talk to the employees about their version on how the business is run… Don't fall in love with ideas…
Picking up communication clues from the other party	Test partners' willingness to compromise
Too many partners without agreed vision	Agree on vision in advance; courage to step out of partnerships if needed.
Regular review of programme relevance (strategic) – how is context changing and how do we respond	Engage all stakeholders in the strategic review and shaping what is next
Insufficiently managed stakeholder expectations	More and easier analysis of risks and earlier communication with stakeholders

SUMMARY

The key detect-and-learn lessons from this workshop were:

- Failures are often linked to problems in **Due Diligence, communication and understanding**.
  - The lack of communication and understanding can be **within** investee or investor organisations, as well as **between** investor-investee
  - Amazing, hypnotic entrepreneurs with whom we **fall in love**…can also be a cause of failure (at least, failure of the investment…)
  - Failure can also be caused by not preparing for **exit**
- To avoid failures we should focus on:
  - **Learning** from stakeholders, investees, investors. Learning what beneficiaries **really need**
  - In-depth **communication** with stakeholders, and especially **early** communication
  - Setting **expectation** levels, from the start

Thanks to everyone for participating!

Chris Carnie

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