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Social Finance Intermediaries and Social Innovation

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ABSTRACT *This paper uses the social transitions framework to explore the ways in which foundations may partner with intermediaries to support social innovation for broad system change. It examines the efforts of a Canadian foundation to incorporate partnerships with intermediary organizations into its philanthropic investment strategy aimed at generating social innovation at three successive scales. The results demonstrate different patterns in the social innovation processes and in the foundation-intermediary relationships at each scale. These differences are explained by altered degrees of coordination and opportunities for learning, and by the types of intermediary organizations engaged at each scale. The most successful social innovation processes occurred when intermediaries had their own internal resources and when the initiative focused on transforming macro scale elements. As philanthropic funding becomes an important source of support for social innovation, these lessons are critical for those interested in ensuring that social investments build the capacity to respond effectively to societal challenges.*

KEY WORDS: Social innovation, social finance, intermediaries, foundations

Introduction

Across scholarly disciplines and throughout the not-for-profit sector, individuals and groups are engaged in discussing the need for social innovation to address complex challenges. While definitions of social innovation and social entrepreneurship are still being debated within the scholarly literature (Defourny and Nyssens 2010, Helm and Andersson 2010, Nicholls 2010), social innovation is defined here as any new program,

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product, idea or initiative that changes a basic routine, a resource or authority flow, in addition to the norms, values or beliefs of a social system, while having durability and impact across different scales (Mulgan *et al.* 2008, Phills *et al.* 2008, Westley and Antadze 2010, Nicholls and Murdock 2011).

The long-term viability of social innovation often depends on the ability of entrepreneurs to access and leverage financial resources (see Eadery 2006, Lyon and Ramsden 2006, Moore and Westley 2011). Social finance – a mode of managing financial capital for social and environmental benefits (Canadian Task Force on Social Finance 2010) – serves as a mechanism for channelling private capital towards social innovation. Social finance includes a spectrum of approaches, such as impact investing, government finance (such as social impact bonds), and mission-related philanthropic investment. Complementing these is a growing array of tools and resources designed to inform and guide investors about the range of potential investment opportunities, legal barriers, and fiduciary responsibilities to be considered (e.g. Canadian Task Force on Social Finance 2010, Shanmugalingam *et al.* 2011).

In discussions focusing on the organizational infrastructure needed to support social finance, the usefulness of intermediary organizations has been highlighted (Pharoah 2007, de Souza Briggs 2003). Two different types of intermediaries have been identified within the literature on foundations and philanthropic giving. One type of intermediary supports a foundation's investment goals by seeking out attractive impact investment opportunities, and providing sound advice based on background research (Pharoah 2007, Brest and Harvey 2008, Shanmugalingam *et al.* 2011). This type of intermediary is common in the US and UK, where intermediaries now form an entire sector within the philanthropic landscape (Pharoah 2007).

The second type of intermediary supports a foundation's grant-making activities by serving as a coordinator, coach, convenor, or mentor to both the foundation and its grantees. Their purpose is to connect a foundation to local initiatives and social entrepreneurs, and to build the local capacity to achieve, through collective action, deeper levels of change than could be achieved in isolation (de Souza Briggs 2003). Much more has been written about the first type of intermediary role than the second, which creates a knowledge gap in the field of social finance and social innovation. Furthermore, little is understood about the internal dynamics of the foundation-intermediary relationship that occur as a social innovation initiative unfolds.

A second knowledge gap is evident in the fact that the discussion on intermediaries, foundations, and social finance pays little attention to the issue of scale. Yet, the scholarship on social innovation and transformative change provides theoretical models for examining the multiple scales and cross-scale interactions that are likely to impact the social innovation process (see for example, Geels 2002, Kemp and Loorbach 2006, Westley and Antadze 2010). Therefore, questions remain about the effectiveness of social finance in stimulating and supporting social innovation as it emerges within and across scales.

This paper aims to help address these gaps by, first, providing an empirical account of the experiences of one foundation and its intermediaries during and after the period that private capital has been channelled to social innovation initiatives; and second, drawing on social transitions theory to define the different scales at which social finance may be directed and to analyze the different goals and impacts that can be achieved within the various scales. The resulting analysis reveals the ways in which a foundation and its intermediaries operate at multiple scales, and provides insights that refine both the notion of scale and the types of social innovation taking place within each scale as conceptualized by current social transitions theory.

The J.W. McConnell Family Foundation, referred to hereafter as the McConnell Foundation, is one of Canada's largest private foundations, and one of the few with a mission that is national in scope. More than a decade ago, the McConnell Foundation altered its grant-making practices to include intermediary organizations as partners in its initiatives to stimulate social innovation and transformative change. By involving the additional actors within the social innovation process and flexing the flows of social finance, the McConnell Foundation has faced unchartered territory in Canada, making their experience potentially valuable to other foundations in regions outside the well-established philanthropic infrastructure of the UK and US. Their experiences of working with intermediaries also provide more general insights into the potential of such arrangements to strengthen approaches to social finance.

This paper is structured in the following way: the first section provides the context from which the McConnell Foundation's intermediary strategy emerged, and positions this study within the literature on foundations and not-for-profit and social enterprise relationships. Social transitions theory is then applied to demonstrate that social innovations supported by social finance may occur in one or more of the following three scales: the *niche*; the *regime scale* or *problem domain*; and the *institutional landscape*. Each of the scales is defined and explored in detail. Next, the research methods used in this study are presented, which is followed by a description of the results of the research for each scale, focusing in particular on the tension between the McConnell Foundation's roles as grantor and project partner and how the foundation-intermediary relationship changed within each scale. The final section summarizes the lessons learned about selecting foundation-intermediary pairings to achieve transformational change, and describes the conceptual contributions of this paper to the social transitions framework.

The Context

In the early and mid 1990s, dramatic cuts to public spending occurred in Canada as the federal government attempted to reduce the national deficit (see for example, Martin 1996). Canada was one of the many governments to undertake fiscal reform and restructuring (Strange 1996, Scholte 2000, Clark 2002), often leaving the needed provisioning of important services to communities, individuals, and private actors (see for example, Mair and

Marti 2009). The loss of institutions and services in Canada, particularly those dealing with health care, education, and the environment, left significant voids that individuals and organizations tried to fill.

The McConnell Foundation made the decision to support communities in their efforts both to adapt to the structural changes and to develop socially innovative responses to the complex challenges they faced. To achieve this level of support, the McConnell Foundation shifted from a conventional grant-making approach, in which programmatic areas or themes were created and applications sought to match those themes, to a 'demand driven' strategy. This type of two-way, interactive relationship between donors and recipients has not commonly been embraced by philanthropists, who often prefer a grant-making model affording greater control over their donations (e.g. Ostrander and Schervish 1990, Ostrander 2007).

In spite of this well-intentioned vision, the McConnell Foundation knew from previous experience that communities had limited capacity, time, and resources to articulate the needs that could drive the Foundation's grant-making. This realization prompted the idea of engaging intermediary organizations that could help articulate the needs and priorities of the communities and provide local knowledge, thus serving as a bridge to the national agenda and wider vision of the Foundation.

The Foundation's move towards the intermediary strategy must be considered in the context of the general trends in philanthropy at that time. A new trend in grant-making was emerging across the US and UK that encouraged foundations to become involved in innovation and market-based approaches, an approach now referred to as 'venture philanthropy' (Reis and Clohesy 2001, John 2006, Ostrander 2007, Moody 2008). New scholarly interest followed, exploring the role of philanthropy in stimulating innovation and social change. One branch of the literature focused solely on the descriptive characteristics of various foundations or entrepreneurs perceived as successful in creating social change (e.g. Bornstein 2004, Wadhwa *et al.* 2009).

Another sub-set of the literature on philanthropy has been critical of foundations for their influence on social transformations. Some critics argue that the private wealth of foundations represents elite interests and further marginalizes those outside elite structures (Roelefs 2003). Others suggest that foundation donations go against the nature of democratic principles (Addams 1964, Barkan 2011). Finally, it has also been put forward that foundation funding reinforces the structural inequities at the core of most social problems (Arnove 1980, Arnove and Pinede 2007). Others recognize that although foundations make important contributions to addressing social issues, they are often selective in the outcomes they evaluate, and neglect broader systemic trends that may be at the root of the complex social problems (e.g. Birn 2005). Furthermore, a debate has emerged about *philanthro-capi*talism – the practice of using business strategies and market approaches in philanthropy. Supporters believe that governments alone will not have adequate resources to address the major social and environmental challenges currently facing the world, and that philanthro-capitalists could play an important role in responding more quickly, and possibly more effectively, than governments (Bishop and Green 2008). Critics, however, contend that philanthro-capitalism propels philanthropists into the international political arena as providers of global public goods, which challenges state authority and responsibility, with little improvement in complex problem domains best served by not-for-profits (Edwards 2009).

Yet, largely neglected across this literature is an analysis of the internal dynamics of the relationships between foundations and grantees or intermediaries, including how they perceive their own roles and each other's strategies aimed at finding innovative solutions to seemingly intractable social problems (for two exceptions, see Silver 2007, Fairfield and Wing 2008). Various foundations and practitioners have attempted to develop their own measures for determining the social and transformational impact of their investments and the work of their grantees (W.K. Kellogg Foundation 1998, Leviner 2006, Kramer *et al.* 2009). However, academics have provided little in terms of analyzing the experiences of specific organizations involved in trying to achieve social impact even though social finance activities undertaken by foundations typically involve partnerships or collaborative relationships with a variety of organizations.

Anheier and Leat (2006) contend that the gap in studies on foundation partnerships and relationships exists because foundations are often too focused on the managerial and instrumental aspects of those relationships – how to make them more efficient and effective in a business sense. But 'effective' needs to be redefined if the goal is to support and stimulate social innovation and not simply to create an impact in terms of 'numbers served.' As Huddart (2011, p. 17) recognized, there is a need to 'acknowledge the personal dimension' in order to understand better how the shared experience of foundations and partnering organizations affects their effort to work across scales. Thus, the opportunity to observe the McConnell Foundation's experience working with its intermediaries provides critical insights, both for those committed to ensuring that future social finance in innovation achieves social impact, and for the entrepreneurs and innovators seeking to leverage such resources.

Conceptual Framework

The social transitions framework was developed as an analytical tool for understanding the complex dynamics of socio-technical change, and defined the distinct dynamics in each phase of a transition (Geels 2002). In the light of studies demonstrating that the interactions of a diverse range of elements can shape any social innovation process and its final form (Schot *et al.* 1994, Kemp *et al.* 1998, Van den Ende and Kemp 1999), social transitions theorists developed a heuristic for understanding the social transitions 'landscape' comprising these different elements (Geels 2002).

The social transitions model portrays a social system having three scales: *niche*; *regime* or *problem domain*; and *institutional landscape*. The niche scale represents a protected social space where novel ideas can emerge and be tested (Geels 2002, Bergman *et al*. 2008). The radically new initiatives, products, or programs that may be undertaken within a niche are not likely to be widely accepted beyond a select few early adopters. However, the experiments and small networks of actors working within the *niche* often lead to a learning process about the social innovation initiative, its potential social and environmental benefits, and the types of institutional supports that will be required to scale up the social innovation for broader impact (Kemp *et al*. 1998). The 'readiness' or stage of development of *niche* level innovations can have a significant impact on the ultimate success of the innovation, and the likelihood of transformative change that is durable across scales (Bergman *et al*. 2008).

The second scale – the *regime* – is defined as the 'semi-coherent set of rules carried by different social groups . . . that enable and constrain activities within communities' (Geels 2002, p. 1260). Regimes are described as having some stability, and being produced and reinforced through the social institutions that define norms and beliefs, regulatory authority, and cultural practices and meaning (Rip and Kemp 1998, Geels 2005, Smith *et al*. 2005), a description that appears to be largely influenced by the work of Giddens (1984).

Nested above the *regime* scale is the *landscape*, constituted by the heterogeneous factors that form the broader system in which regimes and niches exist. The landscape may include macro trends in the economy or in human demographics, cultural, political and normative values, physical infrastructure, and natural ecosystems (Geels 2002, Kemp and Loorbach 2006, Bergman *et al*. 2008). Changes at this scale may occur more slowly than in the other levels (see Figure 1).

Drawing on evolutionary theory, social transitions studies have demonstrated that transformative change occurs in one of two ways: either through a response to a selection pressure within the landscape scale, or as a result of the incremental impact of several niche innovations. The generation of niche innovations is understood within the social transitions discussion as a development of adaptive capacity (Smith *et al*. 2005). Furthermore, any transformative change or social transition always involves interactions across scales. For instance, the rules that comprise a *regime* affect niche innovation and the trajectory of future changes (Kemp *et al*. 1998, Geels 2002, Berkhout *et al*. 2006, Geels and Schot 2007). Likewise, if a shock occurs at the *landscape* scale, but niche innovations are not well developed, a complete collapse of the existing *regime* can occur (Bergman *et al*. 2008).

Recognizing that transformation can occur through different pathways, Smith *et al*. (2005) developed a typology of transitions that depend on the combined effects of selection pressure and the availability of resources needed for adaptation. The authors argued that selection pressure can result from actively coordinated and strategically managed innovation processes, or it can be the emergent outcome of change within or across scales (Smith *et al*. 2005). Responses to selection pressure may be developed utilizing resources available within the scale where the pressure is occurring, or may require resources and capabilities from outside of the scale (Smith *et al*. 2005).

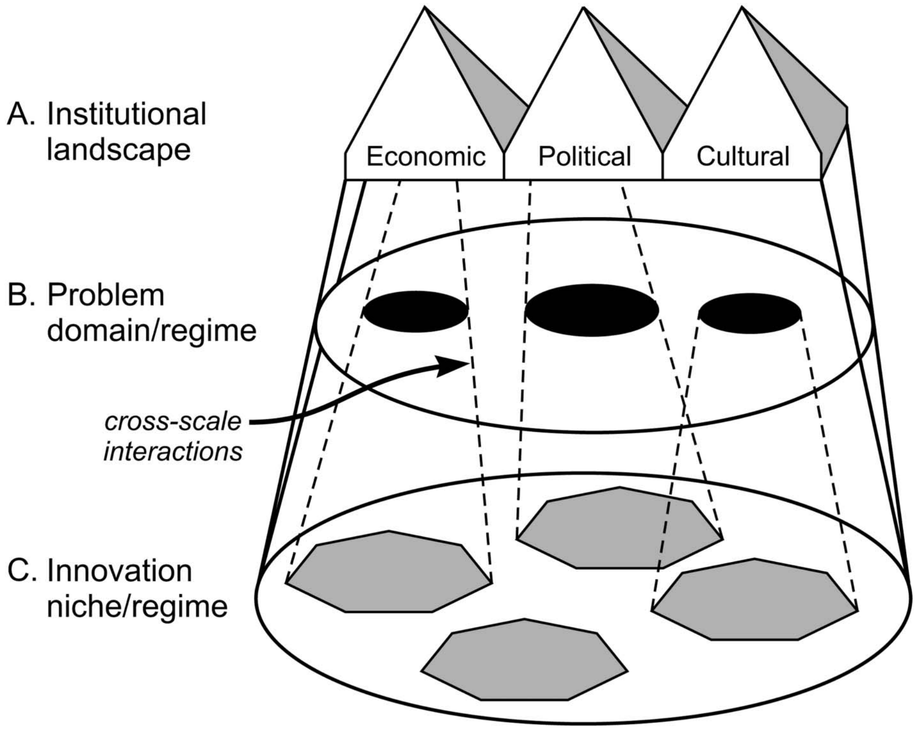

Figure 1. Conceptual framework for the multi- and cross-scale interactions involved in social innovation processes. *Source*: Adapted from Geels (2002)

Therefore, four types of transitions are possible (see Smith *et al.* 2005, pp. 1499–1502).

- *Type 1*. Reorientation of trajectories – internal resources are available, low coordination of innovation process.
- *Type 2*. Endogenous renewal – internal resources are available, high coordination of innovation process.
- *Type 3*. Emergent transformation – external resources required, low coordination of innovation process.
- *Type 4*. Purposive transformation – external resources required, high coordination of innovation process.

The social transitions framework and the image of nested, hierarchical scales provides three different scales to consider in the case of the McConnell Foundation's social finance strategy and its work with intermediaries to stimulate and support social innovation. The typology of transitions provides a lens to consider the different impacts that the markets for social finance will have on the social innovation process, given that each scale will have different levels of matching internal resources or coordination. It remains unclear whether foundation interventions and social finance activities are directed at the niche, regime, landscape scales or all three, and whether altering financial resource flows with a new injection of private capital has a greater impact at one scale or another. Moreover, the role that intermediaries may ultimately play in the social innovation process has yet to be defined by any of the social transitions research. Likewise, while the literature frequently describes the importance of agency and the mobilization of resources by entrepreneurs (e.g. Bergman *et al*. 2008, Avelino and Rotmans 2009), researchers have yet to analyze empirically the experiences and relationships of the foundations and intermediaries that attempt to respond together to selection pressures, or to access internal or external resources. These questions are explored in the analysis section.

Methodology

The research was an exploratory case study with multiple stages. In the first stage, semi-structured interviews were conducted with McConnell Foundation staff, and preliminary coding and analysis of those data was used to inform the interview guide for the semi-structured interviews with the intermediary organizations. Ten intermediary organizations that had worked with the McConnell Foundation were interviewed. The types of organizations involved a diverse range, including national membership associations, networks, community-based institutes, and other foundations. Prior to supporting the McConnell Foundation in an intermediary capacity, none of these organizations served as an intermediary for other foundations. In every case, the role of serving as an intermediary evolved out of a relationship with the McConnell Foundation, rather than being the result of a deliberate organizational mission. In some cases, the intermediary organization assisting with an initiative was replaced by a different intermediary organization during the course of the grant. In other cases, the relevant individuals from within the intermediary organization changed over time. In those instances, individuals or intermediary organizations (former and current) and all McConnell Foundation staff involved (previous and current) were interviewed. Interviews were conducted in person wherever possible, or by Skype or telephone where an in-person meeting was not feasible. Data collection occurred between December 2009 and March 2010.

Interviews were transcribed and analyzed into open and axial codes following Strauss and Corbin (1990). Document analysis was also conducted, which included previous annual reports, strategic plans, websites, publications, and communication materials (e.g. emails) from both the intermediaries and the McConnell Foundation.

In this relatively ‘raw’ format, the coded data were then provided to McConnell Foundation staff. A one-day workshop for the McConnell Foundation staff was led by the researchers to undertake selective data coding and analysis. Rather than using the opportunity to act as ‘outsiders’ who conduct research and submit their own findings, the coding workshop was deliberately designed to discover and learn collaboratively about the role of an intermediary strategy in social innovation and transformative change.

The workshop not only provided an opportunity collectively to develop meaningful codes and categories, the workshop notes also provided further data for analysis. Additionally, through this approach, the research became one component in the McConnell Foundation's deliberate learning process about their social innovation interventions, providing staff with the opportunity to contextualize and reflect on the foundation-intermediary strategy (see Steyaert and Dey 2010). Following this, a similar workshop was held with the intermediaries in order to confirm the coding and analyses, which provided further rigour. The final results of these discussions and analyses are presented below.

Analysis

The data analysis revealed that the McConnell Foundation directed its social finance at each of the three scales defined by social transitions theory. The results showed two important trends. First, as a consequence of both emergence and deliberate design, a temporal component surfaced within the McConnell Foundation's social finance strategy. That is, the McConnell Foundation started by investing in the niche scale, then as a result of lessons learned, and certain selection pressures, the financial resources were directed towards creating innovation and change within a regime or problem domain. Later, the McConnell Foundation targeted the landscape scale. Therefore, the shift across scales largely occurred in a sequential order from niche to landscape. How and why this occurred will be discussed within the analysis of each scale below. Secondly, as the social finance strategy was attempted at different scales, the McConnell Foundation and the intermediaries became clearer on the criteria for a successful relationship – those most likely to produce positive experiences and lead to social innovation with durable impact across scales. Moreover, the types of social transitions in which the McConnell Foundation invested did not always evolve as a result of deliberate choice. As will be analyzed below, the social finance strategy began with Type 3 emergent transformations as defined by Smith *et al.* (2005), but ended with Type 2 endogenous renewal transitions. The analysis ends with a summary of the criteria for success defined by the McConnell Foundation and their intermediaries, which provided selection pressure as the social finance activity shifted across scales.

Working within the Niche

When the McConnell Foundation decided to adopt the strategy of working with intermediaries to direct their social finance, the Foundation had in place several new initiatives and programs, such as an environmental education program and a program for art education. Seeking the help of intermediaries was an alternative to hiring numerous staff to introduce the innovative initiatives to communities, or in this case, schools, and continuing to manage them. In doing so, the McConnell Foundation was engaging in what Kemp *et al.* (1998) referred to as strategic niche management. The McConnell

Foundation selected the program that would constitute the social innovation, the experiment that would be undertaken to test the innovation, and how the experiment would be designed. The Foundation assumed that in providing financial support, learning resources and networking opportunities, other necessary elements – whether those were additional resources, or institutional supports – would emerge, and the social innovation would be scaled up to effect change at the regime scale. The following quote from a McConnell Foundation staff member captures this assumption and mindset:

> We don't want these things to be dependent on the Foundation. If it's worth doing it shouldn't be happening only because the Foundation is putting money into it. If after five years something exists only because we are funding it, well we haven't convinced anybody that it is worthwhile. And frankly we can support if for 5 years or 10 years or 15 years but if it's not going to go anywhere, we may as well stop funding.

For these first intermediaries, the McConnell Foundation's innovative program often became the sole focus of either the entire intermediary organization, or at least a major section of the organization. The intermediary often relied on the McConnell Foundation for 100% of the funding for the initiative. The result was a precarious position for the intermediaries, in which they risked losing the financial support they required to exist (a common grantee-donor challenge, see Silver 2007, Fairfield and Wing 2008).

One consequence of this vulnerability, reported by all four of the intermediaries that worked within the niche scale, was a lack of trust in their relationship with the Foundation. That is, when the intermediary perceived that the Foundation had considerable power over the organization's future and financial wellbeing, their trust in the McConnell Foundation decreased.

Trust can be crucial to the success of any relationship, but previous research has indicated that trust is essential in situations where people are being asked to share the risks associated with innovation. The findings from this case study support Uzzi (1997), who demonstrated that issues of trust and power imbalances quickly become entangled in the social innovation process. Three individuals from intermediary organizations described the experience of the power imbalance and asymmetry that permeated the relationship with the McConnell Foundation as the following:

> A person from McConnell said this is the way it will be and this is the money. And obviously the money talked.

> The problem with it is that you end up not trusting people, which isn't the same as mistrust. It's how confident are you that you could share your worst fears about the future with McConnell. Without complete confidence in this, you hold back. And it's not just that you hold back, you actually really try to protect the grantees and communities.

> There were times McConnell was very soft spoken on some of the issues, asking what our vision is for the broader agenda. And then at times I thought McConnell wanted to influence the broader vision rather than let it unfold . . . I was in some awkward conversations at times.

Therefore, the type of transformation that was undertaken in this scale reflects the patterns of a Type 3 emergent transformation (external resources, low coordination). Even in cases where the experiments within the niche were deemed successful by those within the niche, or selection pressures in the landscape or regime signalled a readiness for changes across scales, the scaling up of the social innovation was limited by the lack of internal resources. For intermediary organizations that existed prior to operating and managing a foundation-created program, the innovative program may have been a stretch for the organization's traditional mandate and budgeting. One pattern in the data demonstrated that it became difficult for these intermediaries to be clear about whether the program was now their own to operate and use to pursue their organization's mission, or whether it was still the program of the McConnell Foundation. Therefore, the intermediary organizations hesitated to take on leadership roles for scaling up the social innovation. For their part, McConnell Foundation staff acknowledged that it was difficult to step back from being the leader, particularly in instances where the staff disagreed with the direction that the intermediary took with the initiative. As one McConnell Foundation staff member articulated:

> The Foundation did continue to send some mixed messages ... 'this is our program – no, it's your program, no it's our program, no it's the community's program.' And I think that was happening with intermediary X, who was ready to make this their program. Then, as the program officers saw where it was going, they became less and less comfortable, philosophically and administratively.

In fact, the interview data showed that McConnell Foundation staff often perceived it as unethical if the intermediary took the program on as their own and proceeded on a different path with the innovation, thereby disconnecting the McConnell Foundation from the social entrepreneurs:

> The intermediary wanted to have the issue identified with themselves. They wanted to be recognized as, I guess, the leader in the field. It was causing some unhelpful dynamics among the organizations that were involved

> It was our perception that we were being told one thing and the communities were being told something else. And at a critical moment, it appeared that the intermediary was using this relationship to advance its own agenda, without having made clear what that agenda was, to either us or to the other organizations in the domain . . . we were very ... disappointed, disillusioned, again feeling that this was beyond the limits of miscommunication.

The nature of the McConnell Foundation – serving at times as a partner, and at other times as a powerful actor that took control of the leadership – contributed to a lack of coordination within the niche. Once the staff recognized that an unhelpful power dynamic had been created, they acknowledged the fragility of the intermediary approach when working in niche innovations. Intermediaries struggled to find other sources of funding that would help sustain the program after the terms of funding with the Foundation ended, or to adopt the program internally and still maintain a strong relationship with the Foundation. They often invested their limited time and energy in trying to persuade the McConnell Foundation to continue funding, or in trying to persuade their own boards of directors that the program contributed to their overall mandate and should be continued.

Ultimately, issues of trust, ownership, and the philosophical direction of the innovation proved critical to the foundation–intermediary relationship in these instances where the McConnell Foundation tried to engage directly in the niche scale. Recognizing the tensions surrounding the relationships within the niche, the McConnell Foundation made changes to its intermediary strategy.

Regime Scale: New and Improved Relationships

Having learned the difficulty of creating a niche innovation with broad social impact, the McConnell Foundation next attempted to work with intermediary organizations who could develop social innovations within the niche scale, but who had the capability to scale up the innovation to create change at the regime scale. Two significant differences characterized the experience of the McConnell Foundation and the intermediaries when working at the regime scale, compared with the niche scale. First, both the McConnell Foundation and the intermediaries approached the work as a Type 4 purposive transition; that is, external resources were provided through the Foundation's social finance, but the Foundation and the intermediaries worked to create high levels of coordination. The coordination occurred through learning opportunities that involved developmental evaluation and the convening of intermediaries working across multiple regimes to discuss the dynamics and experiences of the social innovation process at that scale. However, this helpful strategy had unintended consequences: both the McConnell Foundation staff and the intermediary organizations experienced difficulty ending the funding relationship after creating change at a regime scale, partly due to the strong relationships that resulted from the high levels of coordination.

Early in the social innovation processes at the regime scale, the McConnell Foundation and intermediaries adopted a developmental evaluation approach to assess the social innovations that were funded. Briefly, developmental evaluation processes involve tracking and attempting to 'make sense of what emerges under conditions of complexity, documenting and interpreting the dynamics, interactions, and interdependencies that occur as innovations unfold' (Patton 2011, p. 7). Developmental evaluation is a tool for learning, rather than merely reporting final outputs and outcomes (Gamble 2008, Patton 2011). Therefore, unlike many other grantee–grantor relationships, the McConnell Foundation did not focus on evaluating the performance of the intermediary or the grantees in achieving specific deliverables that were decided upon during a grant application process. Repeatedly, intermediaries indicated that the McConnell Foundation's openness to learning during their attempts at innovative initiatives enabled them to pursue a novel approach to large, complex challenges without the fear or risk of losing financial support (Pearson 2006), as exemplified by the following:

> They are totally with us. They haven't said to us: 'Wait a second, the project was designed with these stages and now you are ...'. They are absolutely flexible. This is the wonderful flexibility of working with the McConnell Foundation.

> Ultimately the project didn't work quite as planned, but I do know that was what was exciting! That McConnell was open to investing in new ideas, and ideas that may not have a proven track record.

The developmental evaluation process also ensured that the McConnell Foundation and the intermediary organizations were closely aligned in their learning about the social innovation process, which enhanced coordination and allowed both partners to contribute to planning strategy for the process.

Another step that further enhanced coordination at the regime scale involved bringing together the various intermediary organizations working with the McConnell Foundation, even though the organizations may have worked in different regimes or problem domains. Thus, intermediaries learned from each other and from other social innovators who were working to create regime scale change. The learning opportunities became highly valued by the intermediaries in the innovation process:

> I always think of content and contact. McConnell allowed us to develop our content and our knowledge but opened our contacts and networks to a wide range of people. I don't think I would have ever have sat in a room with people like that...I found myself intellectually stimulated as well as my horizons broadened. I found that my issue is probably connected to your issue and my experience can influence your experiences and there was a lot of cross-pollination. To this day I just find I'm pleased to be able to pick up the phone and call certain people for advice.

However, the data analysis and workshop discussions involving the McConnell Foundation and the intermediaries revealed that the emphasis and value that was placed on learning in the foundation-intermediary relationship also contributed to an unanticipated difficulty. The intermediaries grew to value not only the financial support, but also the growth and development in their own understanding of the complex challenges and the broader social system they were attempting to change. The result of establishing this type of intellectual connection with the McConnell Foundation was that some intermediaries experienced frustration when they were no longer supported. From the intermediaries' viewpoint, it was not the completion of the funding that proved difficult; rather, it was the ending of an emotional and intellectual connection that they had come to value. The intermediaries that had been part of the 'family' – terminology that was repeatedly used by intermediaries to describe the relationship – wanted to continue to be needed by the McConnell Foundation and to know about new funding initiatives, because they had grown to care about more than just their own individual projects.

Moreover, one intermediary organization pointed out that the notion of 'success' could become troublesome when the ending of the social finance was considered. The intermediary experienced success because the innovation began to effect positive change within the regime or problem domain. Yet, once that occurred, the intermediary was concerned that the Foundation would then shift its investment to other intermediaries, community grantees, and innovations in other problem domains that were seeking support, and a key partner would be lost:

> It would be easy for the Foundation to say 'Now that we've helped to support an organization make that transformation . . .', it would be easy to say 'OK, hey we did our part and now we move on to the next challenge'. But the signal you'd be sending is 'Geez – if you do that, then the communities are winning and all that but the actual organization is having to explain how their success has led to a lack of a relationship with McConnell . . .'. It would be hard for me to coach and encourage another organization to go through a transformation if at the end of that, the story on the street is 'yeah, well that one organization did that and look what happened. There's a million bucks less coming through.'

The McConnell Foundation recognized that throughout the relationship with intermediaries, it emphasized the importance of learning, innovating, and trying novel approaches rather than worrying about whether the money was used for the exact deliverables that had been initially proposed. Yet, when the time came for the Foundation to disengage, a key reality for the intermediary was money, and the fact that the funding support could not continue indefinitely. The problems surrounding the creation and implementation of an exit strategy for intermediaries and grantees is difficult for any foundation (Moody 2008), but many foundations have clear timelines for investments that are generally short term (3–6 years). The McConnell Foundation though, often funds innovative experiments for up to ten years, recognizing that transformative change takes time.

In making the decision to disengage with intermediaries after a decade, the McConnell Foundation staff recognized that questions remained about the idea of sustainability when it came to social innovations created through intermediaries. The McConnell Foundation had not engaged the staff within the Foundation or within the intermediaries in defining what was expected to be sustained – a new regime, specific projects, or relationships. Furthermore, the McConnell Foundation's program staff found the experience difficult because after a decade, the individual staff member from the Foundation was an integral part of the initiative itself. Yet, the same staff member was responsible for communicating the McConnell Foundation's position about when the funding would come to an end. As one Foundation staff member stated:

> You know, I lie awake at nights with this one . . . it's the very first initiative that I took on here, and . . . I've been to every annual meeting, and I've written and spoken and so on, and I care about this thing deeply, and I'm really passionate about it. And at the same time I have to be dispassionate about it as someone who's working for the Foundation.

In sum, at the regime scale, the McConnell Foundation developed techniques that significantly improved coordination and created more collaborative relationships with the intermediaries, based on their experiences in the niche scale. The coordination among intermediaries and between intermediaries and the McConnell Foundation relied on a learning process, which led to close-knit relationships that became as highly valued by the intermediaries as the financial investment itself. The consequence was that although ending the social finance relationship did not mean the intermediary organization or the initiative no longer existed (which had been a concern at the niche scale), a sense of loss, frustration, and disappointment on both sides did follow. To address this concern, the McConnell Foundation is now considering including regime scale intermediaries in periodic discussions about problem domains in which it may invest in the future, thus creating the potential for an ongoing advisory-type relationship. As a result, the relationships between the intermediaries and the McConnell Foundation in this case endured over a longer time scale in the regime scale than in the niche scale.

Targeting the Landscape

The McConnell Foundation did not attempt to work at the landscape scale until after it had worked in the niche and regime scales. In that respect, each scale was attempted in a sequential order, although this was due to learning rather than a deliberate strategy. Recognizing that some successful innovations had been scaled up for transformative change in the regime scale, the McConnell Foundation altered its intermediary strategy to tackle some of the landscape scale issues that repeatedly served as selection pressures when working within the previous two scales. As one intermediary stated:

> They spent a lot of money in half a dozen, maybe more, sectors. They had been the most important player in Canada in innovation in these sectors, in promoting capacity building, and our experience with them as a funder was

> great, a feeling I know was shared by many other sector people. But McConnell I think was getting frustrated, because while good things were happening at the local level and the sector level, at the third level up . . .

As one example, after an intermediary had tested and piloted alternative hiring practices to engage new Canadians in the workforce, it became apparent that the broader legal context and macro scale norms and beliefs that affected hiring practices in general created barriers. Thus, even though success at the niche scale had begun to cross into the regime scale, the need for a transformation at the landscape scale was clear.

Two new features were adopted when the McConnell Foundation shifted its social finance activity to focus on the landscape scale. The first was a new approach to finding intermediaries, internally referred to as a 'wait and watch' approach. The second feature came out of a pattern that emerged across the types of intermediaries that were engaged in working with the McConnell Foundation in this scale.

The 'wait and watch' approach was not a deliberate strategy that the Foundation formally adopted, but a practice that emerged informally. It involved McConnell Foundation's program staff spending time with various organizations to learn more about the different problem domains in which the Foundation may invest, and whether any successful innovative initiatives were already underway in various niches. In turn, the intermediaries had an opportunity to learn about the expectations and organizational culture of the McConnell Foundation. One intermediary described the benefit in the following manner:

> It was smart that we took our time to work out that relationship because I've used that as the formative way of how we operate together. Clearly, the program officer and I have just built a good relationship. I completely feel like I can just bring that person into anything and we'll have a discussion where we try to say, 'Hey, it would be good if McConnell could invest a little more here.'

The McConnell Foundation sought intermediaries with experience in one of the other two scales, as they would understand the systemic pressures present in those scales. In three of the five innovation processes undertaken at this scale, the intermediary organization had already piloted its own innovation at the niche or regime scale.

Moreover, patterns across the types of intermediaries revealed that the intermediary organizations engaged in this scale tended to be established membership organizations or associations. Therefore, they had stable governance structures, operating principles, and different forms of financial, intellectual, and social capital. As one intermediary stated:

> They [the McConnell Foundation] advocate with their resources, but you need a professional association who is in the sector to really push for policy change, push for making the sector more cohesive.

The formal operating structures served to mitigate any concerns of power imbalances, which have been characteristic of many donor-grantee relationships (e.g. Silver 2007), and that were experienced in this case with niche-scale intermediaries.

For instance, as a membership organization, an intermediary not only had responsibilities to the Foundation but also to a broader membership. Effectively, this distributed power among a number of groups or members rather than concentrating it with one donor. The intermediaries perceived that this arrangement gave them leverage when dealing with the Foundation. In effect, by blending the requirement for coordination (which had been learned when working within the regime scale), with the high level of internal resources provided by the intermediaries, the McConnell Foundation had developed a new arrangement adapted to intervening in the landscape scale. This emergent approach to working with intermediaries can lead to adaptations in the social finance activity at each scale. Ultimately, it created a Type 2 endogenous renewal transition as described by Smith *et al.* (2005).

Many of the landscape scale intermediaries had more credibility attached to their work than niche scale intermediaries because the initial social innovation had been created and piloted by them. Likewise, given their experience in the regime or problem domain, these intermediaries were more comfortable with complexity and the emergent nature of socially innovative initiatives than some of the niche scale and regime scale organizations. Finally, landscape scale intermediaries were described by the McConnell Foundation staff as ‘the most willing to walk away from the relationship,’ emphasizing once again the power balance between the two partners. Since these intermediaries had other programs and other resources, they tended to engage with the McConnell Foundation to achieve innovative results that they cared about, not because it was their sole program or only source of revenue that ensured their continued existence.

Defining Success for Social Finance

Throughout the social innovation processes, the McConnell Foundation continued to seek ‘success’ but recognized that success involved many different elements in each of the scales, and that intermediaries may perceive success as involving other elements. The McConnell Foundation’s conception of success is illuminated in the criteria that they used to gauge the success of a particular foundation-intermediary social innovation process across all three scales. The criteria included the following.

- The intermediary found other sources of funding.
- The intermediary achieved independence and established leadership in the relevant scale.
- The intermediary stated the mission in its own words, and the Foundation agreed with this version for framing the mission.
- A goal was achieved, although the goal was dependent upon what the intermediary and the McConnell Foundation set out to accomplish and

may have shifted during the relationship and the social innovation process.

The perception of the intermediaries was slightly different, as these criteria for success derived from the data showed:

- the intermediary's own sustainability as an organization was assured;
- proof of social impact existed;
- the Foundation was persuaded to fund the intermediary again;
- other funding sources were found;
- the relationship with the Foundation was ongoing;
- the relationship with grantees was ongoing.

Also worth noting is the fact that the success of the social innovation was important, as indicated by the proof of social impact criteria, but equally important were the relationships. This result highlights the importance of the 'human' aspect of social finance activities, as has been previously recognized by Huddart (2011). Additionally, the relationships between the McConnell Foundation and the intermediaries endure over a longer time period in this scale than in the regime scale. Working at higher scales entails longer time periods for projects, during which strong relationships naturally develop.

Using both sets of criteria, the relationships were charted on a matrix (see Figure 2). The intermediaries have been numbered in the order in which they were engaged with the Foundation (with a few exceptions) and those that are

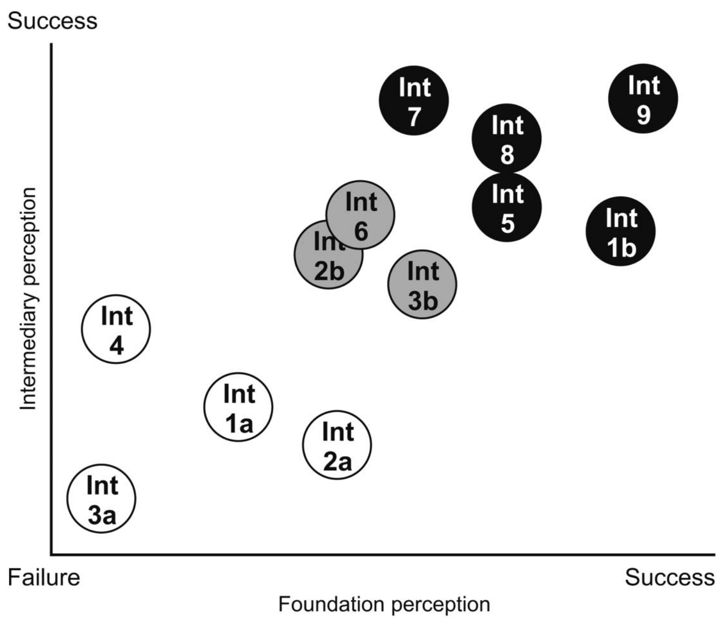

Figure 2. Perceived success of intermediary and foundation relationships

followed by the letters a or b indicate that two different intermediaries were engaged for a single innovative initiative. The shading of each intermediary circle indicates whether the intermediary worked at the niche, regime, or landscape scale. The figure demonstrates that niche scale intermediary-foundation relationships (Int 1, 2, 3, 4) were perceived by both the Foundation and the intermediary organization as moderately or less than moderately successful. The landscape scale intermediary-foundation relationships were perceived by both groups as highly successful. Therefore, social finance at the landscape scale may be the most likely to lead to success, if the strategies adopted by the McConnell Foundation for coordination and the selection of intermediaries are also employed.

Conclusion

The social transitions framework was useful in illuminating the different scales in which the McConnell Foundation's social finance activity was directed. Since the lens of social scales and transitions had not been previously applied to social finance studies, these results highlight an important finding: that social finance with intermediaries can occur at three different scales, but will be affected by different selection pressures and adaptive capacities within each scale. Moreover, the typology of transitions developed by Smith *et al.* (2005) provided a tool for analyzing the McConnell Foundation's emergent strategy, and thus the differences in the social innovation processes within the different scales. The differences across scales related to coordination, which was accomplished primarily through shared learning opportunities between the McConnell Foundation and the intermediaries, and the availability of resources that existed in addition to the financial resources provided by the Foundation. However, these differences affected the perceived success of the social innovation in creating a transformation within the scale. When the McConnell Foundation attempted to support and generate social innovations at the niche scale and sought intermediaries to implement the innovation, tensions arose between the McConnell Foundation and the intermediaries, which led to less trusting relationships. Both the McConnell Foundation and intermediary organizations perceived a less successful experience overall when the Foundation intervened in the niche scale.

The most successful intermediary-foundation pairings were those that involved membership organizations and professional associations, where existing operational infrastructure ensured resources were available, and thus adaptive capacity was greater than for those without such infrastructure. But in these pairings, the McConnell Foundation often provided a 'disturbance' by altering financial resources at the regime or landscape scale. Much of the existing social transitions literature explores the scaling up of niche level innovations to affect regime change (Kemp 1994, Kemp *et al.* 1998, Geels 2002). Less work has focused on transformative change processes that begin with an innovation in the regime or landscape level (Berkhout *et al.* 2006).

The results of the McConnell Foundation's intermediary strategy demonstrate the iterative nature of crossing the three scales. For instance, the McConnell Foundation began investing at the niche scale but then learned that regime or landscape changes were necessary for those niche innovations to be successful. Therefore, moving across the scales during the social innovation process was largely a response to selection pressures and the capacity within a scale to respond to those pressures, but it could also occur because the McConnell Foundation took an intentional approach to learning and could therefore develop an understanding of these selection pressures, capacities, and scales.

Foundations can be powerful actors in social innovation processes because of their ability to provide financial resources at different scales of a social system. Ultimately, intermediaries can play a crucial role in directing and harnessing these resources, but the relationship with sources of capital can be fraught with tensions if the social innovation process does not involve some level of coordination that makes space for learning about emergent issues. The lessons learned in this case study provide new insights for other foundations, social entrepreneurs, and potential intermediary organizations concerning how to approach their relationships and increase the likelihood of success.

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