

## Chapter 9

# PHINEO: A financial intermediary, Germany

*PHINEO is an intermediary providing market intelligence relevant to non-profit organisations and social enterprises seeking financing, as well as to social investors seeking a project. It also raises awareness of impact measurement as a useful function in substantiating and improving non-profit activity. This chapter describes the objectives and rationale of this intermediary, along with its key activities. It presents the impact it has achieved and the challenges it has faced. It concludes with the lessons learnt and conditions for potential replicability in other contexts.*

### Summary

As an intermediary organisation with think tank and consultancy capacities, PHINEO provides information (i.e. market intelligence) relevant to the social sector.<sup>1</sup> It builds bridges between social investors (e.g. donors, foundations and corporate-citizenship<sup>2</sup> or corporate social responsibility programmes), non-profit organisations (NPOs) and social enterprises to enhance social impact. Unlike some other European countries, Germany has no specific legal form for social enterprises, which can take a variety of forms: foundations (*Stiftungen*), non-profit corporations (gAG), voluntary associations (*Vereine*) and non-profit limited liability companies (gGmbH). Hence, this contribution refers to both NPOs and social enterprises.

PHINEO was established in 2010 to meet the German non-profit and social enterprise sector's need for more transparency in finances and impact assessment. Drawing on the lessons derived from private sector market analyses, PHINEO's founders sought to analyse the non-profit and social enterprise sector to identify which organisations and activities achieve their objectives. PHINEO then developed an impact-assessment methodology and impact certification label called "Impact" ("Wirkt!").

PHINEO operates as an intermediary between private, public and social sector stakeholders active in a broad range of areas, including disaster relief, social inclusion, refugee support, intergenerational justice, impact investment and corporate citizenship. It seeks to improve the political, social and institutional environment so that NPOs and social enterprises can promote social cohesion and inclusive growth. Its activities focus on analysing social challenges; examining the NPOs and social enterprises active in these areas, highlighting those that have achieved significant impact; and creating compendia for social investors. PHINEO also serves as a consultant for stakeholders in the public, private and social sectors, helping them to better realise their potential impact. It addresses a variety of policy areas in line with the European Commission's Social Business Initiative (SBI), including access to finance, brands and labels, skill development, support structures and access to market.

Since its founding, PHINEO has succeeded in drawing broad attention to – and support for – the need to heighten impact in the German social sector, thereby improving the visibility and credibility of NPOs and social enterprises. It has expanded its tri-sectoral network of private, public and civil society stakeholders from 10 to more than 100 active partners. It has analysed more than 800 NPOs and social enterprises, and awarded the impact label to 200 of them. PHINEO's efforts to improve organisations' impact monitoring could be transferred to other contexts, although this would require adapting analytical methods to the local environments.

## Key facts

PHINEO was initiated by Dr Andreas Rickert and incubated at the German foundation Bertelsmann Stiftung. It was launched as a non-profit corporation in 2010 under Bertelsmann Stiftung organisation's and Deutsche Börse AG's leadership. These two supporting structures are its principal shareholders, holding 12% of the shares each.

Based in Berlin, PHINEO focuses on the German non-profit and social enterprise sector, and works primarily with organisations and companies based or registered in Germany. As a non-profit corporation, PHINEO derives its financing primarily from its shareholders, although it also draws support from strategic partners in civil society and the business sector. PHINEO's shareholder structure was designed from the outset to include a consortium of shareholders (48%), entrusted with managing non-allocated shares intended for future shareholders. In addition to Bertelsmann Stiftung and Deutsche Börse AG, key partners providing primarily financial resources include KPMG AG (4%), Stiftung Mercator GmbH (4%), PricewaterhouseCoopers AG (4%), Aktive Bürgerschaft e.V. (4%), Stifterverband für die Deutsche Wissenschaft e.V. (4%) and New Philanthropy Capital (4%). Other strategic partners helping to develop and share content include Deutsche Spendenrat, Stiftung Charité and Heidelberg University's Centre for Social Investment and Innovations.

In 2015, PHINEO's budget totalled EUR 2.6 million. The organisation receives funding from three sources: shareholders and key partners, project work and consultancy income.

At the project level, PHINEO's broad network of partners and sponsors comprises more than 100 organisations from the private and public sectors (including federal ministries, e.g. the Ministry of Family Affairs, Senior Citizens, Women and Youth; and the Ministry of Labour and Social Affairs), and the social sector. An expert advisory board provides additional counsel.

## Objectives

PHINEO's key mission is to strengthen civil society while improving the impact of NPO and social enterprise activity in Germany, with a focus on the following areas:

- improving civic engagement by creating and sharing knowledge
- enhancing the impact of NPO and social enterprise activity
- fostering transparency and impact orientation among NPOs and social enterprises (e.g. through easy access to information)
- creating faith and trust in NPOs and social enterprises, by showcasing effective non-profit work, promoting professionalism and exchanging best practices
- building bridges among and between donors, social investors, NPOs and social enterprises
- promoting an enabling environment for social investors, NPOs and social enterprises, by raising public awareness and understanding of these organisations' activity (i.e. agenda-setting).

PHINEO has designed its activities in a way that recognises these four areas' interconnectedness.

PHINEO operates at the local, regional and national levels. Its activities address several policy areas aligned with the European Commission's SBI, including access to finance, brands and labels, skill development, support structures and access to market. Many of these activities address multiple policy areas simultaneously. For example, by identifying and granting the PHINEO "Impact" label to projects with a significant capacity to effect social change (thereby proving their effectiveness in achieving their goals), PHINEO promotes the mobilisation of public and private funds in the social sector (access to finance), and raises the visibility of NPOs and social enterprises (brands and labels). Other issue-driven activities – such as studies and workshops on improving labour-market access for women and migrants – strengthen cross-sectoral networks (support structures) and facilitate public-private partnerships (access to market). Drawing on the diverse set of collated data it has gathered, PHINEO provides NPOs and social enterprises with information and training for skill development.

PHINEO also provides market intelligence relevant to both NPOs seeking financing and social investors seeking an appropriate project or organisation. In compliance with its overall objective of improving impact, PHINEO acts as a matchmaker, bringing together NPOs with potential investors.

## Rationale

The German social sector comprises more than 600 000 organisations, including social enterprises (Krimmer and Priener, 2013). PHINEO was established in response to the sector's fundamental lack of transparency, high transaction costs (e.g. for research and due diligence) and widely varying degrees of professionalism. Despite their considerable collective economic and social significance, no infrastructure was in place to facilitate information sharing among these organisations and social investors. Moreover, far too little information was available regarding their specific activities and how they went about achieving their goals, preventing potential social investors from making informed decisions and fostering public perception of civil society's ineffectiveness.

PHINEO began by developing a rating service to provide market intelligence and help assess the activities undertaken by NPOs and social enterprises. However, PHINEO faced two initial challenges: 1) a lack of key performance indicators typically used to evaluate the activities of NPOs; and 2) deeply held ideological views within the social sector itself. For example, stakeholders working in the field feared that focusing on impact measurement would draw attention and resources away from efforts directly targeting social change. Many stakeholders worried that NPOs would be subjected to costly and ultimately ineffective monitoring standards, and expressed scepticism that impact could be measured in the first place. Moreover, in a country whose government has traditionally assumed many of the responsibilities associated with social welfare, involving the private sector in efforts to promote the common good was – and continues to be – met with considerable distrust.

As a result of these challenges, PHINEO recognised the need to collect, organise and disseminate as much information as possible on social impact, help different stakeholders act upon this information to improve their own impact, and communicate the difference between impact as a goal and impact analysis (instead of impact measurement). Analysing impact is not an end in itself; rather, it has a useful function in substantiating and improving non-profit activity. PHINEO established a research framework facilitating broad-based studies of Germany's social sector, and contacted public, private and social stakeholders to build consensus. PHINEO's chief operating officer met with over 200 opinion leaders across Germany in a bid to tackle misconceptions, cultivate an environment conducive to information sharing, and develop a better understanding of stakeholders' expectations in terms of co-operation and impact assessment. These discussions demonstrated the need for an organisation (such as PHINEO) that could serve civil society and the social sector by improving impact, and a considerable body of stakeholders agreed to support PHINEO's efforts. PHINEO continues to develop and expand this network, to facilitate a tri-sectoral consensus on impact-related issues.

## Activities

PHINEO's activities aim to tackle specific social challenges. They take place on three levels:

1. **Agenda-setting:** promoting civic engagement, and organising workshops and conferences on new social sector trends (such as social enterprises and the use of market-based approaches by NPOs).
2. **Developing an institutional infrastructure for information sharing:** enhancing efficiency and reducing transaction costs on a broad scale, by increasing transparency within NPOs and social enterprises, providing market intelligence and matching projects with donors.
3. **Supporting donors and project leaders:** direct provision by PHINEO of tools, workshops and consultancy services.

**Accreditation and publications:** PHINEO conducts initial research on the root causes of social challenges (e.g. children living in poverty, climate protection and the school-to-work transition), the actors involved and successful actions undertaken, that informs PHINEO's agenda-setting and support strategies, and serves as a contextual basis for its NPO assessments.

After issuing a call for NPOs and social enterprises to participate in a PHINEO impact assessment, PHINEO conducts a no-fee and risk-free analysis of those organisations that meet its feasibility, monitoring and transparency criteria. It begins with an online questionnaire

that allows an organisation to provide information about its activities, projects and non-profit status. Drawing on this basic data, PHINEO analysts then ask the organisation to submit further information and documentation, such as white papers, bylaws and annual reports. In a third step, the analysts assess this information, conduct further desk research on the organisation, and carry out an onsite visit. The evaluation criteria are designed to capture and express information relevant to the overall non-profit activity – not solely concrete outcomes. Thus, various criteria examine the organisational and financial structures, vision, strategy and potential impact of an NPO, and its ability to provide evidence of results. PHINEO's analysts then submit documentation on those organisations they deem effective in achieving their goals to its panel of external academics and practitioners.<sup>3</sup> Following approval by this committee, the organisation receives an official (and permanent) PHINEO “Impact” (“Wirkt!”) seal of approval. PHINEO also distils the information in issue reports (e.g. on promoting social inclusion among people with disabilities, strengthening diversity and tackling the challenges posed by the refugee crisis in Germany) which describe goals, challenges and effective approaches, provide practical tips on identifying and supporting projects, and describe organisations awarded the “Impact” seal. The primary goal is to expand social investors' awareness of the broad range of opportunities available and encourage them to invest, partner with an NPO or implement corporate-citizenship activities (e.g. skill-based volunteering).

PHINEO's research efforts additionally address a variety of other issues. One study, *Transparency among Charitable Organisations in Impact Reporting* (PHINEO, 2014b) assessed the publicly available social impact reporting practices of 50 of Germany's largest charitable organisations; of the 24 who contacted PHINEO after the report was published, 22 said they planned to improve their activity's transparency. In addition, PHINEO publishes a series of guides on various aspects of social entrepreneurship and philanthropic activity (e.g. corporate-volunteering programmes, microfinance and sustainable-consumption practices) that would otherwise go unnoticed. Drawing on the experiences of 800 German NPOs and social enterprises, *Social Impact Navigator – A Practical Guide for Organisations Targeting Better Results* (PHINEO, 2016<sup>4</sup>) offers a variety of tools, including checklists, templates and step-by-step instructions. The original German-language guide has resonated strongly in the German social sector, with more than 20 000 downloads from the PHINEO website, and is available in English and Spanish.

**Corporate citizenship:** PHINEO's dedicated working group develops and disseminates knowledge on corporate-citizenship methods, tools and trends through workshops (e.g. on developing an effective strategy, integrating impact targets in daily operations and conducting impact analysis on limited budgets), studies, guidebooks and market intelligence. The group also promotes and expands information-sharing networks in the private, public and civil society sectors.

**Consulting:** PHINEO offers social investors a range of consultancy services focusing on strategy development. It helps them define their vision and mission statements; identify societal challenges relevant to their interests, based on needs and contextual analyses; develop an engagement profile tailored to their risk tolerance and goals; identify and establish dialogue with potential high-impact partners; and ensure that their activities and investments produce effective social impact. PHINEO helped introduce the Social Reporting Standard (SRS) in Germany,<sup>5</sup> which streamlines the reporting information social investors require of NPOs and social enterprises to enhance the system's efficiency and transparency. PHINEO worked closely with a number of stakeholders<sup>6</sup> to promote broad acceptance of the SRS throughout the country.

PHINEO also advises NPOs and social enterprises on developing sustainable engagement strategies and improving social impact through engaging images, concepts, strategies, projects and programmes; identifying potential partner organisations; developing internal processes tailored to organisational needs; and promoting institutional learning through assessment indicators.

As part of its consultancy activities, PHINEO helps companies develop corporate-volunteering strategies. In partnership with BMW's Herbert Quandt foundation and Auridis gGmbH, PHINEO introduced the Proboneo initiative in Germany, which provides a platform matching volunteers with NPOs in need of specific expertise, thereby ensuring NPOs the tailored support they need to achieve their objectives. Most recently, PHINEO has begun helping private sector companies seeking to expand their impact, as well as advising the German government on related issues

By supporting the development and dissemination of information easily accessible to all stakeholders, PHINEO aims to empower them to promote social good more effectively. PHINEO applies these principles to itself as well, by ensuring full financial transparency and tracking the outcomes of its activities.

**Impact investing:** PHINEO has begun taking an active role in the nascent field of impact investing, where its expertise enables it to address three key areas. It can produce impact analyses for specific organisations or issues; provide access to the tri-sectoral network needed for successful impact investment; and help interested entities develop the ecosystems needed for impact investing. These activities are in line with PHINEO's holistic approach in ensuring that grants and philanthropic funds are deployed to achieve the greatest possible impact.

## Challenges encountered and impact

Table 9.1. below presents a strengths, weaknesses, opportunities and threats (SWOT) analysis of PHINEO.

Table 9.1. **SWOT analysis of PHINEO**

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>● Legitimacy from its multi-sectoral partner group</li> <li>● Clearly mission-driven</li> <li>● Strong relationships with stakeholders in each sector</li> <li>● Reputation for delivering relevant knowledge</li> <li>● Highly qualified staff</li> <li>● High capacity to learn and be innovative</li> <li>● Provides unique information and services relevant to stakeholders in all three sectors</li> <li>● Able to demonstrate compliance and impact</li> </ul>	<ul style="list-style-type: none"> <li>● First mover in many areas, facing high development costs</li> <li>● Many services and tools urgently needed and requested by target groups lacking the willingness or ability to pay</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>● Increasing role and importance of social sector and cross-sectoral approaches</li> <li>● High demand for the services provided</li> <li>● Openness to collaborative work and knowledge sharing</li> </ul>	<ul style="list-style-type: none"> <li>● Reluctance among investors and potential funding sources to invest in intermediaries</li> <li>● Scepticism/fears regarding application of market analysis to NPOs and social enterprises</li> </ul>

### Challenges

In its first years of operation, PHINEO realised that providing high-value information was not enough to bring about change among the resources' recipients and donors. While it invested considerable resources in gathering information on the objectives, activities and funding of German NPOs and social enterprises, it realised that far too few organisations effectively used this information to attain tangible incomes. The organisation responded

by refocusing on agenda-setting, creating the infrastructure for sharing information as a public good, and providing financial and non-financial support directly to organisations. These activities have helped demonstrate more clearly what stakeholders have to gain (e.g. enhanced legitimacy, broader public support and improved investment impact) by applying the information provided, and what they have to lose by ignoring it. By incorporating an increasing number of stakeholders into its network, PHINEO has also managed to mitigate fears regarding private-sector involvement in philanthropic activities.

PHINEO applies the principles of transparency and impact evaluation to itself as well. This involves ensuring full financial transparency and maintaining oversight in tracking the outcomes of PHINEO activities. While PHINEO's financing is stable and sustainable, relatively few strategic donors and partners are willing to invest in intermediaries that provide market intelligence. PHINEO must continue to expand its network, and proactively demonstrate the value of both its market intelligence and its role in mediating this information.

Future challenges include drawing policy makers' attention to the issue of social impact and advising them on policies that facilitate more effective social sector activity. This goal is driven by the conviction that change agents in government and policymaking institutions, civil society and the private sector must work collaboratively to resolve social challenges. PHINEO is committed to working with the German government to develop policies that create an environment in which tri-sectoral initiatives can gain traction and expand their reach, while maintaining full transparency and oversight to achieve greater impact. Communicating on these efforts will require considerable sensitivity to each sector's needs and expectations.

### **Impact**

In a follow-up survey on PHINEO's "Impact" ("Wirkt!") seal, the 15 organisations awarded the seal reported that their interactions with PHINEO had helped them improve their impact by raising knowledge and awareness within their organisation, leading to further discussion and practical applications. Three organisations stated they had taken measures to improve impact analysis; five had improved transparency; four had improved their general activities and strategy; one had reoriented its fundraising towards impact goals, and intended to engage in evaluation; and two had secured funding thanks to PHINEO's "Impact" seal. Regarding overall satisfaction and lessons learned, 76% of survey participants expressed high satisfaction with the networking opportunities afforded by the process; 63% said they were able to build on the contacts made; 41% developed concrete ideas for co-operation as a result of the experience; 66% expanded their knowledge thanks to the workshops; and 57% returned to their organisations with concrete recommendations for change.

Following is a selection of the qualitative and quantitative results associated with recent PHINEO activities:

- In 2010, Germany's social sector rarely addressed the issue of impact monitoring and assessment. Today, all stakeholders prioritise efforts to improve impact; PHINEO has played a key role in developing this awareness.
- Since 2010, PHINEO has, together with partners, introduced in Germany major initiatives such as the SRS or Proboneo, which serves to match skill-based volunteering with NPO needs.
- Since 2010, PHINEO's staff has expanded from 8 to 45 employees.
- Since 2010, PHINEO's network has expanded from approximately 10 to more than 100 active partners.

- Since 2010, PHINEO's consultancy portfolio has grown to 70 regular clients, including major corporations, foundations, ministries and high net-worth individuals.
- Since 2010, PHINEO has analysed 800 NPOs and awarded the "Impact" label to more than 200 NPOs.

## Lessons learnt and conditions for potential replicability

### **Lessons learnt**

PHINEO recognises the need to strengthen interaction in two areas: promoting experience and information sharing among NPOs (partly by drawing on impact analyses), and enhancing co-ordination among donors working as partners to tackle social challenges. Co-operation in these areas will require considerable information and knowledge gathering, as well as openness among all stakeholders, to foster social-sector legitimacy, integrate partners in decision-making processes, and cultivate a culture of exchange and debate. Like any organisation with similar aims, PHINEO must proactively and transparently demonstrate its mission-driven nature to counteract suspicions of a hidden agenda. Finally, patience and persistence are key features of a successful intermediary organisation: market development takes time.

### **Conditions for potential replicability**

Researching and analysing NPOs based on their realised and potential impact may be the most clearly transferrable aspect of PHINEO's work. However, care must always be taken to understand and respect differences in local environments: standards of transparency, as well as financial and personal privacy, may differ from one country to another. Other transferable aspects include building bridges between the public, private and social sectors, as well as creating a regulatory framework conducive to the social economy or non-profit activity. These, too, must be carefully localised to reflect national and regional norms.

Specific activities that could be replicated in other national contexts include helping organisations develop and conduct impact assessments; establishing an "impact" seal, recognised by social investors, for non-profits and social enterprises; and providing guidance (through workshops, publications and conferences) on integrating monitoring mechanisms into an organisation's operations.

The long-term goal for such work would be to establish impact-governance frameworks worldwide. Greater transparency within the global social sector, enhanced use of evidence-based outcome tracking, and improved tri-sectoral and international co-operation on issues transcending national borders would help NPOs and social enterprises achieve greater net impact globally. Such co-operation is particularly important in light of the increasingly global nature of economic activities and the resulting social challenges.

PHINEO's activities in Germany could provide some inspiration for moving forward in this regard. For example, regional and international co-operation could be facilitated by establishing an "Impact" seal of approval across borders, partly based on EUROSTAT data, to track or monitor social impact. The certification process could be scaled by identifying or creating organisations and/or frameworks similar to PHINEO in other countries, and encouraging them to share best practices. Moreover, sector reports and NPO analyses could be conducted to promote transparency, allowing actors to take decisions based on unbiased information. Finally, organisations could introduce management tools (such as the Social Impact Navigator or the SRS) to ensure they are targeting impact.

## Notes

1. Here, the social sector refers to any organisation working to provide benefits for society or the environment. This includes foundations, charities, voluntary associations and other non-profit organisations, as well as organisations with a legal form allowing them to earn and distribute profits.
2. Here, corporate citizenship refers to an organisation's actions that are ethical, acknowledge its responsibility as a social actor, comply with the law and are consistent with the interests of sustainable development.
3. For more information, see the German-language factsheet on the recommendation at: [www.phineo.org/phineo/analysemethode#c9855](http://www.phineo.org/phineo/analysemethode#c9855).
4. Available online and free of charge.
5. [www.social-reporting-standard.de/en/](http://www.social-reporting-standard.de/en/).
6. Ashoka; Bonventure; Auridis; PriceWaterhouseCoopers; the German Federal Ministry of Family Affairs, Senior Citizens, Women and Youth; and the Vodafone Foundation.

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