

BRIEFING PAPER

TOPIC
5

How Can Grantmakers Support Readiness to Scale Impact?

REFRAMING THE CONVERSATION:

A GEO BRIEFING PAPER SERIES ON GROWING SOCIAL IMPACT

In philanthropy, there are multiple definitions for and ways to think about “scale,” including the expansion, replication and adaptation of programs to new areas or populations or the deepening of programs within an already-served area. There is great virtue in helping successful nonprofit organizations and effective programs expand, but it is not the only way grantmakers can achieve impact — and it is often not the most effective way to do so. Recognizing this, grantmakers of all kinds are shifting the way they think about scale, emphasizing not size or reach but impact.¹

To understand what *readiness to grow or expand impact* looks like and how to best *support it*, grantmakers must first recognize that going to scale is not “business as usual.” The process requires a much deeper level of investment of grantmakers’ own time — in high-engagement relationships with grantees and others — which has practical implications when managing a portfolio of grants. It also requires grantmakers and grantees alike to test their assumptions about the underlying fundamentals and track record of the enterprise that is being scaled, as well as the likelihood that it will be financially sustainable over time.

Growth is, by its very nature, episodic — the process is risky, often requiring new skills and financial tools, as well as patterns of change that are inherently, if temporarily, destabilizing and almost always unpredictable. Grantmakers who have successfully supported readiness to scale do three important things:

1. They meet grantees where they are.
2. They engage in intensive learning with grantees through business planning.
3. They provide assistance beyond the grant check.

All of these activities may be accomplished by individual grantmakers — but they are most effectively undertaken in collaboration, to maximize potential value to grantees and to minimize transaction costs for grantee and grantmaker alike.

¹ For a discussion of alternative approaches to scale and the role of networks in supporting scale, see earlier papers in this series, including: “What Do We Mean by Scale?” and “How Do Networks Support Scale?,” available at <http://www.scalingwhatworks.org>

AVOIDING ILL-PLANNED GROWTH:

MEET GRANTEES WHERE THEY ARE

Many nonprofits struggle just to make their existing infrastructure and funding work, let alone grow. For instance, a recent study for The Wallace Foundation of the capacity and needs of out-of-school time organizations found that many lack the capacity (people and systems) to plan strategically — even when such planning was desired by leadership. “Out of actual and perceived necessity, transactional activities aimed at keeping the programs functioning were prioritized ahead of strategic activities that could better position them for the future and stable, long-term growth.”²

Yet, as GEO notes in *On the Money: The Key Financial Challenges Facing Nonprofits Today — And How Grantmakers Can Help*, “Many grantmakers go so far as to encourage ill-planned growth by urging nonprofits to take their programs ‘to scale,’ even when these organizations do

not have the infrastructure or the planning capacity (not to mention the resources) to do so.”³

Ill-planned growth may have lasting negative effects on an organization’s financial sustainability, as well as its capacity to deliver on mission during and after the growth processes. “When growth is not carefully planned and managed, bigger is not better, and more is likely to turn out to be less,” notes Paul Connolly of TCC Group. “However attractive organizational growth might appear to be, it makes no sense for a nonprofit to expand in ways that jeopardize its financial health or that compromise program quality. Before the leaders of a nonprofit contemplate any type of change, they must be willing to play devil’s advocate, acknowledging good reasons for preserving the status quo.”⁴

Prior to any planned growth process, therefore, grantmakers and grantees should together test their assumptions about whether current efforts can be scaled and, once at scale, whether sufficient revenue can be generated to achieve financial sustainability and deliver results. To determine the likelihood that a growth process

About This Paper Series

This briefing paper is the fifth topic in a series from GEO’s *Scaling What Works* initiative, which will be released throughout 2011. Authored by Dara Major, the collection pulls together the best thinking, research and actionable approaches to scaling impact, as well as provides additional resources for grantmakers that would like to dive deeper into paper concepts and questions. Individual papers delve into topics such as understanding approaches to scale, developing grantee evaluative capacity,

structuring and financing scale, and more. To access the latest topic and learn more about *Scaling What Works* and how you can get involved, please visit www.scalingwhatworks.org.

² Fiscal Management Associates LLC, “Administrative Management Capacity in Out-of-School Time Organizations: An Exploratory Study” (report for The Wallace Foundation, New York, NY, July 2008), 61.

³ Nancy Burd, *On the Money: The Key Financial Challenges Facing Nonprofits Today — and How Grantmakers Can Help* (Washington, D.C.: Grantmakers for Effective Organizations, 2009), 7.

⁴ Paul Connolly and Laura Colin Klein, “Planning for Growth,” *The Grantsmanship Center Magazine* (Fall 1998): 1, <http://www.tgci.com/magazine/Planning%20for%20Growth.pdf>.

will contribute to growth in social impact, William Foster, Bridgespan Group partner, suggests a rigorous focus on three levels of criteria:

- ▷ **Strong fundamentals** — The organization currently addresses a critical need, has strong leadership, and has strategic clarity.
- ▷ **Ready for growth** — The organization's programs are demonstrated successes and are cost-effective, and the organization has already grown successfully.
- ▷ **Scalable funding model** — The organization has a sustainable funding model to support its revenue needs at scale.⁵

By using these criteria as part of a due diligence process, grantmakers and grantees together can more realistically assess the potential for scale and alternatives along the way. Foster notes, "The idea of raising lots of money gets most nonprofit leaders excited. But growth capital is not for everyone. In fact, it is not for most organizations."⁶ For instance, the James Irvine Foundation, through its Community Foundations Initiative, found that many emerging community foundations did not have sustainable funding models in place to support revenue needs — and that growing their asset size would not necessarily correlate with a growth in impact. Rather than pursuing growth in assets, many adopted alternative goals such as increasing the reach of their grantmaking; building community referral networks; growing community awareness and involvement; and expanding local philanthropy beyond the community foundation itself. By disseminating these lessons, the Irvine Foundation was able to share practical approaches to achieving sustainable growth and help countless community foundations avoid the negative consequences of an ill-planned attempt.⁷

PLANNING TO GROW:

LEARN FROM A BUSINESS

PLANNING PROCESS AND

PROVIDE ADDITIONAL SUPPORT

BEYOND THE GRANT

Many grantmakers find that the above criteria are difficult to assess in practice, as nonprofits often lack, for instance, evaluative data on their successes or an accurate picture of the true cost of their operations. Conducting this level of due diligence is time-consuming, expensive and labor-intensive, requiring significant investment of resources by grantmaker and grantee alike. For this reason, the process is often best structured as an initial grant to develop a business plan, with grantmakers underwriting the cost of developing the plan with the assistance of consultants and evaluators. A facilitated business planning process may help potential growth partners:

- ▷ Create **clarity** about strategic priorities, resource constraints and their implications, how the plan itself will be used and how results will be measured;
- ▷ **Uncover** beneficiaries and environmental conditions that will influence any growth process, including the need, market, networks, politics and other funders;
- ▷ **Align** an organization's leadership team around clear goals and key capacities; and
- ▷ **Focus** resource allocation for a defined, future period — what it will take to expand, while also maintaining or improving program quality and achieving financial sustainability at scale.

⁵ For a complete description and discussion of these criteria, see William Foster, "Money to Grow On," *Stanford Social Innovation Review* 6, no. 4 (Fall 2008): 50-55.

⁶ William Foster, "Money to Grow On," 53.

⁷ Eva Nico et al., "Growing Smarter: Achieving Sustainability in Growing Community Foundations" (report for the James Irvine Foundation by FSG, San Francisco, September 2007).

Andrew Wolk and Kelly Kreitz of Root Cause, a nonprofit organization that partners with nonprofits, philanthropy, government and business, note, “The promise of business planning is quite simple: it ensures that organizations and their social impact investors are working together to address their target social problems with approaches guided by the principles of opportunity, innovation, accountability, and financial sustainability. With a business plan serving as a road map, organizations and their social impact investors can communicate around a common point of reference, while following a clear course of action that will lead to enduring social impact.”⁸

Unlike typical strategic plans, business plans have detailed strategic budgets that can be connected to ongoing annual operating budgets. Business plans help illustrate the financial requirements needed to realize a strategic vision, as well as the key steps needed to integrate the vision into operating plans for years to come.

A key part of the process is clarifying the nonprofit’s intended impact and theory of change. Foster cites Harlem Children’s Zone as an example of an organization that was able to articulate a specific intended impact and subsequently target growth resources effectively as a result of a business planning process. In 2000, H CZ moved from defining its approach as “To improve the lives of poor children in America’s most devastated communities,” to “Over the next decade, H CZ’s primary focus will be on children aged 0-18 living in the Harlem Children’s Zone Project, a 24-block area of Central Harlem, making a successful transition to an independent, healthy adulthood, reflected in demographic and achievement profiles consistent with those in an average middle-class community.”⁹

The Edna McConnell Clark Foundation — which has provided key support to H CZ — bases its grantmaking decisions on the soundness of an organization’s business plan, which it often underwrites. A plan typically outlines, for a three- to five-year period, what it will take to achieve growth across all key organizational elements, including program, operations and fundraising. Nancy Roob, president and CEO of EMCF, describes this as

“the potential power of thinking about funding, capacity building, evaluation and growth within an integrated framework, because each element has implications for the others.”¹⁰ It is precisely this kind of support that enables growing nonprofits to strengthen the key internal systems needed to collect and use data as feedback in the scale-up cycle.

After completing business planning, grantmakers and grantees together assess whether there is sufficient alignment to warrant continued, deeper support.

“We invest in a planning and skills-building process for nonprofits with whom we think we want to partner for scale. And we actually consider it a success of our approach when, at the end of a planning year, a nonprofit says: ‘You know what? We can already see that... we need to change course.’ Being intentional about what you are not growing is just as important as moving ahead with a growth process.”

Susan G. Zepeda
Foundation for a Healthy Kentucky Inc.

When there is sufficient alignment to warrant continued, deeper support, grantmakers and grantees can use the business plan as a framework through which to provide large, unrestricted, multiyear grants — often coupled with additional assistance beyond the grant check, when the grantmaker has particular expertise to offer.

Venture Philanthropy Partners, in an approach similar to that of EMCF, provides not only large growth capital grants but also “strategic assistance” in the form of management guidance — coaching, mentoring, guidance on board development and support for maintaining a focus on growth plans and milestones. VPP also puts its network of relationships to work, leveraging its

⁸ Andrew Wolk and Kelley Kreitz, *Business Planning for Enduring Social Impact: A Social-Entrepreneurial Approach to Solving Social Problems* (Cambridge, Mass.: Root Cause, 2008), 4.

⁹ For more information, see Harlem Children’s Zone, Inc. (H CZ) Growth Plan FY2001 – FY2009 available at: <http://www.bridgespan.org/LearningCenter/ResourceDetail.aspx?id=1032>.

¹⁰ Nancy Roob, “January 2011 Letter: Capitalizing on Evidence-Based Funding for Youth,” January 11, 2011, accessed April 18, 2011, <http://www.emcf.org/who-we-are/presidents-page/january-2011-letter>.

investors, board, members, advisors and other contacts to help grantees implement plans, recruit talent and open doors. As president and CEO Carol Thompson Cole has observed, “Scale in numbers will ameliorate the lives of many, but leaves the root causes of issues unchanged. We see the greatest social return when expansion is coupled with strategic and effective influence strategies.”¹¹

Research by the Center for Effective Philanthropy suggests that grantees highly value this influence strategy, too. Among the top three dimensions of foundation performance that grantees value most in their foundation funders, CEP has found, are expertise and external orientation of the foundation — in other words, a deep understanding of the ecosystem of the community, the field and the knowledge necessary to advance thinking and affect change. “This finding has significant implications for foundations’ conceptualizations of their institutional roles in society, as well as for definitions of program officers’ roles and responsibilities. It suggests the importance of a foundation investing in the development of knowledge and expertise in its fields of funding. That expertise, whether directed at a grantee or more broadly at the field, will be helpful to grantees in making their own missions easier to achieve or improving the context in which they work.”¹²

Embedded in a scaling process, then, is a conceptual shift in understanding the influence of opportunities and real challenges on internal and external systems along the way. Paul Bloom and Gregory Dees of Duke University describe the system a grantmaker seeks to influence as an “ecosystem” of key external resources, beneficiaries and environmental conditions.¹³ Grantmakers can play an important role in helping individual grantees navigate through this broader ecosystem and connect across shared missions, goals, strategies and values — which enables grantmaker and grantee alike to allocate resources differently as they partner to grow impact.

WANT TO BE A GRANTMAKER

THAT HELPS NONPROFITS

ESTABLISH READINESS TO SCALE?

When it seems that an intentionally planned process may help successfully scale what works, clarifying the purpose of this process for grantmakers and grantees is key. Grantmakers who seek to establish whether an idea, program or organization is ready to scale should consider the following approaches:

1. ***Meet grantees where they are*** — Avoid ill-planned growth by conducting due diligence to determine whether sufficient ground for growth even exists. This includes examining whether an organization has strategic clarity and strong leadership, can demonstrate success, and has a sustainable funding model to support its revenue needs at scale.
2. ***Learn from a business planning process*** — If there is ground for growth, this process can help create up-front clarity about strategic priorities, resource implications and measuring results. It can also help grantmakers and grantees define and better understand their ecosystem — the key internal and external resources, beneficiaries and environmental conditions that will influence any growth process.
3. ***Provide assistance beyond the grant*** — Connect grantees (directly or indirectly, through intermediaries) with coaching, mentoring, guidance on board development and other support. Put your network of relationships to work to help grantees implement plans, recruit talent and open doors. Invest in developing knowledge and expertise in your fields of funding, whether directed at a grantee or more broadly at the field, that will help improve the context within which you and your grantees work.

¹¹ Carol Thompson Cole, “President’s Perspective column: Towards a Redefinition of Scale,” January 12, 2011, accessed April 18, 2011, <http://www.vppartners.org/learning/presidents-perspective/towards-redefinition-scale>.

¹² Center for Effective Philanthropy, *Listening to Grantees: What Nonprofits Value in Their Foundation Funders* (Cambridge, Mass.: CEP, 2004), 12.

¹³ Paul Bloom and Gregory Dees, “Cultivate Your Ecosystem,” *Stanford Social Innovation Review* 6, no. 1 (Winter 2008): 47-53; John Elkington et al. “From Enterprise to Ecosystem: Rebooting the Scale Debate,” in *Scaling Social Impact*, ed. Paul N. Bloom and Edward Skloot (New York: Palgrave Macmillan, 2010), 83-102. For an example of systems thinking in the context of scale, see Carol Wilkins, et al., “Laying a New Foundation Changing the Systems that Create and Sustain Supportive Housing” (report for Corporation for Supportive Housing, New York, 2003).



About *Scaling What Works*

Launched in 2010, *Scaling What Works* is a multiyear learning initiative of Grantmakers for Effective Organizations, a thought leader for promoting grantee-centric philanthropic practices that lead to more effective results. With the support of a coalition of 22 funders, GEO aims to expand the number of grantmakers and public sector funders that are working together to broaden the impact of high-performing nonprofits. Through *Scaling What Works*, GEO will offer trainings, networking opportunities and a host of tools and resources, such as this paper series, to better equip grantmakers to help the nonprofit organizations they support to plan, adapt and grow their impact in creating sustainable benefits for people, their communities and our planet.

For more about GEO and *Scaling What Works*, please visit www.scalingwhatworks.org.

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ADDITIONAL RESOURCES:

For additional resources on supporting readiness to scale impact, check out the "Useful Links" section of our website, www.scalingwhatworks.org/resources/useful-links.

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