Coming Up!

"Leading Boldly", FSG's article in the 2005 winter edition of Stanford Social Innovation Review is now available

The article is co-authored by FSG's John Kania and Mark Kramer, in collaboration with Ronald Heifetz, co-founder of the Kennedy School of Government's Center for Public Leadership

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Perspectives for Private Foundations

Winter 2005

Scaling Social Impact

by Mark R. Kramer

It is said that a good metaphor frees the mind . . . then imprisons it. The metaphor of business as a model for the nonprofit sector seems to be tracing this proverbial path. Over the past decade, many principles borrowed from corporate management, venture capital, entrepreneurship, and investment portfolios have been grafted onto the work of foundations and nonprofits. These new ideas have stimulated a considerable amount of innovation, bringing to the field venture philanthropy funds, social entrepreneurs, capacity building grants and the increasingly common goal of taking small nonprofit organizations to scale.

It is true that certain basic principles of strategy, expertise and efficiency apply to the nonprofit sector, just as they do to every other kind of enterprise. But these broad principles need to be thought through carefully in the specialized context of the nonprofit sector if they are to be usefully applied. We may already be reaching the point where the business metaphor has imprisoned much new thinking in the social sector – and the limitations are most apparent in this widespread ambition, shared by many funders and nonprofit leaders alike, of "going to scale" through rapid organizational growth.

Looking through a venture capital lens—still the dominant business metaphor in U.S. philanthropy—the inability of nonprofits to grow rapidly seems like a glaring failure. Out of 183,000 nonprofit organizations started in the United States over the last 30 years, less than 3/4 of one percent have grown to surpass $20 million in annual expenditures, a size that is still miniscule by corporate standards.

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Business thinking suggests that this failure stems from the absence of sophisticated management and adequate expansion capital. As a result, organizations like New Profit, Inc. and the Edna McConnell Clark Foundation have adopted a fundamentally different approach to grant-making, committing millions of dollars and professional consulting support over a period of years to a handful of grantees to give them the "mezzanine capital" and business guidance they need. This combination of rigorous planning, good management and substantial multi-year capital infusions has produced remarkable results. Nearly all of New Profit's and the Clark Foundation's grantees have grown far more rapidly—without sacrificing quality—than other nonprofits over the same period of time. So far, the metaphor appears to hold.

But then, trapped by the metaphor, we tend to stop thinking about any alternatives for increasing social impact

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except by growing the organization itself. That is because the for-profit world faces a set of constraints that the non-profit world does not. If the goal is to make money, a business must retain direct legal control over anyone who uses its concept or brand. There is no other way to capture profit than to have ownership rights and, therefore, scaling up any business requires building an organizational structure that preserves the originator's control and right to the profits—whether through internal growth, mergers, franchising, licensing or partnerships. Growing any of these organizational structures requires a tremendous investment in overhead, management and technology, but it is the only way to retain the control that is essential to collecting profits.

In the nonprofit sector, however, the goal is social impact—not profit—and no-one owns social impact. If others use the social entrepreneur's idea, then they are scaling the social impact, even if the entrepreneur has no control or legal relationship to them. That means nonprofits have an advantage over businesses: they can achieve scale in more ways than just through organizational growth.

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Take microfinance as an example. By the 1970's, international development organizations had a decades-long record of failure attempting to assist poor populations in developing countries through traditional loan techniques. Then two new organizations, Accion in Latin America and Grameen Bank in Bangladesh, developed a radically different way of lending to the poor. Their innovative methodologies, now known as microfinance, enabled destitute families to earn a living, provided attractive financial returns to investors, and had a 97% repayment rate.

Both organizations have been successful in achieving scale in their own right: Accion's annual operating budget is $12 million and Grameen's is $30 million. But the scale of their idea has far eclipsed both of its originators, with several thousand microfinance lending institutions around the world serving 41.6 million households and supporting over 200 million individual family members. Nearly all of these lending institutions are unrelated to the originators, but all employ the approach that they invented.

Achieving social impact by spreading an idea hardly seems like an original concept. Replication has been the holy grail of philanthropy for decades. Foundations often fund a small pilot project in the hopes of demonstrate its efficacy so that others will replicate it around the world, infinitely leveraging the impact of the initial grant. Of course this almost never happens. Ideas don't spread themselves and people often resist change even when it would be beneficial. Most foundations tend to move on to the next new project after funding the pilot and its evaluation, leaving the idea to wither. Those few foundations that have successfully replicated a program have often had to launch a major campaign, dedicating large amounts of money, personal leadership and years of effort to spreading its adoption.

One lesson to be learned is that neither growing an organization nor spreading an idea is easy. Both require a degree of financial, organizational and managerial commitment that goes far beyond the usual resources of nonprofits, or the traditional approaches to foundation grantmaking. The business metaphor has correctly identified that one-year $50-100,000 grants, weekend-retreat strategy, and a penurious approach to management do not adequately support growth. Conversely, first-rate management, data-driven strategies and multi-year infusions of million dollar grants can deliver dazzling rates of expansion, often with better outcomes and lower costs per client.

The same lesson applies to other ways of scaling social impact. Given persistent and substantial funding, well-researched strategies, and bold leadership toward clearly-defined goals, there are many paths to broad impact.

Targeted communications campaigns, educational programs, conferences, advocacy, publications, websites, even advertising can scale social impact without scaling nonprofit organizations themselves. The California Wellness Foundation's decade-long Violence Prevention Initiative combined research, public policy advocacy, leadership development and community mobilization to achieve significant progress in gun control legislation and reductions in youth violence. The Robert Wood Johnson Foundation mounted a campaign to increase state taxes on cigarettes, driven by research that demonstrated a 10-percent increase in the price of cigarettes reduces teenage smoking by 7-percent — and 38 states have raised taxes since the campaign began. The Pew Research Center has conducted polls that are regularly cited by the media and influence the national public debate–achieving significant social impact with only a dozen staff members.

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Each of these examples has delivered widespread social impact without building the scale of nonprofit organizations. On they other hand, they have required many of the same qualities on the part of funders that have characterized success in promoting organizational growth. Perhaps the real lesson is not that the nonprofit sector should imitate business, but that a certain set of practices will yield social change – and those practices have yet to be adequately understood and adopted.

Studying how the nonprofit sector really works is a much slower path than the quick fix of a new metaphor, but will be far more powerful—and it may avoid some traps along the way.

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Clients

FSG's work covers a wide range of issues for community, private and corporate foundation clients around the world:

Private Foundations

FSG is working with the Bill and Melinda Gates Foundation to research the capabilities of global pharmaceutical companies in the commercialization and donation of drugs in developing countries and emerging markets. The Bill and Melinda Gates Foundation supports drug research and development, and successful distribution, to reduce the incidence of specific diseases in the developing world.

Nonprofit Organizations

FSG is working with Management Sciences for Health (MSH), on a strategic review. MSH is a private, nonprofit organization committed to improving the management of and access to health services such as primary health care, child survival, maternal and child health, family planning, and reproductive health.

Community Foundations

FSG is working with the COF Community Foundation Leadership Team to explore new possibilities for collecting and analyzing data about community foundation finances and operations, through the proposed development of a Community Foundation Center for Financial Insights.

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