WHAT'S YOUR END-GAME?

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January 30, 2014

WHAT'S YOUR END-GAME?

Most of the nonprofit organizations celebrated by leading foundations are not reaching the minimum scale required to catalyze change. Given structural barriers to the funding that helps them grow, it's time for nonprofits to ask a more nuanced set of questions than "How Do You Scale?" – including, "How Do You Reach a Minimum Scale?" and an even more fundamental question: "What's Your End-Game?" Nonprofits can better define scale by accounting not just for the impact they hope to achieve, but for the ultimate sector change each organization aims to create. An End-Game is the specific role a nonprofit plays in the overall solution after it has proven its initial concept.

We believe that there are six End-Games for nonprofits to consider – and only one of them involves continuing and sustaining the organization's original services. Nonprofits should pursue one of these six time-bound End-Games, each of which has a clear impact goal. Grouping nonprofits into these End-Game categories is the next era of determining impact in the nonprofit sector. Nonprofit leaders need to define their End-Game early, and funders need to adjust their practices to help them get there.

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ABOUT THE GLOBAL DEVELOPMENT INCUBATOR

The Global Development Incubator supports innovative organizations and initiatives that have the opportunity to create large-scale social change. GDI's Initiative Incubator supports the development, piloting and scaling-up of innovative social impact initiatives, while its Social Enterprise Accelerator aims to increase the scale, reach and impact of social purpose organizations (whether for-profit or nonprofit). Both programs draw on a unique set of advisors and service providers to help us support the initiatives and social enterprises.

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Section I: The Elusive Quest for Scale in the Social Sector

A conference on "managing large-scale organizations" in the United States would have over 225 for-profit CEOs for every one nonprofit CEO in attendance.

It is widely noted that between 1970 and 2003, 46,136 for-profit businesses surpassed $50 million in annual revenue in the US, while only 144 nonprofits did so. Between 1975 and 2008, 201 nonprofits surpassed $50 million, with average annual funding of $155 million each.[1] In a world where more than half of registered nonprofits have less than $100,000 in annual funding and only 7% have funding of $1 million or higher, this select group of high-achievers clearly distinguishes itself.[2]

Despite these success stories, the fact remains that very few nonprofits are reaching scale, as defined by funding – or at least a scale commensurate with the scope of the societal challenges nonprofits collectively seek to address. Yet, the last decade has witnessed a re-birth of the nonprofit movement, particularly with the promise of revenue-generating models. Are these new-era nonprofits and their funders helping to address the disparity between the number of large-scale for-profit companies and large-scale nonprofits? It may be too early to tell, as growth takes time. Early evidence shows an encouraging view for those nonprofits supported by leading funders, but nonprofit-led change has not reached large-scale social impact.

To analyze the elusive quest for scale, we looked at 142 nonprofits supported by the leading grant providers and funders in the US and selected the 41 nonprofits founded between 2000 and 2007.[3] These organizations have had at least five years to grow, but are not so mature as to be selected for their extensive track record and previous growth.

The 41 nonprofits, 39 of which had readily available data, had achieved varying levels of financial scale by 2012: 69% reached $2 million, 38% reached $5 million, and 21% reached $10 million (see Figure 1). The average size of those over $10 million was $23 million, and the largest was over $35 million. Interestingly, there was very little correlation between an organization's number of years in operation and maximum annual revenue since founding,[4] suggesting that time-to-grow was less of a factor in whether or not an organization had broken scale barriers than commonly thought.

Our data shows that the leading funders are successfully helping their portfolio of nonprofits reach the $2 million budget mark. While we'd all like to see more organizations reach the $5 and $10 million level, the ratios in these portfolios are generally consistent with seed-stage investment portfolios in

Figure 1: Maximum annual budget levels for leading nonprofit organizations founded 2000-2007
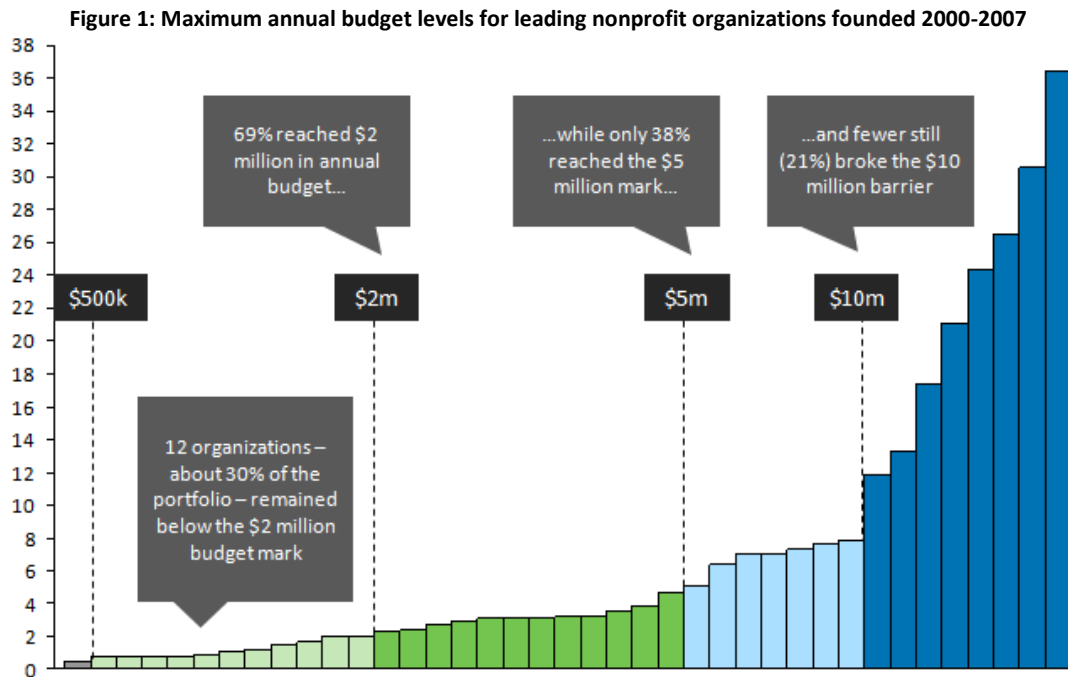
Note: This graphic is based on the 39 nonprofits in the Skoll, Draper Kaplan Richards, Mulago and/or Big Bang portfolios that were founded in the years 2000-2007 and had available data on annual funding over an initial five-year growth path. The figures included here represent the maximum annual funding that each organization achieved since its founding.

the for-profit community. But if we assume that these organizations are likely some of the most promising and celebrated in the last decade of the nonprofit movement, they also represent the top echelon of performance, and likely scale.

From that perspective of volume, we have helped only eight nonprofits founded in the new millennium reach large scale.

Scaling Impact: It Goes Beyond Funding

Of course, scale of funding certainly does not equal scale of impact. It's important for us to remember that a nonprofit's goal is not to infinitely increase budgets, or in many cases, reach. A myriad of high-impact nonprofits work tirelessly with small groups and make a deep impact in a focused and sustainable way. The founders of these smaller initiatives, such as **the Reciprocity Foundation**, which works with homeless youth in New York City, believe that if an organizations attempts to scale, it might dilute its impact and reduce sustainability. Their approach is centered on the belief that touching the lives of 75 youth in a profound, lifelong way is more meaningful than working with 1,000 in a superficial way.

Nevertheless, the enormity of societal challenges pushes us to constantly ask: How can successful organizations drive their models to greater and greater heights? For example, could the Reciprocity Foundation bottle their magic formula and franchise their efforts? The additional 22,625 homeless children

in NYC and hundreds of thousands more around the world could stand to benefit significantly from this type of program. This dilemma also makes us ask, how can nonprofits that call for moderate (and reasonable) annual growth scratch the surface of a societal problem whose reach is growing exponentially?

Various advisory firms such as the Bridgespan Group and Arabella Advisors[5] are conducting studies on how nonprofits can leverage advocacy, partnerships, replication, networks, and other approaches to make a dent in the enormity of the **challenges the social sector faces**.

In our own research and advisory work, we have come across prime examples of nonprofits working effectively towards scaling impact, including **Root Capital** and **mothers2mothers**. These two organizations define their impact by how they are meeting the total addressable challenge in their particular area (see call-out boxes for more on these approaches).

Based on these nonprofits and others, we have found that a minimum scale is required to catalyze large-scale social change, even if growth is not always core to a nonprofit's impact strategy. Without a minimum scale of funding and the opportunity to invest in elevated capabilities, Root Capital and mothers2mothers would not have been able to prove their models, access commercial or government funding sources, or catalyze other approaches to achieve their mission.

CASE STUDY: Root Capital

Root Capital, a leading impact-first[6] lender to smallholder farmers, had an average outstanding loan portfolio of approximately $70 million in 2013 (and cumulative loan disbursements of $574 million to-date). The addressable global demand for smallholder financing is $20-40 billion (and total estimated financing need at $450 billion).[7] To reach roughly 10% of the lowest estimate of addressable demand, Root Capital would need to scale its loan portfolio by almost 30 times. Recognizing the need to work with others to achieve its mission, Root Capital is helping catalyze the broader market by serving as a research and development platform to introduce new financial products into the market, encouraging commercial banks to serve the top-end of the market that it has developed, and working with other agricultural lenders to create industry standards and responsible lending practices for other impact-first agricultural lenders. In an attempt to both grow the organization and create new partnerships, Root Capital's founder Willy Foote often says that the organization aims to be "pathologically collaborative (but not suicidally collaborative)."

The Social Capital Chasm

It is difficult to achieve even this minimum level of scale in the nonprofit sector. While many thinkers have written about the multitude of challenges nonprofits face along the way, it is useful to note some of the challenges that distinguish the nonprofit sector from the for-profit sector:

1. **Lack of ownership or equity:** The implications are myriad. There is no deferred compensation structure to allow people to invest their time while the organization is growing. It is difficult to attract talent appropriate for the current stage of the nonprofit, and it is a challenge anticipating necessary human capital as the organization matures. There are no exit values as incentives for founders to leave the organization in good standing. Furthermore, nonprofits also lack incentives for mergers or acquisitions since most of the value would accrue to shareholders (of which there are none) at the expense of the senior management teams (which would need to be combined).

2. **Funding not aligned with product or service success**: As Rich Leimsider from Echoing Green notes, "For most for-profits, the success of a product or service is its ability to drive revenue (or profit). With a traditional business, if you get the 'impact' right (i.e., you make a great iPhone or pair of Nikes) the money flows automatically. In the social sector, you have to win two games simultaneously: a product game (delivering real social impact) and a revenue

game. And since the product users are not always the same people as the revenue providers, that's pretty hard to do."[8]

3. **Penalties for indirect cost and capability development**: Much of the recent focus on supporting smaller nonprofits is driven by increased public scrutiny of the perceived (and sometimes accurate) depiction of large-scale nonprofits as bloated and bureaucratic. The large-scale nonprofits that broke the $50 million annual revenue barrier are occasionally maligned for being inefficient in allocation of resources. A general norm has been established in the social sector in which over 85% of a well-run organization's capital *must* go towards programmatic funding, rather than operations funding, or "overhead." This norm hinders organizational growth, as large-scale impact hinges on investments in structure, processes, and capabilities. Often, funders only want to contribute to direct impact that will happen immediately. Social sector articles have decried this tension as something that destabilizes the sector and slows nonprofit growth.

4. **Grant funding structure that benefits small, focused programs:** Rather than supporting an organization's main mission, funders often prefer to provide grants to specific programs that address a particular issue in a limited period of time. This is especially true within corporate foundations that allocate capital to efforts aligned with their own corporate goals, and not necessarily the broader goals of the nonprofits they fund. For example, the International Institute of Rural Reconstruction can easily acquire grants for solar lights in their schools, but multi-year grants for training teachers and operating their schools are significantly more challenging to secure. Fundraising in this context becomes a scramble to meet annual targets, rather than a thoughtful pursuit of long-term sustainable growth. Although funders' actions are aligned with *their* missions, the trend pushes nonprofits to apply for small, piecemeal grants, taxing their resources and further exacerbating their ability to grow.

These challenges have made it historically difficult for nonprofits to scale. And, we're not sure it will get any easier. Because of these challenges, particularly the lack of ownership and equity, a well-functioning or rational "social capital market" to support nonprofits through their stages of growth does not exist – and may never.

Foundations, which often play the early-stage funder role for nonprofits, have no financial incentive to support an organization through its next stage of growth, and face only mild reputational risk not to support them. While the drive to achieve impact can provide incentive, foundations often don't have the means required to bring their portfolios to scale even if they want to do so. As such, foundations prefer to focus on

investments at the concept stage rather than seeing an organization through to scale.

Foundations are more likely to provide support to nonprofits in their start-up (approximately less than $500,000), proof-of-concept (approximately $500,000 - 2 million) or early scaling stages (approximately $2-5 million), than in the break-out scaling stage (approximately $5-10 million), and typically to only a very limited extent beyond. Foundations were the primary funder for only 2 of the 144 nonprofits above the $50 million barrier between 1970 and 2003.

Of those "high-achieving" nonprofits, one-third were funded primarily through revenue-generating programs and one-third by government.[9] Yet, commercial and government funding is typically not available to nonprofits who have not yet scaled and built robust capabilities. Those sources often require a nonprofit have a budget greater than $5 million – or even larger. (We once had a commercial banker tell us to come back when the nonprofit opportunity we were describing had at least $100 million in funding!).

In the for-profit sector, this gap would typically be addressed through venture capital funding that relies on angel investors to vet promising ventures. In the nonprofit world, we are instead left with a "Social Capital Chasm" that stands between nonprofits and the $5 to $10 million budget they need to scale (see Figure 2).

The Social Capital Chasm is even more difficult to overcome because great nonprofit development officers are hard to acquire and retain; they have the largest burn-out and turnover rate of any nonprofit staff. Despite toolkits, how-to books, and crowdfunding platforms, sustainable fundraising remains a significant challenge for nonprofit organizations.

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Figure 2: The Social Capital Chasm across stages of growth and budget level
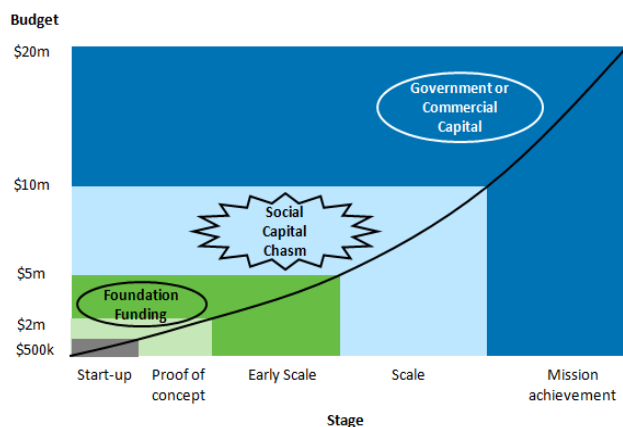
CASE STUDY: mothers2mothers

mothers2mothers (m2m) is a leading health program that uses mentor mothers to provide education, psychosocial support, and referrals to prevent mother-to-child transmission of HIV. At its largest, m2m operated 800 direct implementation sites to reach approximately 15% of the 1.2 million HIV+ pregnant women in the world. m2m shifted strategy upon realizing it would need to scale almost 7 times to a budget over $120 million and work across 20 countries to reach all HIV+ pregnant women. m2m is now striving to reach all HIV+ pregnant women in the world not by serving them directly, but by advising governments on the model and helping local NGOs and implementing partners build the capacity to manage the program. Because m2m has demonstrated the efficacy of the mentor mother model, the nonprofit now works to make it part of every HIV health care program, including the UN's Global Plan. m2m still maintains sites for research and training purposes, and in some cases, serves as a local implementer.

The Right Questions to Ask

Where does that leave our social entrepreneurs and their organizations? Without funding to develop the sophistication and capabilities that enable them to access commercial or government funding beyond the foundation community, most of them get stuck with an empty wallet and a whole lot of unrealized potential. Given these structural barriers in the sector and the unlikely prospects for nonprofits to overcome them, it's time to ask a more nuanced set of questions than "How Do You Scale?" including, "How do You Reach a Minimum Scale?" and an even more fundamental question: "What's Your End-Game?"

Section II: What's Your End-Game?

A nonprofit is typically founded by a passionate entrepreneur who believes in making an impact on a particular social issue. These ideas begin to take structure through the creation of Mission and Vision statements. Next, the entrepreneur and the team might create an Intended Impact statement and a supporting Theory of Change. Along with other traditional for-profit tools – from strategic plans to impact metrics – these statements are signs of a well-run nonprofit organization (whether they are well-used is the basis for another article!). A move towards a clearly-defined Intended Impact statement has led the nonprofit sector to be significantly more focused and presumably, more effective.

Most Intended Impact statements focus on a scale strategy during a set period of time (e.g., five or ten years), for a certain number of beneficiaries (e.g., 10,000 children), in a particular

location (e.g., Kerala, India) for a particular issue (e.g., vaccination). There is usually an assumption that after that period of time, another Intended Impact statement will be made for the next stage of growth. A lauded example from Harlem Children's Zone includes:

> "Over the next decade, Harlem Children's Zone'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…Harlem Children's Zone's objective will be to equip the greatest possible number of children in the HCZ project to make a successful transition to an independent, healthy adulthood, reflected in demographic and achievement profiles consistent with those in an average middle- class community."

Others, such as Habitat for Humanity, have broader impact statements: "to eliminate poverty housing and homelessness from the world, and to make decent shelter a matter of conscience and action." [10]

We believe that these broader Intended Impact statements are powerful but often miss two crucial elements. First, these statements often **lack a definition of the size of the overall sector problem** and specifically, how the nonprofit intends to make a significant impact on that problem. For example, a revised Intended Impact statement for the Reciprocity Foundation (mentioned above) might read, "There are 22,265 homeless youth in New York City and we intend to work with 0.01% of them. Through the codification of our methods, however, we can start a franchise model that affects 10% of this sector." Consideration of the overall sector challenges appears frequently in nonprofits' strategic plans, but nonprofits typically lack an intentional path towards recognizing their own impact overall. For example, even though a nonprofit has lofty goals, its current reach might be small and future strategic plans might call for budget and growth rates in the typical range of 10-15%. Although the for-profit world might deem this growth rate reasonable, this kind of growth cannot begin to make a dent in a social problem that might require a 5-10x growth rate, whether through the organization directly or through expansion strategies.

Second, and even more importantly, these Intended Impact statements **do not define that specific nonprofit's End-Game.** By End-Game, we refer to what specific role the organization will play in the overall solution after the organization has proved its initial concept. For example, is there a plan to replicate a homeless youth program through a franchise model? Or, is there an approach to get the government to take over and start delivering the services across the city? Through our analysis of nonprofits, we have seen very few nonprofits define their End-Game. Organizations have managed to achieve

strategic clarity about whom they serve and how, yet often overlook their ultimate role in affecting a particular social issue.

So, what is your End-Game? "Continuous growth and ever greater scale" is an easy answer in light of the enormous challenges within the social sector, but often it is not the right answer for nonprofits. We propose that all nonprofits define not only their mission, vision, and five and ten-year intended impact, but also something just as critically important: their End-Game.

The Six End-Games: What's Yours?

To this end, we have developed a framework of six End-Games for a nonprofit to consider – and only one of them is continuing and sustaining the same services. Our recommended options build on previous research on scaling nonprofits from the Bridgespan Group, the Mulago Foundation, and others. For the most part, nonprofits should be seen as time-bound efforts with clear impact goals and a clear End-Game. In this case, a five and ten-year Intended Impact statement becomes a goal along the way towards the ultimate End-Game.

How do nonprofits determine what their End-Game should be? They can begin by thinking about the characteristics of the social problem they address, and the key aspects of the model they use. These factors inform which End-Game a social entrepreneur should pursue, and the capabilities he or she should build as the organization matures. Our framework also outlines a potential future role for the nonprofit to consider as it gets closer to achieving its goal.

Below we provide additional detail on each model and illustrate them with highly-recognizable nonprofit models.

End-Game 1: Open-Source

A nonprofit that chooses an Open-Source End-Game invests in research and development to develop or refine a new idea. Once the idea is developed, the organization invests in disseminating the idea through an open-source approach, or sometimes more energetically through advocacy efforts. A classic and widely cited example of the open-source model is **Alcoholics Anonymous** (AA) – a proven approach to addressing addiction that is open for other nonprofits or religious groups to adopt and implement. After successfully developing the idea, AA now runs a resource center, or knowledge hub, to provide materials and share lessons learned with AA groups that external individuals form on their own. The core competency of these organizations becomes, in essence, highly impactful knowledge management: organizations develop curricula, processes, and channels for sharing, then encourage adoption.

WHAT'S YOUR END GAME?

End-Game	Characteristics	Core Approach	Potential Future Role
Open-Source	Breakthrough *idea* easy for organizations to share, adopt, and integrate	Conduct research and development, and disseminate knowledge	Knowledge hub, an online sharing of curricula, an online platform that supports giving
Replication	Breakthrough *product or model* that is easy for organizations to share, adopt, and deliver	Demonstrate efficacy, define and share a replicable operating and impact model	Certification organization or center of excellence, extensive training, franchise of a particular solution, regular retreats
Government Adoption	Massive coverage potential and ability to be integrated into public programs and organizations	Demonstrate efficacy and deliver results at sufficient scale to make case for adoption	Service provider to government, maintenance of advocacy efforts, regular reports of clearly defined success metrics
Commercial Adoption	Profit-potential that addresses market failure, risk, or uncertainty	Demonstrate profitable and de-risked model	Refocus on harder-to-reach segments and maintain efforts to ensure sufficient commercial delivery
Mission Achievement	Defined and achievable outcomes for eradication of a problem	Maintain focus on targeted intervention	Continue for another sector only if unique asset or capability has relevancy, and re-assess size and funding requirements given new issue
Sustained Service	Strong organization filling gap in commercial or public service and able to sustain funding	Create cost-effective model, continue with efficiency improvements, and build a strong organization	Continued service

End-Game 2: Replication

Nonprofits with a Replication End-Game are replicating their product or model, but not their organization. The organization needs to demonstrate the efficacy of its approach, but also recognize that other organizations could deliver the program. In some cases, other organizations may be able to use the original organization's approach as effectively, or even more effectively, if they have a stronger existing infrastructure, or greater community trust and legitimacy to deliver the program in a certain location. Charter school networks are a great example of the replication model. In addition to potentially disrupting or creating some level of competition in the school system, charter schools test new pedagogies, curricula, and other approaches to improving student achievement and development. But, high-quality, child-centered education typically requires a deep knowledge, understanding, and familiarity of the local community. Successful charter schools, such as **Harlem Success Academy** in New York City and **North Star Academy** in Newark, New Jersey have proven their approaches and set up replication centers for other communities to adopt.

With others successfully replicating the product or model, the original nonprofit with a Replication End-Game could become either a certification body maintaining the quality of the program or serve as a center of excellence to demonstrate to potential replicators what works best. In some replication cases, the nonprofit founder has no interest in or connections to support working with other populations or locations, but others have approached him or her to start a similar organization elsewhere.

In fact, the Reciprocity Foundation, quoted at the beginning of this article, has added a new set of replication approaches that have been very successful. Rather than growing its base organization, Reciprocity has partnered with large social service agencies to train *their* staff, deliver programming at *their* sites, and cultivate new ideas within their more traditional homeless youth-serving agencies. As the founder notes, "It's a way of covertly scaling – growing our impact without actually having to add staff, funding, or additional office space." Scaling via partnership also enables the Reciprocity Foundation to broaden its impact and deliver high-level outcomes that benefit the sector as a whole.

End-Game 3: Government Adoption

Government Adoption is the third possible End-Game. For many – if not most – global problems, the scale of delivery required to address them ultimately requires that government play a key role. And the problems don't need to be global for the scope to become that large. In a **2009 *New Yorker* article**, former New York City Mayor Michael Bloomberg relates that he was once approached with a well-meaning but uninformed proposal to improve public education: "They were going to raise a billion dollars to *fix* public education. When I told him our annual budget's 20 billion…," he said.

The US adoption of universal kindergarten at the turn of the 20th century provides a good case-in-point of how this approach works. Private charities, orphanages, and parochial schools ran the first kindergartens in the US. After boards of education started recognizing the developmental benefits of early education for young children, they began folding kindergartens into existing public school systems. By World War I, the major American urban school systems all included kindergarten, and public school students outnumbered private school students by almost 19 to 1.[11]

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For nonprofits, the government adoption model requires proving the concept, demonstrating it can be delivered at some level of scale, and mobilizing significant advocacy efforts to influence policies and budgets. Nonprofits can play an ongoing role by serving as a service provider to the government.

End-Game 4: Commercial Adoption

The nonprofit with a Commercial Adoption End-Game aims to address a market failure or, often, a market inefficiency such as uncertainty or lack of information. Sometimes, a nonprofit organization with a social mission (and grant funding) can solve problems of production or delivery that are at first prohibitively

high in start-up costs for commercial interests. Recently, universities, engineers, and design shops have pushed to create and test product or service prototypes that will ultimately be adopted by a commercial venture. In all of these cases, there needs to be a revenue-generating component somewhere in the nonprofit model that might ultimately be picked up by a commercial provider on a profitable basis after the risk – real or perceived – is reduced.

Microfinance provides a good example. The early pioneers such as Grameen and BRAC proved that the poor were bankable and could be served profitably because they had low default rates. Commercial banks have now moved in to serve the higher end of the microfinance pioneers' original market. Nonprofits have continued to serve the harder-to-reach segments and prepare borrowers for the broader market. They also continue to conduct "research and development" of new products and the demonstration of profitable models. Finally, the nonprofits also play a role in ensuring the quality of service provided by the commercial market remains high.

Another possibility for commercial adoption is for the nonprofit itself to incorporate a revenue-generating component that ultimately results in all or most funding coming from earned income. Over the last five to seven years, we have seen a large shift in the sector towards market-based, revenue-driven solutions. With the pioneering efforts of Ashoka, and the more recent entry of Endeavor and the impact investing movement, the definition of social entrepreneurship is continuously evolving. What is clear, however, is that more grant criteria include revenue requirements. The Global Alliance for Clean Cookstoves' Spark Fund, for example, requires a path towards "demonstrating how the business will achieve sustainable growth over the long term." Sometimes, this quest for commercial viability is driven by the nonprofit founders themselves, as in the case of **Riders for Health**, an organization that aims to double its impact while continuing to move towards a fully sustainable revenue driven model.

End-Game 5: Mission Achievement

A nonprofit using the Mission Achievement model has a defined and achievable goal, in both outcome and geography. Nonprofit organizations that focus on disease eradication, such as polio globally or malaria in a region, are good examples. In the mission achievement model, a nonprofit's singularity of purpose should align strategy and activities. If the nonprofit achieves its goal, it should wind down. Often, though, nonprofits in this category drift to a focus on keeping the organization alive, rather than on achieving their missions.

One example of the mission achievement model is **End7**, a nonprofit on a mission to see the eradication of seven neglected tropical diseases by 2020. The organization's End-Game is clearly defined in the mission of the organization.

Organizations in this category should only continue beyond their mission if they feel they can deploy a truly unique asset or capability for social purpose elsewhere. The March of Dimes, for example, was originally founded by Franklin Roosevelt to fight polio in the US through funding a patient aid program and vaccine research. Once Jonas Salk and Albert Sabin developed vaccines that effectively ended the polio epidemic in the US, the organization redeployed its unique assets – an extensive grassroots network and a trusted brand – to focus on preventing birth defects and infant mortality.

End-Game 6: Sustained Service

Sustained Service seems to be the default End-Game for most nonprofits – though it is not always the right one. The Sustained Service model makes sense when nonprofits are satisfying a public need that the commercial or public sectors will not fill.

The board and management of a nonprofit must determine when there is a gap in commercial or public service provision to justify sustaining services, and it can be challenging to do so. For commercial adoption, the organization can test whether the risk-return profile of the product or service meets the needs of a for-profit company, investor or commercial bank. For public sector adoption, we distinguish here between "will not" and "cannot" fill, the former being a reasoned judgment that, a public service gap will be left for the nonprofit sector to fill; whereas the latter means that the public sector currently does not have the capacity to fill it.

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Whether a government "cannot" fill a public service gap is a matter of judgment. Unfortunately, many nonprofits working in developing countries or, for that matter, in inner cities in the US, take the default position that low government capacity and political will are reasons to never work with, nor build the capacity for, the government to ultimately deliver those services. It is a lost opportunity, and in many cases, misguided. Often, donors or foundations alone will never be able to address the country's needs.

Nonprofit hospitals in the US are a good example of the Sustained Service End-Game done right. They fill a gap in our healthcare system – particularly around equity and quality of

service – that is unlikely to be filled by the government or private sector. Funding is sustained by a combination of revenue generation (in many cases, from federal and state reimbursement of services) and philanthropic contributions engendered by strong local community ties. The orientation towards customer and community service have helped drive accountability at local nonprofit hospitals, and in many cases, spurred the improvements needed to maintain high-performing organizations.

Efficiency is a key component of all nonprofits, but it is extremely important for those with Sustained Service End-Games. They must continuously strive to create greater impact using the same, or fewer, resources. For that reason, it is critical that nonprofits that are sustaining services develop world-class organizations and leadership.

Achieving Impact through Your End-Game

Whether a nonprofit likes it or not, it is likely to be most effective if it pursues an End-Game centered on creating a movement through open-source or replication, or working to get government or commercial adoption. Neither is easy. Creating a movement implies being "pathologically collaborative," which is hard for an organization trying to sustain itself, its employees, and its existence. Government or commercial adoption often means working with large bureaucracies, or feeling like you are selling out to the corporate sector. As a nonprofit achieves its goals, however, it can pursue opportunities for ongoing impact through other means, such as participating in training and evaluation of government or commercially-run programs.

In the end, if a nonprofit's true goal is impact, it will define an End-Game as early as possible and intentionally pursue it.

Section III: Guidance for Nonprofits and Foundations

…Death is the destination we all share. No one has ever escaped it. And that is as it should be, because Death is very likely the single best invention of Life. It is Life's change agent. It clears out the old to make way for the new.
> – Steve Jobs in his commencement address at Stanford University; June 12, 2005

Much like our own lives, a nonprofit's purpose and direction should come from its inevitable death. We believe that a minimum level of scale – and the resulting capability development it should help fund – is essential for nonprofits to fulfill their goals and tap government or commercial funding. But scale in and of itself is not the reason for a nonprofit's existence.

Each of the six End-Game options outlined above comes with a defined lifecycle and budget trajectory from start-up, proof-of-concept, and scale, to steady-state and, ultimately, exit. After a proof-of-concept and a minimum level of scale are achieved, budgets should shift depending on which End-Game a nonprofit pursues – and only in the Sustained Service model would budgets continue to increase.

In the other End-Games, the role of the nonprofit shifts over time. In the case of Mission Achievement, Replication, or Open Source, as a nonprofit declares "success" and winds down, becomes a center of excellence, or manages a knowledge hub, funding would drop significantly. For government or commercial adoption, a range of budget trajectories may occur depending on the niche of the segment served and whether the organization has a role in service provision for the government.

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Figure 3: Budget implications of each End-Game
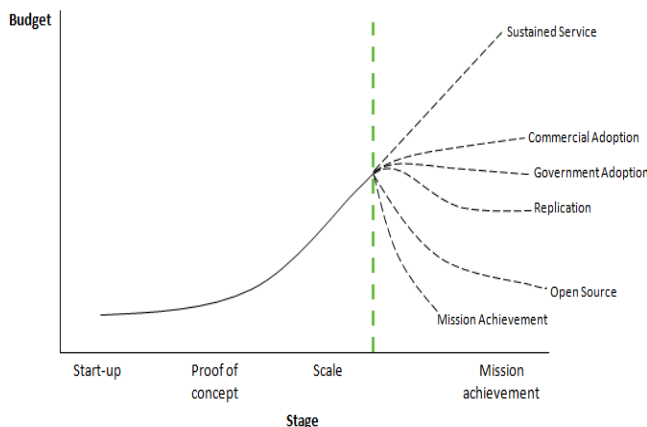
Nonprofits need to better define scale by accounting not just for the impact they hope to achieve, but for the ultimate sector change they aim to create. Scale in this context takes on a new meaning. For some organizations, achieving scale in impact will involve slowing budget growth and transferring capabilities and services to other providers.

If nonprofits defined their End-Games earlier, we expect they would make better use of resources in the early stages of growth. As a result, nonprofits' budget trajectories might not go as steep up the scaled budget curve, but rather would follow the End-Game curves above, which level out or decrease. Grouping nonprofits in these End-Game categories is the next era of determining impact in the nonprofit sector.

Given this research, nonprofits and funders each have three imperatives moving forward:

Imperatives for Nonprofits

1. **Define your End-Game early:** End-Games are not necessarily mutually exclusive, nor are they always immediately evident as social entrepreneurs take hold of their initial idea and inspiration. But careful, considered, and deliberate reflection on a nonprofit's End-Game will help set the organization on a path to maximum impact, and prevent it from focusing singularly on organizational growth. Nonprofits should make clear to funders, beneficiaries, and supporters what category they fall into, and under what circumstances their organization should dissolve, merge, handover, or change scope. The new "normal" for nonprofits should include Mission, Intended Impact, and End-Game statements. End-Game objectives can also strongly influence a nonprofit's theory of change.

2. **Build your core impact approach and capabilities:** With a defined End-Game, nonprofits can spend more time on the core activities required to best advance their mission and achieve impact. For some organizations this may mean being, as noted previously, 'pathologically collaborative' about knowledge dissemination. For others, it may mean building strong relationships and partnership capabilities with commercial banks. This focus allows organizations to make seemingly difficult decisions more readily. For example, if the ultimate goal is to transition to a local organization or to build local capacity, direct implementation or cheaper external sourcing would not be a nonprofit's best decision, even though it might expand the organization's reach in the short term.

3. **Develop a culture focused on the transition:** Nonprofit leaders are not just stewards of their mission, but also stewards of the many talented and passionate people who join their organization. Both stewardship roles are important. However, a nonprofit organization's purpose is, first and foremost, to achieve a public goal. Nonprofit leaders will need to focus their team on the likely inevitable reduction in budget and staff as the organization nears mission achievement. The sense of purpose will motivate staff while they are working at the organization, and they will be able to deploy their skills at other nonprofits after mission achievement.

Imperatives for Funders

1. **Fill the Social Capital Chasm:** As noted, scale does not necessarily mean impact. But nonprofits need a minimum level of funding and the resulting capabilities it develops. We believe there is a gap between the early foundation funding and the point at which nonprofits can access commercial or government funding. In the current situation, nonprofits are pushed off the shore in their canoes without a paddle, and then we are surprised when

most of them get stuck in the middle of the lake with no way to move forward. Funders can help them get to the other side, by anticipating and filling the Social Capital Chasm and working with nonprofits towards sustainable funding and growth strategies.

2. **Support specific nonprofits through to their End-Game:** If foundations understand that the "social capital market" is not rational and the Social Capital Chasm will threaten the true potential of nonprofits, they should support them through to their End-Games. Foundations should change their measurement of success from celebrating many nonprofits to helping the most promising few achieve large-scale social change and their ultimate End-Game. Funders should work explicitly with each of their nonprofits to ask, "What's Your End-Game?" as part of the grant-making process. With an understanding of the End-Game, funders can better recognize when nonprofit grantees should transition towards commercialization, replication, or improved sustained service.

3. **Shift the discussion from organizational growth to catalytic impact:** Funders should consider the total impact on a sector as they evaluate their grantees. This concept is nothing new, but many funders emphasize that nonprofits must view their growth in terms of scale, replication, and reach. Funders traditionally account for impact that is direct (e.g. healthcare delivery to beneficiaries) and indirect (lower infant mortality, greater economic gains). The next-era of funders would be wise to consider the catalytic impact that each nonprofit can achieve through transitioning programs to government or commercial entities, or becoming knowledge hubs or operating model pioneers. Funders should further base their grants on what is mission achievement rather than piecemeal questions of "what budget do you need for a particular program?" Some funders have started to do this. The Skoll Foundation, for example, has repositioned its portfolio within targeted sectors (e.g., education and economic opportunity, water and sanitation) and provides catalytic grants devoted to nonprofits that can remake sectors.

Conclusion

Perhaps at no time in history have the social innovator, the social disrupter, and the social entrepreneur held so much potential. The next-generation purpose-driven professionals are here, equipped with technology for the development of new business models, big data to identify new opportunities, and social media to mobilize action. Recognizing the inherent structural challenges of the nonprofit sector – that there is no ownership or equity, and no rational "social capital market" – it is imperative that social sector organization leaders and funders start a dialogue about the End-Game to achieve the true promise of social sector work.

Notes

[1] "Why More Nonprofits are Getting Bigger," Stanford Social Innovation Review, Spring 2012.

[2] Dalberg Analysis of Internal Revenue Service, Exempt Organizations Business Master File (2013, Oct) The Urban Institute, National Center for Charitable Statistics, http://nccsdataweb.urban.org/. Based on nonprofits filing Form 990s within 24 months of the 2013, Oct BMF release date.

[3] The consolidated portfolio was assembled by combining the individual portfolios of the following leading nonprofit funders: Big Bang Philanthropies, Draper Richards Kaplan, Mulago Foundation, and the Skoll Foundation. Data was assembled by 990s, annual reports, and direct communications with the organizations.

[4] Correlation between 42 nonprofits' number of years in operation and maximum annual revenue was .22.

[5] The Bridgespan Group brainstorming event Tuesday November 19th and follow-up emails; Arabella newsletters.

[6] According to Aleem Waldji on the World Bank blog: "There is no clear definition of an impact investor. The industry brings together those who are primarily driven by a financial bottom line (finance first) with those who are seeking to optimize a social return without making a loss (impact first), and finally grant makers who are aiming to improve the efficiency of philanthropic capital (largely foundations)." http://blogs.worldbank.org/dmblog/the-missing-middle-and-the-growth-of-social-enterprises

[7] "Catalyzing Smallholder Agricultural Finance," Dalberg Global Development Advisors, 2012.

[8] Email exchange with Rich Leimsider, Vice President of Fellowship Programs, Echoing Green; January 19, 2014.

[9] "How Nonprofits Get Really Big," Stanford Social Innovation Review, Spring 2007.

[10] "Zeroing in on Impact," Stanford Social Innovation Review, Fall 2004.

[11] "Kindergarten in the United States," Ellen Berg, 2008. Available at: http://www.faqs.org/childhood/Ke-Me/Kindergarten.html

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About the Global Development Incubator

The **Global Development Incubator** supports innovative organizations and initiatives that have the opportunity to create large-scale social change. GDI's Initiative Incubator supports the development, piloting, and scaling-up of innovative social impact initiatives, while its Social Enterprise Accelerator aims to increase the scale, reach and impact of social purpose organizations (whether for-profit or nonprofit). Both programs draw on a unique set of advisors and service providers to help us support the initiatives and social enterprises.

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