Leadership Insights: Scaling for Transformative Impact

By Shamal Dass
Head of Philanthropic Services

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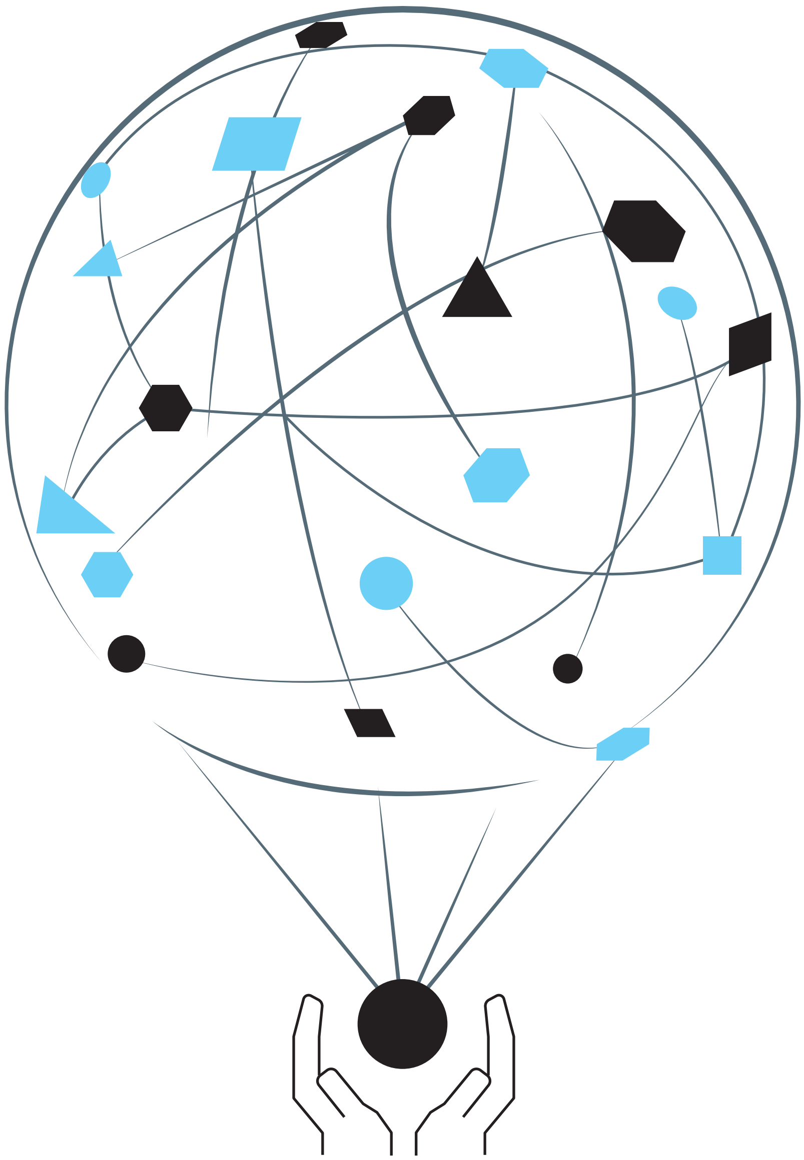
JBWere



> Leadership is not about a title or a designation. It's about impact, influence and inspiration. Impact involves getting results.[1]

We are lucky you and I. We are lucky because we serve in leadership positions in purpose-driven organisations and thus have the opportunity to have an impact on things that matter to us – things that are important for the broader community and society. But the price of this opportunity is that we must honestly and continuously ask ourselves – are we having the right impact?

Because impact is what matters at the end of each day – the activity undertaken and the outputs delivered are irrelevant if they do not create lasting impact for our beneficiaries – it is simply wasted money, time and energy. In our many conversations and strategic consultations with clients throughout the last 12-18 months, it has become clear that the delivery of impact is starting to take its rightful place at the top of the agenda for non-profit boards and executives. To make the most of the opportunity we all have in front of us, we should always remember that whilst many use it as a noun, impact is in fact a verb – it is a 'doing' word.

This paper will recap the current non-profit landscape, build a case for scaling around impact and provide a framework for Boards to think about their own organisation and the options available to them. And importantly, we will also explore the critical role of the funder in delivering maximum impact.

The current landscape

In March last year, JBWere launched the Cause Report – an in-depth analysis of the long term trends in growth and funding of the for-purpose sector in Australia; providing a snapshot of how each sub-sector, and the sector as a whole, looks today. The primary reason we produced this report was because in making strategic decisions, our clients and colleagues – the leaders of for-purpose entities – needed to have a deeper understanding of the facts. In the context of this paper, the two main challenges that became apparent were those of scale and sustainability:

- **Scale** – the sector is very large and has grown significantly both in pure numbers but also in comparison to the economy. It can't however continue to grow quicker than the economy in perpetuity and as such we hope to see some moderation in growth with the emergence of the ACNC, with the onus on the organisations themselves to deliver efficient outcomes and impact.
- **Sustainability** – the underlying issue with the level of growth is its lack of sustainability. Across the sector as a whole, and generally within each sub-sector (e.g. health, social services, arts and culture etc), the vast majority of assets and

Idea in Brief

- The Australian not-for-profit sector, like many internationally, is faced with fundamental issues regarding scale and sustainability.
- Many organisations, regardless of the excellent work they do, are not operating at a sufficient scale to deliver transformative impact.
- Leaders of non-profits, particularly Board Directors, must deeply engage with their organisations and ask the hard questions regarding the real impact it is having – and consider if, and how, the initiatives should be scaled.
- Funders must also thoughtfully consider how they can best support social enterprises through what they actually need, specifically capacity funding, to create true lasting impact at scale.

[1] Robin Sharma – leadership development author and consultant.

income (92% on average) is controlled by a small number of organisations (8%). This means a significant majority of the sector does not have the scale to achieve any real impact. And the real opportunity cost for society is twofold – the lost energy and effort of the individuals involved due to the duplication of effort; and the lack of capacity to scale ideas that might make a real difference.

The 2016 NFP Governance and Performance Study by the Australian Institute of Company Directors (AICD) confirms that financial sustainability is the key issue challenging NFP Directors. As a Treasurer and Director of a relatively young social enterprise, I can certainly understand the focus on sustainability – however, it is interesting to observe that 'clarifying strategic direction' was positioned third on the list of high priorities (28%), with 'responding to changes in the external environment' (40%) and 'diversifying income sources' (30%), both ranked more highly.

This focus on 'financials' and 'changes to the external environment' are important. But what we find lacking in the multitude of discussions with Boards, is mission clarity. Not the big, bold 'light on the hill' mission but rather what Professor Kash Rangan, co-founder of the Social Enterprise Initiative at Harvard Business School, has termed the 'operational mission' – it is the 'by doing what exactly' part of the mission statement which provides the strategic clarity to make clear, coherent and consistent decisions. Mission clarity is critical in ensuring social enterprises deliver quality social outcomes, and as such is a fundamental pillar in a framework for scaling. Before we turn to that however, we will present a case for scaling.

The case for scaling

Firstly, let's define scale and scaling so we have clarity on what we are trying to do. Scale is a mathematical term that refers essentially to the relative size of an object. More importantly for our purposes, scaling is a geometric term, borrowed by the commercial sector, where it most commonly refers to replication of a process, service or product in a new location, with as much conformity to the original as possible. The examples that leap to mind will be McDonald's franchises, IKEA or Apple stores.

In the for-purpose sector, scaling most commonly involves implementing an intervention at new sites, or expanding the capacity of existing sites to serve more beneficiaries or clients (scaling by replication). However, the key difference in the for-purpose sector is that scaling is not about market share, organisational and profit growth, but rather expanding impact – and this opens up many different strategic options and opportunities which will be explored in this paper.

Before we move to the current landscape though, we will look at the other challenge that is often mentioned when discussing the for-purpose sector: innovation. With most organisations faced with finite resources, there is often a challenge to balance scaling and innovation. This choice of investment is further skewed by a growing preponderance of funders (and new social entrepreneurs) obsessing over innovation as the silver bullet for many endemic social issues.

In their recent (and excellent) contribution to the literature, Christian Seelos and Johanna Mair[2], utilise four detailed case studies to present a compelling framework that effectively considers 'innovation and scaling as processes over time', where innovation is an investment and it is scaling that creates impact from innovation (see Figure 1).

Creating Social Impact: Innovation Plus Scaling

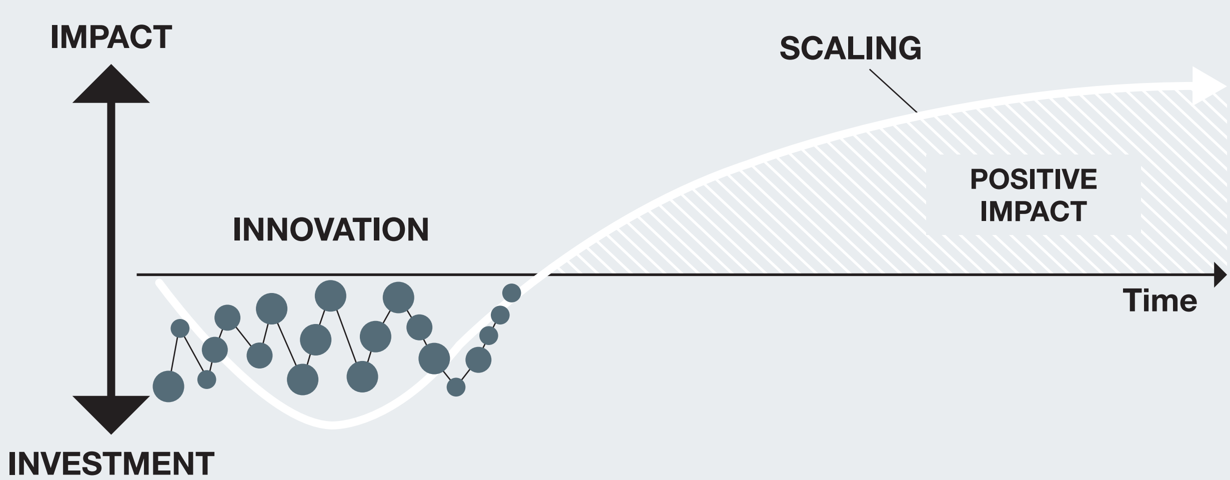


Figure 1: Innovation and Scaling for Impact

[2] *Innovation and Scaling for Impact: How effective Social Enterprises Do It* (2017), Seelos and Mair, Stanford University Press.

Innovation, in and of itself, does not create impact – it creates an asset. It is the 'ability and willingness of the organisation to work hard to standardize, routinize, fine-tune, and constantly improve the new processes, products, services or interventions' that creates impact.

The authors also conclude that most organisations are best served by innovating in their 'green zone', that is, where the organisation has (1) a successful impact creation logic (similar to a proven theory of change); and (2) dynamics by which scaling further strengthens an organisation's impact creation logic. In short, the evidence says that organisations should stick to innovating where they have proven capacity and capability, rather than in significantly new and different areas where they lack knowledge and skill. In this way, the organisation continues to most effectively improve and deliver better outcomes, whilst increasing scale.

A framework for scaling

Mission clarity

In our 'Measurement and Impact' paper (2015) we explored the importance of the aforementioned 'operational' mission – that is, *what is it that your organisation is specifically doing, based on its strengths and resources, to address the problem or issue?* It is this level of clarity that delivers a deep understanding of the scale and scope of your organisation's activities.[3] Only at this point can you measure what counts to ensure you are creating the outcomes and impact that is the reason for your existence.

We start this section with mission clarity because this is what separates your NFP leadership role from any commercial roles you might have. The imperative to deliver shareholder value in the commercial sector, the mission if you will, provides a level of strategic clarity that simply does not exist naturally in the for-purpose sector.

In our roles, we have all witnessed mission creep or mission stretch. Mission creep occurs with the best of intentions and compassion – but ultimately, it is an ineffective use of precious resources and does little to address the underlying issue or create lasting impact in the lives of beneficiaries and clients.

In her book Mission Control,[4] Liana Downey cites three key reasons we see mission creep:

1. Funding – this applies to both large and small organisations. Larger organisations get asked or seek funding to run programs that are associated with the broader mission, whereas small organisations stretch their mission to meet the funder's requirements to secure funding.
2. Starting with the symptom, not the cause – most non-profit organisations come into being to address a situation that the founder feels strongly must be addressed. These organisations continue to grow and address symptoms, but only a few evolve to a size and level of maturity which allows them to address the root cause of the social issue.
3. 'No' is not an option – because most, if not all, in the sector care very deeply, and are driven by compassion and love, making it very difficult to say no. Hence they continue to say yes, leading to program proliferation and inefficiency.

Downey goes on to articulate a seven step approach to gain mission clarity. Scaling is a strategic decision – its success relies completely on mission clarity and clear goal setting. There are multiple strategies to achieve any single goal. When you have the data and you know what works, and what you are exceptional at, then the appropriate strategy becomes much clearer. Thus, the first step to scaling is to ensure your organisation has mission clarity and a clearly articulated purpose.

Scale and scope

Before exploring scaling further it is worth taking a moment to reflect that delivering transformative impact[5] is not just about scaling, but rather it is about the confluence of scale and scope. As part of the annual JBWere Social Leadership Program, Professor Rangan facilitates a full day program which provides insight into achieving transformative impact at scale. In these sessions he captures the available options to deliver transformative impact which are captured in figure 2.

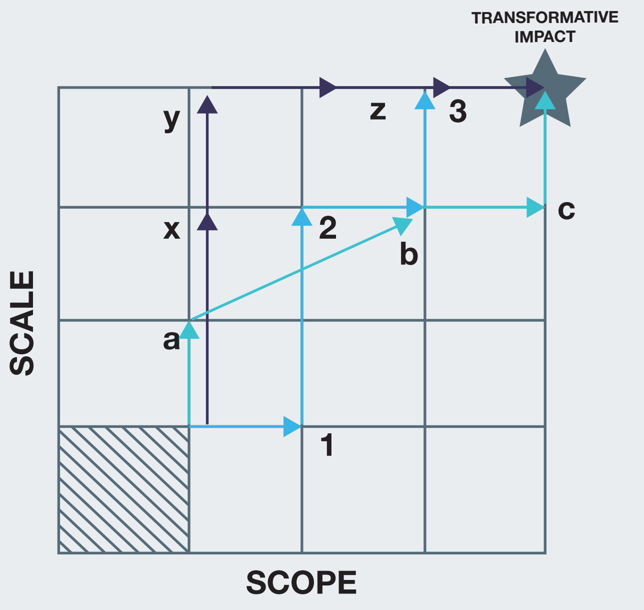


Figure 2: Scale, Scope and Transformative Impact (Professor Kash Rangan, Harvard Business School Social Enterprise Initiative)

[3] By 'scope' we mean range of activities being undertaken by an organisation.

[4] *Mission Control – How nonprofits and Governments can focus, achieve more, and change the world*, Liana Downey (2016)

[5] By 'transformative impact' we mean programs and interventions with proven, lasting and positive long term outcomes for the targeted beneficiary group.

What figure 2 demonstrates is that there are many paths to achieving transformative impact – some which involve expanding scale before scope (x to y to z), others looking to expand scope before scale (1 to 2 to 3) and combinations of both (a to b to c). What is important for a Board however is to have a robust discussion based on the desired purpose considering the strategic choices facing them in terms of scale and scope – effectively they need to ask:

1. **Do we want to do:**
   a. more in the same environment?
   b. replicate the same in more environments? or
   c. undertake complementary activities?
2. **Do we want to do it:**
   a. by ourselves?
   b. with others? or
   c. through others?

The answers to these questions will provide clarity on whether your organisation should scale, and in fact how it should seek to scale – that is, the scaling model your organisation should adopt.

Scaling Models

Successful scaling is difficult. It is not an easy process. It requires a pragmatic and enabling leadership approach, sufficient resources, careful planning and a robust measurement and assessment framework.

First and foremost, you must be convinced that the intervention or program you wish to scale has a robust evidence base that supports a strong theory of change, which links the program inputs to the outcomes. Professor Rangan warns that scaling before you are ready carries significant risk, not just to your organisation but for your beneficiaries. Importantly, your stakeholders, especially funders, need to be committed to the scaling process – ensuring that there is a shared understanding of purpose, sustained commitment and support to ensure the intervention is scaled in an appropriate manner and evaluated for continual improvement.

If scaling is clearly an appropriate strategy for an intervention, then the Board must understand and consider all of the scaling options so they can select the one that suits that organisation. Seelos and Johanna Mair,[6] summarise the various scaling models available for social enterprises (see box: Scaling Models).

Scaling Models

Scaling through productivity increases: ongoing, relatively small improvements in the efficient use of resources and productivity ion the core services being delivered. In effect this is about delivering greater impact from the available resources.

Scaling through adding resources: the scaling of capacity through additional resources, be it staff, additional funds, additional income, or additional infrastructure. This model is ideally combined with productivity increases to generate additional impact at scale.

The addition of resources to unproductive organisations may not create any additional impact. Some organisations have grown to be vast and impressive fundraising organisations, which would be better served applying the same amount of effort into improving productivity, as opposed to merely increasing the size of the organisation.

Scaling through replication: organisations replicate a chosen program for different reasons. Usually this model is driven by expanding operations to a different environment, or sometimes to keep operational units below a certain size for management reasons. Often replication will involve going back to pilot mode to ensure environmental differences are incorporated into the program.

Scaling through knowledge transfer: this is an indirect scaling model, where the organisation with the proven program may not be able to scale by replication itself due to resource scarcity. This approach to scaling relies on engagement with third parties and only creates impact where the adopting organisation can integrate the knowledge efficiently.

An important distinction between the for-profit and for-purpose sector is evident here – *impact is about changes to society, not about your organisation*. For instance, a proven effective way of scaling is allowing your ideas to be copied and adapted to different settings by other organisations (i.e. scaling through knowledge transfer) – just because something needs to be done at a large scale, doesn't mean the same organisation has to do it all!

> "Impact is about changes to society, not about your organisation."

[6] *Innovation and Scaling for Impact: How effective Social Enterprises Do It* (2017), Seelos and Mair, Stanford University Press.

The challenge then lies with the Board to understand all the potential options available – it isn't a stark choice about doing it yourself or merging with another organisation. Figure 3 below articulates the available options in three spheres – collaboration, alliance, and strategic restructuring.[7] As you can see there are multitudes of ways in which your organisation may be able to work with others and utilise your organisations key strengths to deliver a leveraged impact. Of course, such important decisions can only be made once you have clarity of purpose, clarity of strategy and a deep understanding of your own organisation and the broader sector within which you operate.

I will take a quick moment here to note the importance of *evaluation and knowledge sharing* – two things all of us in the for-purpose sector would benefit from.

In addition to evaluating the intervention and measuring the outcomes, the scaling process itself should be evaluated. The evaluation of an implementation process will generally focus on continuous learning and improvement; to inform any necessary adjustments that need to be made. These adjustments are not a sign of failure, because in many cases it might be very difficult to anticipate all the nuances of the new location until you commence the intervention. This evaluation will produce learnings for future scaling strategies and to provide guidance to others in the organisation. This should also be openly utilised as an engagement opportunity with stakeholders and funders – demonstrating the quality of the intervention and your organisation.

Share everything you learn – good, and especially bad, both across your organisation and with those in your sector. Those working in your sector are ultimately trying to achieve the same outcomes and impact that you are – everyone benefits if those organisations that have had the courage and conviction to try and scale, share their challenges, failures and successes.

Now, as I write, I can hear the thoughts going through your mind as a leader in the sector – "that's all good and well, but

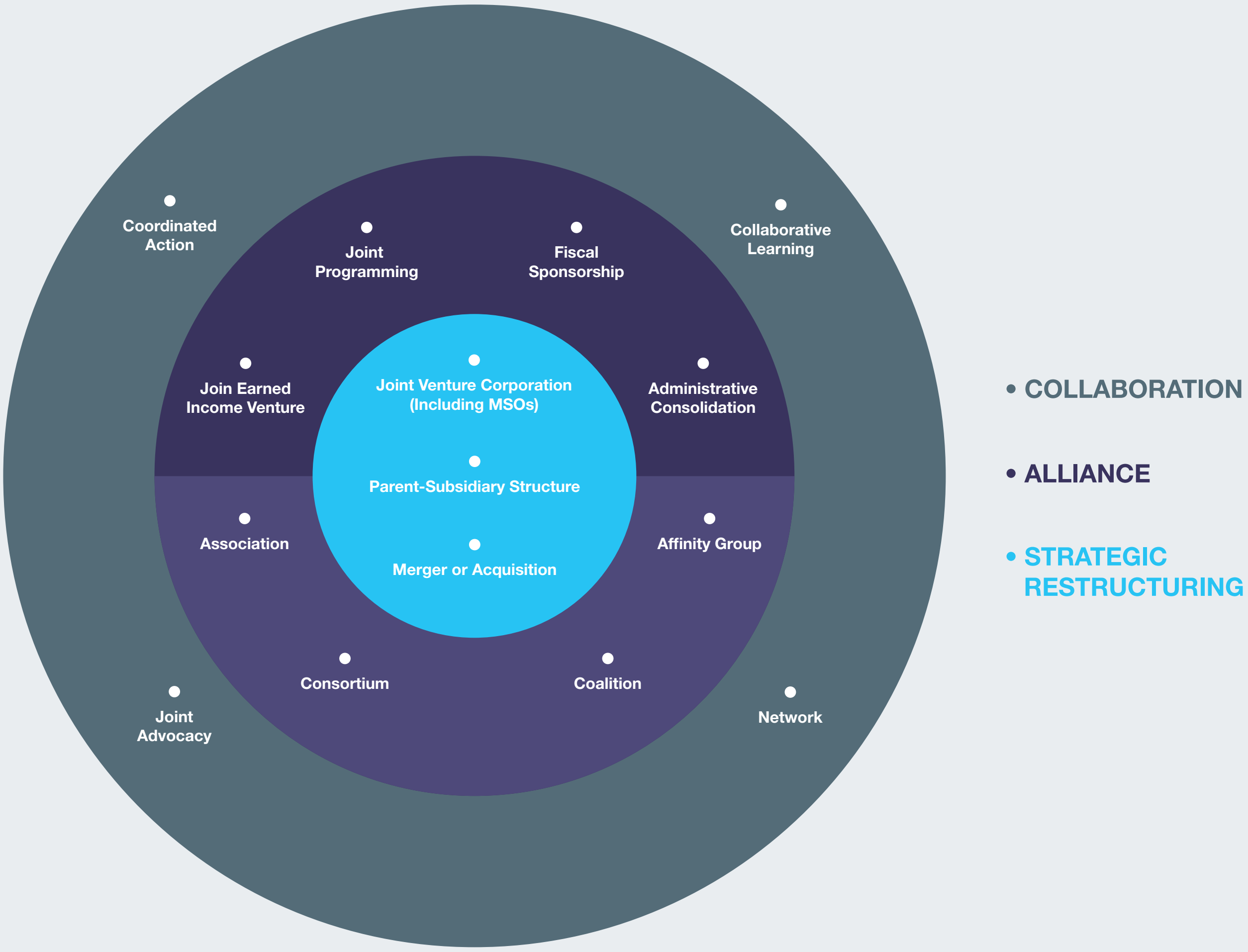


Figure 3: Available partnership options for social enterprises

[7] La Piana Consulting – NFP Merger Conference: Strategy for a Changing Sector (October 2015)

where are we going to get the resources to do all of this?" That is a very important question. There are the rare social enterprises which have a fully self-funding model; although very few of these operate at scale. The majority of for-purpose organisations are beholden significantly, and in some cases completely, to funders – be it government, corporate or private philanthropy. Each takes a different approach and often requires different things from the organisation. Covering the approaches taken by each of these funders, and how it might evolve to support scaling is an entire thesis in and of itself, so in the next section we will concentrate primarily on the role of private philanthropy in delivering transformative impact at scale.

The Funder – what is good for the goose is good for the gander

As always, we turn our gaze to the funder and their framework for achieving impact. If we accept that more can be achieved if for-purpose organisations achieve mission clarity and focus on specific goals and strategies, then quite clearly society is also better served by funders who have clarity on what they are seeking to achieve. Instead of focusing on programs or organisations, funders are best served by thinking about the systemic level impact that is required to address a problem.

Professor Rangan addresses the unique role of the funder to fund multiple organisations. This cluster funding approach (see figure 4) requires the funder to take a helicopter view and commit to delivering multiple interventions of different scope and scale (points 1, 2 and 3) to achieve transformative impact at scale (Star 4 in the figure).

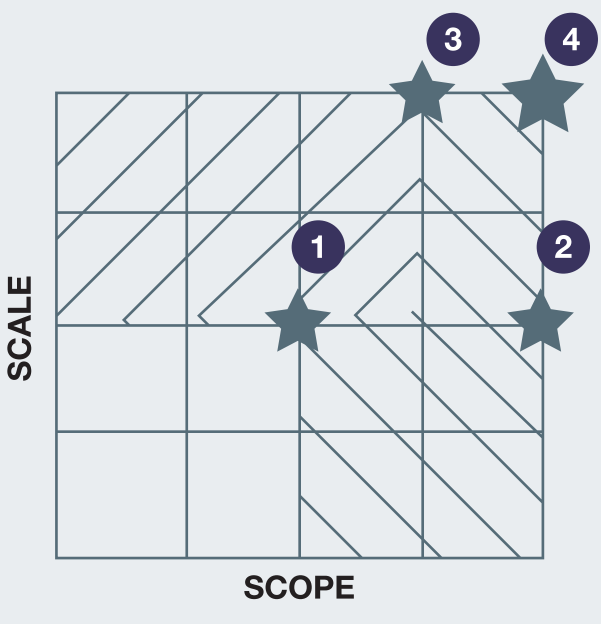


Figure 4: Scale, Scope and Transformative Impact – Role of the Funder (Professor Kash Rangan, Harvard Business School Social Enterprise Initiative)

On reflection this seems quite obvious, because no single organisation can deliver systemic impact on its own.

Generally speaking the above approach can be taken by relatively large funders – that is governments, some corporates, and a handful of private philanthropists who operate at scale. In Australia, Philanthropy effectively makes up 8% of the funding pie. Often, these funds are restricted to specific programs, and many insist on certain levels of 'administration' costs they deem acceptable.

Now, this is not an argument against program funding by philanthropists, however, we feel that on many occasions program funding is not the most effective manner in which philanthropic funds can assist in supporting the chosen cause. The truth of the matter is that the philanthropic dollar is unique when compared to the government or corporate dollar. The philanthropic dollar is the true risk capital of the sector and has the potential to be applied in any manner the philanthropist wishes – it therefore has a flexibility to fund ideas and innovation in a way the other funding can't or won't.

Funding Capacity

So in light of the case presented in this paper, the philanthropist who seeks to move the needle on a particular issue must ask, *"what does the organisation(s) I support need to deliver transformative impact at scale?"* Reflecting on the state of the sector, the lack of progress on major issues over the long term, the deteriorating condition of government budgets and looming funding challenges; we would suggest that all philanthropists must seriously consider funding capacity as a core part of their approach.

In our many conversations across the sector, both with for-purpose organisations and funders, it is clear that there is very little capacity funding taking place. In Australia there are small examples of capacity funding in government (e.g. Brisbane City Council, Victorian Multicultural Commission). Examples of philanthropic organisations that have integrated capacity funding as part of their approach are the Sidney Myer Fund, The Myer Foundation, Tim Fairfax Family Foundation and Vincent Fairfax Family Foundation.

Grantmakers for Effective Organizations (GEO) defines capacity building as 'the funding and technical assistance necessary to help non-profits increase specific capabilities to deliver stronger programs, take risks, build connections, innovate and iterate'.[8] As you will note there is no prescriptive list of 'capabilities' as these will depend on the organisation itself, its maturity, scale, cause area etc. Capacities that may need funding cover a wide spectrum including leadership; mission, vision and strategy development; fundraising; communications; technology; collaboration; and evaluation. Importantly, capacity building is a process, not a transaction.

This approach to funding clearly requires deeper engagement and the development of a more nuanced funding framework. It means that philanthropists need to bring the rigour and

[8] 'Strengthening Non-profit Capacity' (2016) – Grantmakers for Effective Organizations.

discipline to the allocation of their philanthropic investments as they do to every other facet of their lives. It requires funders to engage fully, ask questions and listen to how the organisation they are funding is really doing and where they really need help. This may involve more than money, because often delivering transformative impact at scale requires utilising broad corporate, community and political networks to access those who can influence policy, access different types of funding etc.

Of course such capacity funding conversations require the building of trust, because the organisation needs to also be ready to have open discussions about their areas of weakness – and reveal the things you don't ever see on the marketing collateral!

According to GEO, capacity building strategies that can be employed by funders can be summarised into five broad areas:

1. Unrestricted support: multi-year general operating grants;
2. Organisational capacity-building grants: grant support for building specific capacities, sometimes paired with program or general operating grants;
3. Organisational capacity-building grants plus technical assistance: grants plus funding assistance from consultants (e.g. workshops, peer skills sharing, mentoring).
4. Building collective capacity: grants and other support to build capacity of a field, group of organisations, networks or other collaborative efforts – can be done instead of or in conjunction with individual organisation capacity building; and
5. Grants to technical service providers, intermediaries or researchers to develop knowledge and practice in the field.

What we have sought to highlight here is that whilst there is a significant amount written (rightfully in our opinion) on the true lasting impact of the activity undertaken by for-purpose organisations, there is also an onus on the funder to critically evaluate how they are supporting the organisations, and the sector more broadly, in creating transformative impact at scale.

Conclusion

Whether you work in the for-purpose sector, or fund the sector, what gets us all out of bed in the morning is the drive to have a lasting positive impact for those we seek to serve. What I have tried to articulate in this paper is that we often let ourselves down in the execution. Goodwill and trying to do the right thing are simply not enough. If we are to create transformative impact at scale then we all have to dedicate and apply effectively our time, talent and treasure.

To that end, the challenge for leaders of for-purpose organisations, particularly Board Directors, is to do more than passively watch their organisations meander in mediocrity. It is time to deeply engage and understand your purpose, your organisation, your sector, the data, and the landscape. Then ask yourselves the hard questions about what real impact you are having for all the money, time and effort being expended. And if you conclude that you are not having transformative impact at scale, then you need to think about how you are going to do so – this may not strictly be your fiduciary responsibility, but it is most certainly your moral obligation.

The challenge for funders is to consider what their own role is in creating impact at scale. It is easy for instance to lament the lack of collaboration amongst organisations on a cause area – but how many funders collaborate in funding initiatives? We argue that the philanthropic dollar especially is the true risk capital for the sector – in that it can take risks. Yes, philanthropy can and should fund innovation, but as highlighted above, simply funding innovation without any regard for the funding model for the scaling that will create the actual impact is counterintuitive and ultimately futile. Hence, we conclude that philanthropists need to add capacity funding as a core part of their arsenal if they are to truly partner with for-purpose organisations to create true, lasting transformative impact at scale, for the benefit of all in society.

> "Ask yourselves the hard questions about what real impact you are having for all the money, time and effort being expended."

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