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Way to Grow

Charities use business practices to rapidly expand their programs

By Ben Gose

Harlem Children's Zone, in New York City, works with 10,000 children a year, up from just 1,500 in 1990 — and it plans to grow by another 50 percent in the next four years.

Teach for America has more than tripled the number of teachers it sends to schools in impoverished neighborhoods in the past six years, and it hopes to increase its teaching corps another 50 percent by 2010.

Year Up, an eight-year-old charity that helps low-income young adults gain skills and entry-level professional jobs, seeks to stretch the number of cities it operates in from four to eight by 2011.

The number of charities seeking a rapid expansion in operations — what supporters describe as taking high-achieving charities "to scale" — may herald the beginning of a new era in which relatively young charities turn into household names, much like a century ago, when organizations like the American Red Cross, Boys & Girls Clubs of America, and the NAACP began and started spreading across the nation.

Many charities now are seeking $10-million or more just to cover their growth costs, and more and more donors and foundations are happy to provide the money.

"If you have a good idea that is really solving a social problem and you're doing it efficiently and effectively, you have a moral obligation to figure out how to do it for more people," says Vanessa Kirsch, president of New Profit, a nonprofit "venture philanthropy" organization that provides roughly $2.5-million per year to about two dozen charities.

Venture Philanthropy

The trend first caught on about a decade ago, when a new breed of donors, flush with profits from a bull market in stocks, set out to revolutionize philanthropy by bringing business practices to the nonprofit world.

While some of their ideas disappeared shortly after the popping of the stock-market bubble in 2000, the desire to help charities with proven results spread around the country has continued to increase.

These donors provide growth capital that covers costs like developing new sites and expanding national offices.

"The last several years has seen an increase in the number of philanthropists willing to make big bets to enable an organization to get to the next level, assuming there's an ongoing strategy to support growth," says Jeffrey Bradach, managing partner of the Bridgespan Group, a nonprofit organization that provides strategic-planning advice to charities.

A study by Bridgespan of Internal Revenue Service records found that the number of nonprofit groups with more than one location rose sharply over a 12-year period ending in 2003.

Bridgespan and other consultants have sought to nurture that growth by helping charities develop more-sophisticated strategic plans than were the norm a decade ago.

In part due to recommendations by consultants, fast-growing nonprofit groups like Teach for America, College Summit, New Leaders for New Schools, and Upwardly Global are bolstering their executive ranks, often hiring managers who have experience overseeing major expansions at for-profit companies.

The charities are also establishing guidelines for growth, focused on sustainability, so that they don't immediately leap to a new city when a donor promises a onetime start-up grant.

Struggling to Grow

Yet the results of the nonprofit world's efforts to grow rapidly have been mixed. New Profit, which hopes to help relatively young charities increase their budgets to $20-million per year, found in a study of federal data that very few groups have cleared that bar over the last four decades. Looking at what New Profit calls "systems-changing social-impact organizations" (the study excluded churches, hospitals, and universities), only 24 of 2,100 charities founded since 1970 had reached a budget of $20-million by 2004.

While more donors are banding together to help finance expansion — Teach for America recently raised $60-million in growth capital, including four $10-million donations — such collaboration is moving at a slower pace than some people would like.

Officials at the Edna McConnell Clark Foundation, which focuses on helping youth-development organizations extend their reach, say one obstacle has been finding enough grant recipients that have fully documented their effectiveness and are thus worth expanding. What's more, they say, the process of taking a program to scale has been harder than they anticipated, and is requiring more time and bigger grants.

"We assumed that other investors would more quickly join in to help capitalize highly effective organizations that are making a difference," says Nancy Roob, Clark's president. "While some of that is happening, the rate at which it has happened has been a bit slower, and the capital needs have been a bit bigger, than we expected."

Charities that attempt to grow without a well-developed plan for sustainability may face the worst results. A 2005 report by Bridgespan that looked at growth among organizations that serve young people struck a cautionary tone. Even among the 20 relatively mature organizations in the study — they had been in business an average of 26 years — Bridgespan found that "the need to think about fund raising never lessens, but becomes a greater and greater challenge the larger an organization grows."

Experts agree that charities need to have a more adaptable plan for growth than do for-profit companies, which can count on recurring revenue streams, such as franchise fees. Charities have often had to be more opportunistic, for example, basing their growth plans at least in part on where they have donors who would be willing to cover most of the start-up costs for a new site.

But charity managers should also make sure other conditions exist that would help make the expansion site viable, consultants advise.

The executives at City Year, which provides yearlong service opportunities to young people, have put together a 10-item checklist that must be met — including having the equivalent of roughly four years of private support in the bank — before they will open a site in a new city.

"There's a lot of energy to start things," says Alan Khazei, a co-founder of City Year, who left the charity last year to write a book about national service. "There's not as much energy to sustain things."

Having growth funds on hand before embarking on expansion allows managers to focus on their new sites and programs, rather than on raising money.

Harlem Children's Zone, widely seen as among the most successful of the Clark foundation grantees, received $5.5-million from the fund in 2001 to cover 60 percent of a three-year growth plan, and the charity's board quickly responded to the foundation's challenge that it cover the rest.

"That made a critical difference in the organization's ability to focus on execution," Ms. Roob says. "And that's probably why their results were ahead of schedule."

Harlem Children's Zone has achieved extraordinary growth since Clark made its first grants. It had a $46-million budget in 2006 — up from $6-million in 2000 — and it announced a $100-million capital campaign last fall.

Focus on Goals

Charities that are interested in growing also must decide how they will spread their programs. Those that believe they have a unique culture, such as City Year, often choose to set up branches, in which the founding charity retains complete ownership of the sites in other cities. Such an approach also works well for charities that require frequent collaboration among their chapters. The Nature Conservancy, whose chapters may work on land deals together, relies on tightly controlled branches.

But other charities, including Big Brothers Big Sisters of America and the Boys & Girls Clubs of America, have prospered with a looser affiliate model, in which a new site is locally controlled and organized as a separate organization.

Before buying real estate and hiring employees in new cities, charities should first think about what they're trying to accomplish through their expansion, argues J. Gregory Dees, faculty director of the Center for the Advancement of Social Entrepreneurship at Duke University's business school.

They might consider sharing their program — or their approach to a societal problem — with individuals or existing charities in other cities. Some of the most-successful nonprofit innovations, including community foundations, microfinance organizations, and hospices, have achieved scale largely by letting anyone borrow the idea.

"Social entrepreneurs need to think very carefully about what they're trying to scale," Mr. Dees says. "Does it require a new stand-alone entity? Or are you just trying to spread a set of principles?"

He points to Mothers Against Drunk Driving as an example of a charity that has expanded by aggressively marketing its message and then relying on inspired local advocates to take up the cause. MADD started in 1980 and now has an annual budget of $45-million and 400 chapters.

Kaboom, a charity founded in 1996 that builds community playgrounds, grew rapidly in its first eight years, but its co-founder and chief executive, Darell Hammond, became frustrated a few years ago that the demand for new playgrounds was outstripping the number of projects that his charity could take on.

In 2005, Kaboom received a $5-million grant from the Omidyar Network to create a "how to" platform on its Web site — including fund-raising tips, a vendor rating system, and a community forum — so that parents and others could tap into Kaboom's expertise and build playgrounds on their own.

In the past three years, Kaboom has built 600 playgrounds by itself, but another 2,045 playgrounds have been built by others who used the Kaboom Web site as a guide, according to Mr. Hammond. In the next three years, Kaboom plans to raise nearly $100-million and play a role in the building of 6,300 playgrounds, though it will take a hands-on role with only about 750, or 12 percent, of them.

"A lot of funders were skeptical we could grow by leveraging technology, rather than starting chapters or franchises," Mr. Hammond says. "Now we have proof that it indeed has worked, and we're going to continue with it."

Whatever structure charities use to expand their operations, even those that have achieved strong results in the past will face new challenges as they grow.

"The crucial test will be whether or not these organizations at larger scale continue to produce great results for kids, or the environment, or whatever they're focused on," says Bridgespan's Mr. Bradach. "It's not about scale. It's about scaled results."