The Bridgespan Group
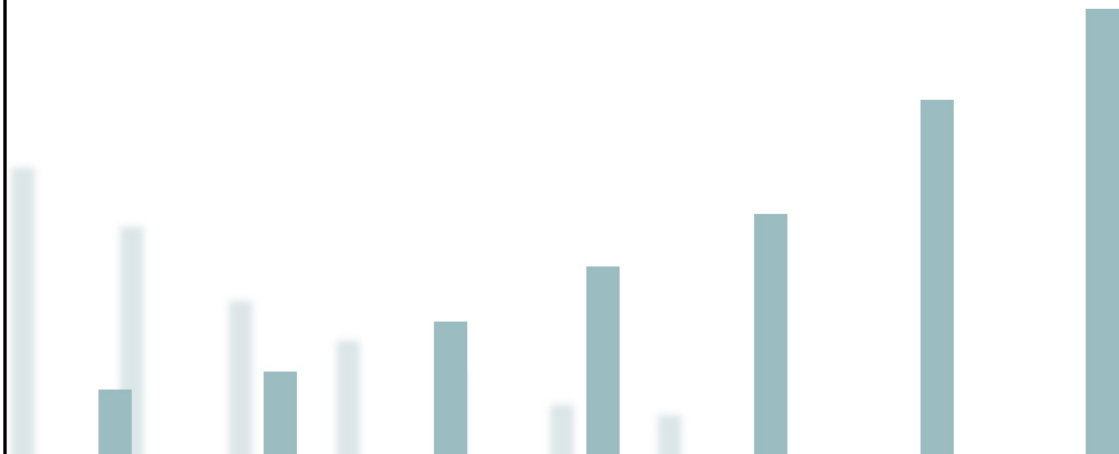
MARCH 2005

Executive Summary

Growth of Youth-Serving Organizations

A white paper commissioned by The Edna McConnell Clark Foundation

Introduction

In January 2004, the Edna McConnell Clark Foundation commissioned the Bridgespan Group to study growth in U.S. youth-serving organizations: the prevalence of growth, the factors that were critical in shaping how these organizations grew, and the major consequences of growth. We hoped that by increasing our understanding of this phenomenon, we could become more effective in our own work. We also hoped that these efforts would be useful for other organizations committed to supporting nonprofits that serve young people.

One of the chief components of the study was an in-depth look at 20 youth-serving organizations that had experienced significant growth in recent years. This research produced a wealth of information about the experience and effects of growth in youth-serving organizations—far more than could be encompassed in a single document. As a result, we have chosen to present the material in two forms: a series of 20 case studies, which capture the particulars of each organization's growth story, and a white paper, which calls out the observations that emerged most consistently across the interviews and data-gathering process.

This document summarizes the observations contained in our white paper. Broadly speaking, these observations fall into four categories: the path of growth, the financial consequences of growth, the organizational consequences of growth, and the "chutes and ladders" of growth (i.e., those factors that helped or hindered these organizations as they grew).

The Path of Growth

One of our study's central objectives was to understand how and why this set of organizations had grown. We asked participants about their organizations' motivation and planning for growth as well as about the form that growth had taken. While the answers were many and varied, two trends emerged: the interplay between opportunity and strategy as the organizations grew; and the need for multi-site organizations to balance—and rebalance—the degree of local autonomy and central control.

Observation 1: Growth was more often a response to opportunity than the result of strategic choice.

All of the participating organizations grew because their leaders saw—and seized—opportunities to acquire funding, talented staff, or both. Given the difficulty of acquiring resources, and the fact that few (if any) nonprofits can fund their own growth, it is not surprising that seizing opportunities as they presented themselves figured prominently in these organizations' growth stories. The challenge lay in differentiating genuine opportunities from will-o-the-wisps, which could compromise or even undermine their missions.

To manage the risk of mission drift, many of the organizations appeared to be moving toward what we have called "strategic opportunism." By this we mean that they were developing explicit criteria (such as a designated level of community support, availability of funding, presence of qualified staff, and/or connectedness to mission or strategy) for screening growth

opportunities. Organizations developed these criteria, at least in part, by learning from their experience—which often meant learning from mistakes. In several cases, organizations also engaged in a strategy or business-planning process that helped their leaders identify prerequisites for successful growth.

Observation 2: For organizations with multiple sites, finding the right balance between local autonomy and central control was a recurring challenge.

Nonprofits engaged in replicating programs in new geographic locations can be arrayed along a spectrum according to the level of control maintained by a central office or headquarters. Regardless of where along this spectrum the multi-site organizations started, over time all moved to a hybrid structure encompassing aspects of both centralization (national control or uniformity) and decentralization (local autonomy and variability). Simply put, there does not appear to be one best way to structure a national network.

The organizations that evolved from a structure in which local sites operated with complete, or almost complete, autonomy toward one with a greater measure of central control tended to be: (1) responding to requests from the sites for quality control and/or reinforcement of the brand; or (2) striving to share costs or manage risk. The organizations that sought to devolve responsibility from the national office to the branches were motivated primarily by the difficulty of attracting sufficient funding and/or talented staff for all the sites.

The Financial Consequences of Growth

Growth increases an organization's need for capital at the same time that it increases its potential to achieve impact. As a result, growth can be a double-edged sword, because greater ease in attracting new funds is seldom its reward. On the contrary, since capital is seldom allocated rationally in the nonprofit sector, successful growth usually makes the organization's (and its leader's) financial burden heavier, not lighter.

Observation 3: The financial condition of these organizations, even the best-known and fastest-growing, was remarkably fragile.

The organizations in this study are among the best known in the field of youth services. They take in average annual revenues of $7.3 million, and they have been in operation for an average of 26 years. Yet the degree to which they live on the edge financially might well stop for-profit executives dead in their tracks. Consider a few statistics: among the 16 organizations that provided data on this question, the average operating reserve was four-and-a-half months, and eight had two-month reserves or less. Additionally, two-thirds of the organizations experienced at least one year of declining revenue between 1999 and 2003, 50 percent laid off staff, and 45 percent cut entire programs.

More dramatically, a significant number of the organizations in this study have experienced a point in their recent past where their future was in doubt. For example, shifts in the prevailing political winds created enormous problems for all the organizations that relied on AmeriCorps appropriations. Changes in priorities or relationships with funders also created financial crises, as did transitions in leadership. Salvation in times like these sometimes arrived in the form of a funder or a small set of funders willing to provide the resources necessary for survival.

Observation 4: Economies of scale and experience were evident for some of the organizations in the study but not for others.

Growth in the for-profit sector is often motivated by the potential to achieve economies of scale (the ability to share indirect costs over more products) and/or economies of experience (the ability to turn out products at a lower unit cost over time thanks to "smarter" production practices). Whether nonprofit organizations have the potential to achieve similar economic gains without eroding their missions is an unanswered—and hotly debated—question.

The data from the study do not resolve the issue. Of the 10 organizations that were able to give us detailed and consistent cost breakdowns over time, two saw their cost per youth decline between 1999 and 2003; three saw a decline towards the end of the period; and five saw no general trend downward. The study pointed to several phenomena that may explain why the majority of these organizations have not realized significant and consistent economies of scale and/or experience, including: continued program modifications, high staff turnover, additions of professional staff, and conscious decisions to forego efficiency gains in order to increase the quality of their programs.

It may be the case that in the next five years, more of the organizations in the study will experience significant reductions in their cost per youth. Nevertheless, continuing to question whether every youth-serving organization could, or even should, achieve scale or experience effects comparable to those of corporations appears to be warranted.

The Organizational Consequences of Growth

The need to professionalize staff and systems as the organization grew was a recurring theme in this study. Almost without exception, each participating organization reached a point where passionate commitment—and sheer will—on the part of the leader and key staff were no longer sufficient to allow it to continue functioning well. Significant changes in processes, procedures, and roles were required, not only on the part of the leader and staff, but also on the part of the board.

Observation 5: Bringing in a chief operating officer was often essential, yet just as often proved challenging for the organization's leader as well as for the staff.

The organizations commonly found that as they grew, the demands of daily operations coupled with the need to communicate constantly with the board, the public, funders, and key partners, overwhelmed the capacity of even the most tireless leaders. Bringing in a chief operating officer or, alternatively, delegating COO-like responsibilities to a senior staff member, constituted a direct response to the complexity that comes with growth. Perhaps the most important function the COO fulfilled was freeing the leader from daily operations, so that he or she could fulfill the roles which only they could perform, principal among them fundraising and developing—and maintaining—strong board and external relationships.

In order to benefit from a COO's skills, the organization had to get over the hurdles of finding the right person and integrating the role. Clarifying the COO role and explicitly dividing responsibilities between the leader and COO could also be a substantial challenge. The leaders and COOs we met with identified trust, communication and ground rules for the roles each would play as critical ingredients for success. In order to allow COOs to "deliver," the

leaders had to invest the COO's role with credibility by visibly yielding decision-making power. Identifying and agreeing on signs to assess how the transition was going helped several organizations negotiate it successfully.

Observation 6: The complexity caused by growth gave rise to the need for formal systems and staff with more specialized skills. These, in turn, tended to create internal stress as well as a more professional organization.

To sustain growth, the organizations had to fill a number of management roles besides the COO. They also had to upgrade their systems as defined not only by the technology infrastructure but also by operating policies and procedures that would allow them to work more efficiently and insure them against liabilities (especially in the areas of human resources and finance).

From the perspective of existing staff, the increased professionalism that accompanied growth could be a plus or a minus. On the one hand, growth could help to curb staff turnover and develop new leaders. On the other hand, these organizational changes could also take a high toll on existing staff. Change could be especially painful when existing employees did not have the skills and capabilities required to meet the organization's evolving needs. At times, growth ultimately required the leader to change roles, relinquish control, or even leave. When the leader was also the founder, this transition could be especially difficult; but, if the organization handled it gracefully it could also set a powerful example.

Observation 7: Growth almost always required redefining the role of the board and its members.

Growth often affected the boards of the organizations as profoundly as it did the staff. At virtually all of the organizations, the board was moving (or had already moved) away from a hands-on programmatic role to one that emphasized fundraising and governance.

At times, these transitions required changes in the board's membership as well as its responsibilities. Managing these changes gracefully was challenging (and time-consuming) for everyone concerned—especially the leader. One of the keys was to be transparent about the expectations for new members and the value they could bring.

Not all of the organizations experienced radical board change. Some boards went through incremental changes, which included explicit conversations with members about new and more ambitious fundraising expectations as well as wider roles in fiscal oversight and periodic strategy reviews.

The Chutes and Ladders of Growth

Our final observations focus on several factors that appear to have aided or impeded growth. The three that came up most often in the interviews were the influence of foundations, the importance of performance measurement, and the scarcity of funds for investments in infrastructure.

Observation 8: Foundation funds could propel growth, but they were unlikely to sustain it.

Foundations played a variety of roles in the growth of the organizations in this study. The most common, and most important, roles were propelling early growth and providing general operating support. Previous Bridgespan research suggests that foundation funding, on average, falls from roughly 40 percent of total revenue, when a youth-serving organization is under $1 million in size, to less than 20 percent, when it is in the $3-to-10-million range. While the organizations in the study conformed to this general pattern, several received a significantly higher proportion of overall funding from foundations than is customary for organizations of comparable size.

Crucial as this support was, the leaders of these organizations also recognize the importance of building a more diverse revenue base. Every organization in the study expects to increase the percentage of its revenue coming from individuals over the next five years. How successful these efforts will be remains to be seen.

Observation 9: These organizations believe program codification was essential in enabling them to expand without sacrificing quality.

Study participants struggled with questions about how much variation and program experimentation was healthy and at what point it impinged on the results they were trying to achieve. Ultimately, however, all of the organizations found that in order to expand successfully, they needed some degree of program codification. A number of factors drove in the direction of codification. One was the desire to ensure that the organization continued to have the same impact on all its participants. Another was a sense of responsibility to colleagues, to share wisdom gained from experience.

Whatever the form codification took, it represented a significant investment of time and energy on the part of the organization. Further, it was not something that could be done once, put on a shelf, and then simply taken down from time to time. If manuals or processes were to be effective, they had to be revisited in light of local conditions and innovations in the field.

The process of codification went hand-in-hand with evaluation. Ensuring that a program is making a difference to its participants was the most compelling reason to measure outcomes. But measurement filled other functions as well, including establishing credibility with funders and allowing the organization to monitor outcomes and therefore establish arms-length accountability.

Observation 10: The later an organization made performance measurement part of its culture, the more disruptive the process was.

All the organizations were collecting some sort of performance data. However, the sophistication of the data and the degree to which the use of data had been internalized and incorporated into decision-making varied considerably. For example, the level of confidence among the participants that they had reliable data about their organizations' financial performance was high. But only half as many participants were equally confident they had the data they needed to know whether their programs were achieving the desired outcomes.

A number of organizations introduced performance measurement so early that it seemed to be part of their DNA. As a result, they not only had measures before funders were asking for

them, but also seemed to have an easier time integrating data into their decision-making as the organization grew. In contrast, organizations that came late to performance measurement tended to find it organizationally taxing and at times divisive. Several of the leaders expressed regret that they had not begun collecting and aggregating performance data earlier.

Observation 11: Funds for building infrastructure consistently lagged the need for them.

Without exception, the organizations we interviewed credited much of their success in sustaining growth to the addition of key positions (and the remarkable people who filled them) as well as to the introduction of critical systems for managing functions such as finance, development, human resources, and information technology. Funds to build this infrastructure consistently lagged the need for them, however.

Organizations in the study coped with the scarcity of infrastructure funding in two primary ways. Those that relied heavily on government grants, which include an allowance for indirect costs, typically took a "build-as-you-go" approach. While such allowances seldom covered all the people and systems an organization needed, they did allow for relatively steady, incremental growth. For most organizations, building infrastructure was a never-ending process of catch-up. And more than half had to put growth on hold so that they could put essential personnel and systems in place.

A Final Note

This executive summary only scratches the surface of the year-long research project. We invite you to read the accompanying white paper and 20 case studies, which are available free of charge on the Bridgespan Group's website, www.bridgespangroup.org, and the Edna McConnell Clark Foundation's website, www.emcf.org.