Development Challenges: Scaling up Non-profit Initiatives for Societal Impact

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All around the globe, in both businesses as well as non-governmental organizations, impact seems to be the goal. Impact can be defined as "significant or lasting changes in people's lives, brought about by a given action or series of actions" (Roche, 1999, p. 21). At the Erasmus University in Rotterdam, The Netherlands, the Rotterdam School of Management, the Erasmus School of Economics and the Foundation Adessium have joined forces to start the Erasmus Centre for Strategic Philanthropy (www.ecsp.nl). The focus of this now three year old academic centre is to support endowed foundations in improving their impact through rigorous academic research, teaching and consulting on issues like governance, developing effective programs and theories of change, measuring impact and, the topic of today´s introducing lecture, upscaling. The research on upscaling specifically is supported by the Dutch Orange Foundation.

For those of you who are not familiar with this term, scaling up is about "expanding impact" and not about "becoming large"(Uvin, Jain and Brown, 2000a),the latter being only one possible way to achieve the former. Upscaling within the civil society context is the process of rolling out effective interventions and programs in order to achieve more impact. In this vision it is not enough to help one group, one location, one school or one community. No, the idea is rather that once there is enough evidence that a certain intervention can or will be effective, this intervention must be repeated, further developed or implemented in other places too.

Although scaling up is not new to non-profit practitioners, we academics have been surprisingly sluggish in understanding these practices. Today, I will provide insight into current academic knowledge and combine this with a common typology of non-profit organizations based upon their goal (see Handy, 1988; Meijs, 1997). My main message will be that there are two main models of upscaling that can be linked to two types of non-profit organizations.

First, I will start off with describing three different types of non-profit organizations according to their goals. Handy (1988), in his interesting book *Understanding Voluntary Organizations*, presents three types of organizations that are relevant for today's topic: service delivery, mutual support, and campaigning. First of all, *Service delivery organizations* provide a specific service to an external client. Examples include the Red Cross, Meals on Wheels, a crisis hotline, a hospital or a food bank. Important to understand is that in these organizations, the donor and volunteer are not the related to the client.This type of organization has a culture of being professional, although not always successful of course.

Secondly, *Mutual support organizations* come to exist when particular groups of people unite because of a common interest. In many cases this interest can be found in the free time of recreation and sports, such as with membership organizations as Scouting or Cricket. In other cases it much more about being united such as in the National Federation for the Blind or a producer cooperative. Essentially in these organizations, donors and volunteers are related to clients, and probably they are the same people. Such organizations are dominated by a culture of belonging and "doing things together," with solidarity as their most important feature. Finally, *campaigning organizations.* These organizations focus on persuading the entire world of their ideals or point of view, instead of just helping any specific customer or client. Examples of campaigning organizations include Amnesty International, local action groups, and political parties (Meijs, 2010). Seen from an organizational perspective these organizations are quite chaotic as they don't select on competencies or belonging but on being a believer too.

Ladies and gentlemen, now we move our attention to upscaling. I will give a guided tour through the academic knowledge on upscaling, presenting two basic models, give some information on issues that hinder upscaling and at the end link back to the typology of Handy. Fasten your seatbelt, here we go.

First of all, non-profit upscaling is not the same as scaling up in business. In non-profit organizations, up scaling is more about increasing social impact than becoming larger in terms of employees, offices, or net income figures (Uvin, Jain and Brown, 2000a). Generally, in business, three generic activity expansion paths are recognized: organic growth, alliances and mergers and acquisitions (Hoffman &Schaper-Rinkel, 2001; Wijk, 2011). Whereas organic growth and alliances are known in the non-profit sector too, mergers and acquisitions are less familiar, not to mention unfriendly take overs. Or to frame it in a different way, an organizational shake out by which the less successful non-profit organizations are taken over by more successful ones, is not likely to happen from the 'inside'. If such a process of creative destruction happens, it is most likely donor driven.

So what do we know? One of the leading scholars on non-profit upscaling is Peter Uvin from Brown University. In the last two decades he has published several key articles (eg: Uvin, Jain, and Brown, 2000b; Uvin and Miller, 1996) covering the strategies and methods associated with non-profit upscaling.

Based upon these articles there are two basic models: direct and indirect impact. Uvin, Jain, and Brown (2000b) argue that the activities undertaken by non-profit organizations during upscaling are geared either directly towards beneficiaries or indirectly towards affecting the behavior of other actors, like governments and businesses,who, in their turn influence the live of beneficiaries.

Ladies and gentlemen, let us start with direct impact. Direct impact constitutes two methods of expansion: quantitative and functional (Uvin and Miller, 1996) Quantitative upscaling concerns physical expansion in coverage and size in order to increase reaching beneficiaries. Quantitative upscaling can be achieved through a number of methods: 'spread', 'replication', 'nurture', 'horizontal aggregation' and 'integration' (Uvin and Miller, 1996). *Spread* is the "almost organic process of growth of organizations or programs by drawing people into them" (Uvin and Miller, 1996, p.347); *Replication* is the repetition of a successful program elsewhere by either the original organization or by another; *Nurture* is the incitement of grassroots initiatives on a large-scale; *Horizontal aggregation* is the integration of resources and/ or programs of individual organizations and *Integration* is the adaptation of existing NPO programs into government structures, which can also be considered as being part of the other, indirect model (ibid). Although not the topic of today, you can understand that some methods of quantitative upscaling are common while others are used less frequently.

Uvin, Jain and Brown consider direct impact to represent the more traditional view on non-profit upscaling. It is the old paradigm, characterized by scaling-up through expansion. In most cases this entails more professional management that is based on constructing more efficient and programmatic organizations. In this light, non-profit organizations aim to become larger in volume by, for instance, increasing fundraising and quantitative growth through larger geographical coverage and size. This path to non-profit growth has its own taxonomy dating back to the 1980s (eg.Berg, 1987; Clark, 1991; Howes and Sattar, 1992; Hyden, 1992).

Jowett and Dyer (2012) studied Indian educational organizations and identified five pathways of replication, probably the most common way for growth in the direct impact model. The five paths to replication are: 'mandated', 'franchise', 'staged replication', 'concept replication', and 'network replication'.*Mandated replication* means that organizations partner with the government or mandate the government to increase their number of subsidiaries; *Franchise replication* exists when one organization initiates a concept and then transfers it to several new satellite organizations that replicate the

concept; *Staged replication* is similar to franchising, however the initiating organization first starts with one pilot and then replicates it to new subsidiaries, retaining full control; *Concept replication* happens when the initiating organization only copies the most necessary core elements to new subsidiaries who subsequently become independent; *Network replication* mimics concept replication except that the new organizations continue to work together intensively in the long-term. What nice, small, but important differences.

Another route to enlarge direct impact is functional upscaling. Functional upscaling concerns the expansion of the number and type of activities offered by the non-profit organization.Functional upscaling can be achieved through horizontal or vertical methods. Horizontal integration involves the inclusion of new sectors to existing programs. Vertical integration involves the adaptation of new activities in the same sector to strengthen the original activity (Uvin and Miller, 1996).

Now let us turn to the indirect model. Indirect activities can also increase impact, some call this even the new paradigm (Uvin, Jain and Brown, 2000b). The indirect model scales-up through undertaking activities that do not directly involve beneficiaries but ultimately increase impact by achieving behavioral change in other actors. These other actors can be governments, businesses or other non-profit organizations. In the indirect model NPOs are seen as catalysts of innovation, of social capital, and creators of strategic and programmatic knowledge. (Ibid). It is interesting to note that endowed foundations can be real provokers of indirect impact, as they have to power and freedom to first invest in finding the best intervention and are able to influence the behavior of operating foundations into using these better, higher impact interventions. This kind of impact generation is high on the research agenda of the ECSP *(Erasmus Centre for Strategic Philanthropy).*

Uvin, Jain, and Brown (2000b) improve and extend the NPO upscaling methodology by proposing two significant new indirect methods by which NPOs can upscale:

multiplication and mainstreaming. They argue that some NPOs deliberately choose to scale up impact without getting larger; that is, they promote and support social change through indirect methods.

Multiplication is essentially the creation and spinning-off of independent institutions by NPOs such as independent cooperatives, autonomous Community Based Organizations or even new non-profit organizations. The aim is to develop a high quantity of sustainable, diverse, and "civil society-like multitude of initiatives and organizational forms" (Uvin et al, 2000b, p. 1417). In this way, the beneficiaries of the original NPO are indirectly impacted by the services of the new institutions. But, and that is the main difference with the direct model, it is not about copying the organization, it is about copying elements of the idea into independent organizations. Mainstreaming consists of influencing government and for-profit stakeholders to change their functioning and behavior towards society. Therefore, indirect impact upscaling, in their terms, encompasses various paths or strategic decisions, and action mechanisms such as advocacy/lobbying, training, research, integration/joint venturing, and experimentation.

Interestingly, Uvin, Jain, and Brown (2000b) consider 'integration' as part of the indirect impact mainstreaming method as it necessitates influencing the behavior of an external actor. But combined with Jowet and Dyer's (2012) mandated replication it also constitutes an increase in coverage and size through direct contact with beneficiaries. This is an example, where NPOs synergize a direct and indirect impact approach in their scaling up processes, which is promoted by Uvin, Jain, and Brown (2000b). They claim that most organizations that scale-up generally follow a pattern of implementing direct impact methods first, before attempting indirect impact methods (Uvin et al, 2000b). I claim that this sequence might be true for service delivery organizations but not for campaigning organizations. But before explaining that into more detail, some thoughts about the preconditions and implications of upscaling.

Ladies and gentlemen, Upscaling does not happen out of its own, certain important reasons or preconditions need to be met. The most important precondition, and unfortunately in many cases an ill-advised reason for upscaling, is organizational sustainability. Organizational sustainability is not the reason for upscaling in the civil society, that is improving and enlarging impact.

Today we again follow Uvin, Jain, and Brown (2000b) who identify four stages of increasing sustainability linked to scaling up: *'entrepreneurial initiatives',* 'task teams', 'project implementation organization', and 'program institutions'. The entrepreneurial initiatives is characterized by the involvement of a passionate individual, no discernible organization, and continuous learning and experimentation; the *task teams* is characterized by team member assignments, uncertain resource availability, irregular schedules and costs, and small and fluid membership; the *project implementation organization* is characterized by stabilized roles, scheduling of activities, unclear mission or strategy, and resource- or time-bound exercises; the *program institutions* is characterized by ongoing strategic commitments, efficiency and cost-effectiveness, stable funding, and competitive advantages (Uvin, Jain and Browns, 2000b). In my opinion this a great analytical tool for the scaling up process, but not a description of upscaling methods.

In order to be able to upscale, and to survive the upscaling process, non-profit organizations need to arrange certain conditions. Uvin and Miller (1996) present a nice and interesting list: diversifying funding sources, increasing self financing, promoting skill development, creating structures for organizational learning, creating institutional variety, and maintaining participation and accountability.

Diversifying funding sources means the NPO either finds new funding sources or changes the percentage share of each funding source; solely increasing funding without changing the percentage shares of sources is not seen as diversification. *Increasing self financing* regards NPOs finding financial sources which do not require subsidies or gifts, such as consulting, fee for service and

subcontracting. *Promotion of skill development* concerns the encouragement of the development of managerial and technical skills by staff and requires a certain type of organizational structure. *Developing procedures and structures for organizational learning* refers to establishing feedback, monitoring and evaluation mechanisms. *Creating institutional variety* can be done both internally as well as externally. Internally this concerns structures of self-help, by allowing new ways of working through which the organization can develop. Externally, the term refers to building partnerships with a diverse set of relevant parties. *Maintaining participation and accountability* refers to keeping all parties motivated, responsible and involved while the organization becomes larger and more procedural *(Conditions for Upscaling, Uvin and Miller, 1996).*

Now, before I discuss the implications of upscaling, I need to make one more important note regarding the significance of context in non-profit upscaling. Several authors (e.g.: Jowett and Dyer, 2012; Uvin, Jain, and Brown, 2000b) describe upscaling as a function of contextual factors such as the economic, political, and social environment, the geographic scope, the organizational culture and organizational leadership. Yes context does matter but it is important, certainly for western non-profit organizations or philanthropic funders and investors to understand that their home models probably will not work in all host countries. I am totally aware that you, in the audience and my great colleagues at the Justice K.S. Hegde Institute of Management understand these complexities better than I will ever do. So I am looking forward to some joint research projects.

For now, I will discuss some of the more vital challenges of upscaling initiatives that literature shows and that are threatening to non-profit survival.

Mission Drift

One of the main reasons not to scale up non-profits, according to some researchers (e.g. Edwards & Hulme,

1992; Jones, 2007; Lewis, 2005), is to avoid what is commonly known as 'mission drift'; i.e. when social-purpose organizations move away from their original social missions (Dees & Anderson, 2003). According to Frumkin and Andre-Clarke (2000), non-profits need to fulfill a mission that is valued by multiple stakeholder groups. The inherent complexity means that they need to be responsive to different stakeholder groups with divergent viewpoints (Tschirhart, 1996; Scott & Lane, 2000). Scaling up increases stakeholder groups either in number or in voice and can lead to them having more power to influence the mission of the organization, risking the alienation of other stakeholder groups. In terms of financial or volunteer support, this could be devastating. Regarding volunteers, this is particularly true because not only do many non-profits rely on their support, but volunteers have also been found to be notoriously resistant to change (Hull &Lio, 2006). Furthermore, not only does mission drift question a non-profits' claim to legitimacy, but it could also lead non-profits into not meeting the quality requirements of their relationship with beneficiaries (Edwards &Hulme, 1992).

Moving on to *Governance & Structure,* non-profit organizations operate in *"ambiguous economic environments that tolerate structural choice* (Young 2001, p. 303)". Non-profit management and structures have therefore been found to be interrelated and complex (e.g. Scott & Lane, 2000; Anheier 2000; Drucker, 1990). When scaling up non-profit activities leads to increased complexity, non-profits risk not being able to manage or handle growth properly (e.g. Lewis, 2005; Frumkin & Andre-Clarke, 2000). Edwards and Hulme (1992) stipulate that ineffective management of the growth process, due to an inability to deal with complexity, could lead organizational structures, systems, and cultures to undermine operational performance. Such failures could lead to negative spillover effects regarding a non-profit's comparative advantage and its social objectives. Furthermore, scaling up activities often bear implications on the structural form of non-profits as a mechanism for dealing with increased complexity. Appropriate governance and structures are therefore a prerequisite for the required growth management necessary to scale up successfully.

Society

Literature has also concerned itself with large non-profits' societal role or function. That is, scholars have identified trends where public-service delivery systems are reduced in lieu of non-profit activities (e.g. Saidel, 1991). There are two issues related to the expansion of non-profit societal functions: (1) non-profits remain selective regarding beneficiaries, and (2) public institutions may assume decision-making rights. The fact that non-profits are selective in their beneficiaries, means that non-profits make exclusive decisions that marginalize those who do not directly benefit from their operations. This leads to potentially negative impacts and externalities for other if not all parties involved including civil society (Edwards &Hulme, 1992). Additionally, when non-profits become interdependent on public institutions by taking on the government's responsibilities, the reach of the public institutions into the management processes of non-profit organizations may be extended and could have implications on the mission, the legitimacy, and the survivability of the non-profit organization (Weidenbaum, 1969; Wolch, 1990).

Then there are *Financial Resources* or let me rephrase challenges.As non-profits scale up their activities, they require additional resources to meet their operational needs, finance asset replacement, and as working capital (Young, 1982). With an increased need for capital as a consequence or necessity for scaling up, non-profits become increasingly dependent on existing revenue streams. According to Froelich (1999), companies diversify their revenue streams in order to combat resource dependence by shifting reliance on three sources of funds: private contributions, government funding, and commercial activities. This poses all kind of issues and challenges that are the topic of countless articles.

Schiff and Weisbrod (1991) contend that the pursuit of commercial revenue streams by non-profits, through commercial activities traditionally performed by for-profit

organizations, not only brings them into direct competition with for-profit organizations, but also carry negative implications. such as the alleged advantages non-profits receive from various tax incentives, and the subsequent inefficiencies that may permeate the commercial markets. Additionally, scholars have found that diversification of revenue streams coupled with trends of declining support from government, are increasingly forcing non-profits to compete with each other for funds (e.g. Edwards &Hulme, 1992; Schiff &Weisbrod, 1991). Various negative consequences have been observed such as: (1) the decline of alliances between non-profits who do not share visions or ideologies upon scaling up (e.g. Edwards &Hulme, 1992), (2) the preferential treatment of certain non-profits over others by funders such as public institutions (e.g. Froelich, 1999; Saidel, 1991), (3) the emergence of donor fatigue as a response to private contribution campaigning (e.g. Barnes, 2006), (4) the non-profit preferential treatment or selection procedures of beneficiaries on the basis of cost/profit rather than benefit (i.e. 'creaming clients') (e.g. Lewis, 2005), and (5) the loss of autonomy or legitimacy with an increased reliance on funders resulting in symmetrical resource dependence (or, interdependence) between non-profits and funders where funders tamper with organizational operations, culture, and ultimately the organization of society (e.g. Dees & Anderson, 2003; Saidel, 1991; Weisbrod, 1997, 1998). Scaling up activities therefore would seem to increase the effects or impacts of these developments on non-profits. The net result, therefore, is that shifting revenue streams as a consequence or necessity for scaling up may have very dramatic effects on the non-profit if not handled correctly.

Ladies and gentlemen, in this Keynote Address, I have presented the common body of knowledge on scaling up in the civil society and non-profit sector. Important to remember is that scaling up in this sector is not about the size of the organization, but about enlarging the impact of the idea or intervention, which can go hand in hand with growing your organization but does not have to be. It also became clear that there are basically two model of upscaling: direct or indirect. The direct model is about growing your impact because you are growing your

intervention and probably also the organization. It is about creating more impact because more interventions happen. The indirect model is about enlarging impact because another organization, might be a government or a business, is changing its behavior. I think this represents a fundamental dilemma for many non-profit organization. Are we rendering service to the needy of today or are we advocating to prevent new needy in the future? Are we fighting symptoms or cause? Are we a service delivery organization or a campaigning organization?

With these last questions, I am returning to two of the organizations Charles Handy described. Direct upscaling models are probably better for service delivery organizations, while indirect models better fit the campaigning organizations. If Handy is right, combining these two types of organizations is not easy, if not impossible. In order to achieve real impact I think that the models must combined by forming an alliance between two independent organizations. The service delivery organization will grow by quantitative and functional expansion, while the campaigning organization will use totally different strategies of multiplication and mainstreaming. I think the future is a strategy, run by foundations that have risk taking money and governments that have legal power and tax money, that combines these two models of upscaling.

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