

Are We “Walmartizing” the Social Sector?

by Michael Lombardo

There are many reasons to scale, but organizations should think carefully about what is motivating them to do so, as there are even more reasons not to. For, as the author contends, “If done well, a scaling approach can exponentially increase an organization’s impact”; but if done poorly, it can be “a disruptive diversion of precious resources that commodifies rather than serves communities of need.”

LAST SUMMER, MY FAMILY AND I WENT ON THE Great American Road Trip, driving from our California home to the East and back again. Over six weeks, we passed through seventeen states, visited nine national parks, and, to our great pride, ate only one fast-food-chain meal the entire time. (My kids pronounced the food “spongy” and “weird.”)

It isn’t often that I think of my work running a national children’s literacy nonprofit as being connected to chain restaurants, but during my hours of driving it occurred to me that, for all my “shop local” sensibilities, I was actually doing to the education sector what Burger King and McDonald’s were doing to food.

Were my efforts over the past seven years scaling Reading Partners across sixty school districts in nine states basically creating a miniature, socially oriented version of Walmart?

What We Mean When We Talk about Scale

Like the process of scaling, defining “scale” is complicated. Frequently, scaling is used

interchangeably with “growing” to describe a program or organization that is significantly expanding in size over time. “Size” is also a complex term: it can describe the number of clients served or the services provided to those clients; the operating budget; the geographic footprint; or some combination of all those factors.

When we use “scale” and “growth” as synonyms, we miss an important distinction, just as we do when we confuse “size” and “impact.” Scaling is less a structural description and more a mind-set for organizations—a focus on addressing a social problem at the neighborhood, city, state, national, or even global level. A scaling organization must think about its impact as well as its size—and hopefully more the former than the latter.

A scaling organization’s resources and strategies should be calibrated to the scope of the problem it seeks to address. An organization that serves only 1 or 2 percent of its target population is not necessarily scaled, just as an organization that seeks to address a problem affecting millions of people is not necessarily scaling if it impacts a thousand more lives each year.

Nor is scale a binary state into which organizations can easily be categorized. Just as in the for-profit sector there are some companies that are clearly scaled (Walmart), there are others that fall into a gray area, such as regional or urban-only chain operations, and companies that hold large but not dominant market share in crowded sectors.

MICHAEL LOMBARDO is CEO of Reading Partners, an Oakland, California-based nonprofit working to close the early reading achievement gap. Reading Partners connects community volunteers with children struggling to master reading in eight states and the District of Columbia. Lombardo also serves as a Social Entrepreneur-in-Residence at Stanford University.



If scale is less a state of being and more a way of thinking about social problems, then what is it that compels nonprofit organizations to adopt it as an operating principle? Put another way, why do organizations sometimes feel compelled to grow beyond their founding communities?

Scale, therefore, is ultimately in the eye of the beholder. While we might argue about what defines a truly scaled organization, for the purposes of this essay I will consider it a self-applied label. (If an organization or its stakeholders believe it is scaling, then we should describe it as such, and that organization therefore needs to be thoughtful about its scaling activities.)

Leading Reading Partners through its efforts to scale nationally, I am the first to admit that much of what I learned about scale comes from the mistakes we made in our earliest efforts—a few of which continue to pose challenges in some of the communities we serve. In many cases, my knowledge about scale was gained the hard way, and I share it in the hope that others will have a gentler and smoother learning curve.

Why Do Organizations Aspire to Scale?

If scale is less a state of being and more a way of thinking about social problems, then what is it that compels nonprofit organizations to adopt it as an operating principle? Put another way, why do organizations sometimes feel compelled to grow beyond their founding communities?

The noblest answer is that organizations are compassionately compelled by the need for their services. If an organization feels morally obligated to address a social problem in its own community, it is very difficult to turn a blind eye to similar problems in other communities. Many social problems are diffuse and portable, crossing city and state lines and following vulnerable individuals as they move from place to place. It is by no means a simple thing for an organization to define and adhere to a strict geographic focus.

There are other factors that motivate organizations to scale. Fundraising is probably the least worthy of these. Funders tend to like growth, especially those funders with experience in the corporate sector, where growth and success are often thought of as two sides of the same coin. All things being equal, organizations that can tell a scaling story will find it easier to raise more money each year—which creates a powerful incentive, even if (as discussed below) this can simultaneously create a perilous funding trap. There are

national (as opposed to local) funders, too, that are generally accessible only to scaling organizations. The amount of funding available in this vein, however, tends to be much smaller than organizations may imagine it to be. The vast majority of domestic American philanthropy is highly local in nature, even if many of the household-name grant-making foundations gravitate toward national organizations.

Another factor is the undeniable prestige attached to scaling organizations, whether deserved or not—particularly those that expand across state or national borders. It can be viewed as a sort of validation when an organization is invited to serve a new community, even if the invitation came as the result of significant lobbying on that organization's part. Scaling organizations also find themselves the recipients of national press and policy-making attention much more frequently than organizations focused on a single community. (There are some notable exceptions to this, such as the Harlem Children's Zone, which has received considerable national media attention and even spawned an initiative by the federal government without ever expanding beyond its original neighborhood focus.)

Regardless of the reasons for scaling, organizations need to be thoughtful about the benefits and drawbacks of this mind-set. If done well, a scaling approach can exponentially increase an organization's impact, driving it toward making true and meaningful progress in combating devastating social ills. If done poorly, scaling can be a disruptive diversion of precious resources that commodifies rather than serves communities of need.

Mission Benefits of Scaling

1. Consistent and compelling outcomes. Solving social problems is much easier when there are common metrics that can be used to measure the impact of different programs. Scaled organizations usually have an internally consistent evaluation regime that enables them to compare program effects across diverse populations and environments and to present those outcomes in a compelling way to funders, policy-makers, and other stakeholders.

2. **More efficient resource allocation.** It is often challenging for local organizations to find economies of scale, particularly for back-office functions. Scaled organizations are able to centralize administrative functions and share business services across their network. This dual benefit lowers overhead costs and frees up local staff to focus more on program delivery and stakeholder engagement.
3. **Enhanced capacity for research and development.** Scaled organizations are not only able to spend more in real dollars on program development and research but also often allocate a higher overall percentage of their budget to these activities. Organizations that serve multiple communities also have the freedom to try new approaches in discrete parts of their network without fearing that they have “bet the farm” on their success.
4. **Ability to exert sector influence.** Scaled organizations have the ability not only to provide high-quality services but also to share what they’re learning across the sector. With more resources for formal research and program evaluation, scaled organizations can play the role of both thought leader and trendsetter, helping smaller organizations to improve their impact even if they don’t have the capacity to do research work themselves.
5. **Availability of tools for reform-oriented leaders.** When a community leader sets out to address a pressing social need, there may not be an existing local organization that is prepared to take on the challenge. Scaled organizations can support these leaders by providing proven, scalable programs (and models) that can often be imported much more quickly and less expensively than building a new local organization from scratch.
6. **National issue advocacy.** Organizations spanning multiple cities and states are in a better position to raise national awareness of their issue and to engage with federal policy-makers and funding agencies. Scaled organizations also tend to have better-known brands that can be leveraged to drive more resources toward their issue, benefiting the sector as a whole.

Mission Challenges of Scaling

1. **Lack of local saturation.** While there is not always a direct trade-off between having greater impact in one community and expanding to serve another, organizations run the risk of finding their services stretched a mile wide and an inch deep. This can both drive up costs per unit of service and cause a lack of focus that undermines the organization’s ability to make meaningful progress on the issue in any of the communities it serves.
2. **Commodification of place.** Every community is distinct, yet scaling organizations can come to think of each replication site as just another dot on the map. The unique struggles facing these individual communities can be reduced and oversimplified, or lumped neatly into specious categories based on their surface-level similarities. This can have negative effects on local stakeholder engagement and can undermine the success of the organization’s stated mission.
3. **Dependency on external funding sources.** The dark side of the national attention and dollars that scaled organizations can bring to their issue is that they can create unsustainable structural deficits at the local level. Funders from outside the community often end up providing de facto subsidies for services that local stakeholders rely on, creating a potentially problematic dependency—especially if those national funding sources change in geographic focus.
4. **Expansion funding trap.** A related challenge is the temptation for a scaling organization to use new funds from expansion sites to backfill deficits in core operations. Expansion funding is typically much easier to secure than general operating funds and can mask underlying structural issues with an organization’s funding model, forcing it to grow in order to maintain its financial viability.
5. **Unintended consequences for existing local nonprofits.** Every community has existing organizations working to address social challenges that exist in balance with the local funding and resource base. The entrance of a new outside organization can upset the local ecosystem, disrupting resource streams for existing organizations in ways that could

The dark side of the national attention and dollars that scaled organizations can bring to their issue is that they can create unsustainable structural deficits at the local level.

Like any organizational mantra, the concept of scale in nonprofits deserves studied scrutiny, both within the organization and among its stakeholders.

actually create a net decrease in services available for the community.

6. **Missed opportunity for network leverage.** The least expensive and least labor-intensive way for an organization to advance its mission in a new community is to enable existing organizations to do it for them. In their zeal to put boots on the ground, however, scaling organizations often don't evaluate the full array of strategies available to them to have an impact within a community. Putting launch funding and energy into a partnership with (or merger with) an existing organization can often be more efficient and less operationally risky.

Best Practices for Locally Beneficial Scaling

If scaling is defined as growing impact to solve social problems, then every organization should seek to scale, even if only within a city block. It is important, however, for organizations to be thoughtful about their scaling practices, especially when their scaling strategy involves expanding to serve new communities.

The driving principle in this thinking should be the local benefit of scaling activities, as measured by mission advancement within that community. Organizations practicing thoughtful, high-impact scaling should:

- **Prioritize communities already served.** Organizations should go as deep as they can and maximize all the vertical growth opportunities possible before considering horizontal growth to new communities.
- **Spend time learning about potential expansion communities.** The process of evaluating a new community for services should span many months (if not years) and should entail an open dialogue with all of the local stakeholders, including other nonprofit organizations with similar or related missions. Organizations should confirm that they are not duplicating good work already happening, even if the organizations doing it are at an earlier stage of development.
- **Have a compelling rationale for being in every community.** Starting a program that serves vulnerable populations is a major commitment that should be based on more than the

availability of funding or an abstract desire to roll out nationally. Organizations should easily and clearly articulate the reasons they've chosen to serve a particular community and explain simply why their presence as a direct service provider is the most effective way—both in operations and cost—to advance their mission locally.

- **Build meaningful partnerships with local stakeholders.** Whether structured or informal, partnerships between local and national organizations should demonstrate the sincere interest of both parties in supporting each other to advance a shared mission. Scaling organizations should strive to be good neighbors that engage collaboratively with local communities.

• • •

Like any organizational mantra, the concept of scale in nonprofits deserves studied scrutiny, both within the organization and among its stakeholders. While the nonprofit sector has not produced anything remotely approaching the megalithic reach of leading multinational corporations, we should still think critically about how (or whether) we adopt their structures and approaches.

The greatest danger occurs when the primary motivation of an organization's activities is an interest extrinsic to the community in which it is operating. As their top priority, Walmart and Burger King focus on maximizing overall corporate profit. There is nothing immoral about this: it is precisely what those organizations have been chartered to do. It does, however, necessarily subjugate the best interests of the local communities in which they operate, making them a secondary consideration.

There is much that nonprofit organizations can learn from the corporate sector, but we have a fundamentally different charter: we are required by law to benefit the public good. This requires us to invert the corporate priority structure, placing the best interest of local communities served as our highest priority. This means it is critical that organizations maintain that focus if and when they choose to scale.

To comment on this article, write to us at feedback@npqmag.org. Order reprints from <http://store.nonprofitquarterly.org>, using code 210307.



The latest news and analysis about the nonprofit sector from the *Nonprofit Newswire*

■ Regular feature articles

■ Subscription information for the print magazine

■ For more information from the *Nonprofit Quarterly* go to www.nonprofitquarterly.org