

oikos Case Writing Competition 2016

Social Entrepreneurship Track

2nd Prize

Friends of the Children: Strategies for Scaling Impact

Teaching Note

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The authors are thankful for any feedback. Please send suggestions to further develop this case to jacen@pdx.edu.

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Teaching Note

Introduction

This case describes the challenges and tradeoffs faced by a successful nonprofit with some social enterprise characteristics as it attempts to scale from a regional footprint to a national and international presence. Friends of the Children (FOTC) had used social return on investment calculations and yearly evaluations to prove the effectiveness of its model, and created an award-winning business plan outlining a new strategy to scale the impact of their interventions, but faced the need to restructure certain elements of the organization, identify and develop new sources of funding, and improve how they communicated impact to fulfill that strategy. As they considered fee-for-service models and developed an approach that seemed suited to pay-for-success investments, FOTC was shifting its approach from that of a traditional nonprofit towards more of a social enterprise model, but successfully navigating that transition required maintaining a careful consideration of the organization's mission in the midst of significant change.

Focus Areas

- Nonprofit and social enterprise strategy
- Scaling social impact or social interventions
- Measuring and reporting social impact
- Pay-for-success models / social impact bonds

Learning Objectives

After completing the case and associated readings, and completing the suggested classroom discussions and exercises, students will be able to:

1. Contrast the effectiveness of various scaling strategies for a social venture or program
2. Evaluate the suitability of different nonprofit funding models for an organization
3. Carry out a basic social return on investment analysis to measure the social impact and financial benefits to individuals and society of an organization

Target Audience

This case is intended for use in advanced undergraduate courses, MBA courses, and MPA courses with a focus on nonprofit or social enterprise strategy, impact analysis and reporting, impact investing, or development / fundraising strategy. It is also designed for use with nonprofit managers and directors.

Suggested Videos

- A three-minute overview of the FOTC model and outcomes: Friends of the Children. "Change the Story." *YouTube*. Google, 22 Jan. 2014. Web. 3 Mar. 2016. <<https://www.youtube.com/watch?v=jds3IYcvJS8>>

- A four-minute video on the relationship between Friends and youth: Friends of the Children. “Jesse’s Story.” *YouTube*. Google, 15 May 2015. Web. 3 Mar. 2016. <<https://www.youtube.com/watch?v=xzF3TV4fakE>>

Suggested Readings

- Alter, Kim. “Social Enterprise in Context.” *The Four Lenses Strategic Framework*. Virtue Ventures, 2010. Web. 25 Nov. 2015. <<http://www.4lenses.org/book/export/html/81>>
- Bradach, Jeffrey, and Abe Grindle. “Transformative Scale: The Future of Growing What Works.” *Bridgespan*. The Bridgespan Group, 20 Feb. 2014. Web. 21 Nov. 2015. <<http://www.bridgespan.org/Publications-and-Tools/Strategy-Development/Transformative-Scale-Nine-Pathways.aspx>>
- Foster, William Landes, Peter Kim, and Barbara Christiansen. “Ten Nonprofit Funding Models.” *Stanford Social Innovation Review*, Spring 2009. Web. 21 Nov. 2015. <http://ssir.org/articles/entry/ten_nonprofit_funding_models>
- “Friends of the Children 2015-2017 Business Plan.” *Friends of the Children*. Friends of the Children, 2014. Web. 30 Nov. 2015. <<http://friendsofthechildren.org/assets/resources/Business-Plan.pdf>>
- Hovitz, Helaina. “Motivated By Dark Childhood, Entrepreneur Helps At-Risk Kids With 'Friends' Program.” *Forbes*. Forbes, 18 Jun. 2014. Web. 21 Nov. 2015. <<http://www.forbes.com/sites/helainahovitz/2014/06/18/motivated-by-dark-childhood-entrepreneur-helps-at-risk-kids-with-friends-program/>>
- Kim, Peter, Suzanne Tollerud, and Gail Perreault. “From Small to Scale: Three Trade-offs for Smaller Nonprofits Trying to Get Big.” *NPQ*. Nonprofit Quarterly, 8 May 2012. Web. 21 Nov. 2015. <<http://nonprofitquarterly.org/2012/05/08/from-small-to-scale-three-trade-offs-for-smaller-nonprofits-trying-to-get-big/>>
- Rangan, V. Kasturi, and Lisa A. Chase. “The Payoff of Pay for Success.” *Stanford Social Innovation Review*, Fall 2015. Web. 21 Nov. 2015. <http://ssir.org/articles/entry/the_payoff_of_pay_for_success>
- Various. “The Payoff of Pay for Success: Responses.” *Stanford Social Innovation Review*, Fall 2015. Web. 21 Nov. 2015. <http://ssir.org/up_for_debate/article/the_payoff_of_pay_for_success>

Suggested Study Questions

These questions will help students prepare for discussion questions and classroom exercises.

1. *For any discussion:* What are some of the weaknesses in FOTC’s SROI calculation?
2. *For any discussion:* What is the total lifetime benefit to society for all FOTC youth clients in the program during 2014?
3. *For a scaling discussion:* Which of the nine pathways identified by Bradach and Grindle in “Transformative Scale” should Friends of the Children pursue?

4. *For a funding discussion:* Which of the ten nonprofit funding strategies suggested by Foster, Kim, and Christiansen in “Ten Nonprofit Funding Models” do you think is the best fit for Friends of the Children’s scaling strategy?

Teaching Plan and Analysis

Overview

This case is intended to illustrate the challenges of scaling a nonprofit organization or social enterprise, including tradeoffs and decisions related to changing roles and structures, finding new funding sources, and effectively measuring and reporting impact. The case and associated discussion questions and exercises would be suitable for a course on nonprofit or social enterprise strategy, impact measurement, impact investing, or development / fundraising strategy. For a strategy course, it can be used to outline how to create a business plan for scale, various strategies for achieving scale, and appropriate funding sources for different stages of growth. For an impact measurement course, the case could be used to explore SROI calculation, funding strategies for data collection, and communicating program effectiveness. In an impact investing course, it can be used to explain pay-for-success models and which interventions are suitable candidates for such funding. A development or fundraising strategy course could focus on FOTC’s approach to funding and plans for shifting funding sources to accommodate planned growth.

1. Before Class

Students should read the case and whichever readings are appropriate for the course focus and intended discussions, although the award-winning FOTC business plan is strongly recommended. Alternately, the class may be split into two sections, with each section assigned readings on either funding or scale and tasked with presenting a summary of readings and proposed strategy for FOTC to the rest of the class.

Suggested readings by topic:

- Recommended for all students: “Motivated By Dark Childhood,” “Friends of the Children Business Plan,” “Social Enterprise in Context,” as well as “The Payoff of Pay-for-Success” and its responses.
- Recommend for scaling focus: “Transformative Scale”
- Recommend for funding focus: “Ten Nonprofit Funding Models” and “From Small to Scale”

2. Introduction (10 minutes)

FOTC was founded by a successful business entrepreneur who spoke often of how he embedded business best practices into the nonprofit’s organizational model from the start. However, many of these practices—clear performance metrics, a business plan, rigorous hiring and training procedures—were also hallmarks of successful nonprofits. The instructor can ask students which of FOTC’s approaches they think are based on a business approach vs. a nonprofit approach, and discuss the trend, especially among social enterprises, to draw concepts from both fields. Also of

interest is FOTC's shift away from grant and donation-based revenue towards earned revenue from trainings, and the possibility of investments through pay-for-success models. Remind students that per Alter's definition in "Social Enterprise in Context," social enterprises can be either a nonprofit or for-profit.

Suggested Questions

1. Where does Friends of the Children fit on the Hybrid Spectrum?

Draw the following diagram (from Kim Alter's "Social Enterprise in Context") on the board and ask students to situate FOTC within it. When the case was written, they functioned as a nonprofit with income-generating activities, although under Alter's definition, FOTC was shifting more towards a social enterprise model.

Hybrid Spectrum

Traditional Nonprofit	Nonprofit with Income-Generating Activities	Social Enterprise	Socially Responsible Business	Corporation Practicing Social Responsibility	Traditional For-Profit
<ul style="list-style-type: none"> • Mission motive • Stakeholder accountability • Income reinvested in programs or operating costs 			<ul style="list-style-type: none"> • Profit motive • Shareholder accountability • Profit redistributed to shareholders 		

2. Which model might best fit their mission?

Although the FOTC business plan laid out an intention to pursue additional revenue-generating approaches, including training other organizations, revenue sharing with chapters, and affiliate fees, they hadn't proven demand for these offerings. Duncan Campbell's emphasis on business practices may have helped them reach their current level of success, but to continue that trend, they would need to prove that there is a large potential customer base—not simply a donor or beneficiary base. "Nonprofit with income-generating activities" is probably the best fit for their mission.

3. Social Return on Investment Analysis (35 minutes)

Social Return on Investment (SROI) analysis had become an increasingly important tool for certain types of interventions to measure and communicate their impact. FOTC used SROI analysis to document the success of their model for audiences that included potential partners and funders, and this type of measurement was an essential component of both their scaling and funding strategies.

Draw the category benefit analysis and SROI ratio calculations from the case on the board (see Exhibit 3 in the case for additional detail), and list the three target benefit categories of FOTC's programs (reduced youth incarceration, reduced teen pregnancy, increased high school graduation rates) for students. If needed, depending on the course level and focus, walk students through the calculation process and input data.

SROI Calculation Exercise

Walk the students through the following exercises to help them gain an understanding of how FOTC's SROI calculation can be used to estimate not only the individual lifetime benefit of their programs for

each graduate, but their total benefit to society for all graduates, forecast benefit if the scaling strategy succeeds, and how to update the Harvard Business Association's SROI calculation for expansion in new regions. The lifetime benefit calculations are already based on the present value of future cash flows, so no additional PV calculation is required.

1. What is the total lifetime benefit for all 2014 FOTC youth clients?

1400 youth currently served by FOTC model x \$838,030 net individual lifetime benefit =
\$1.17 billion total lifetime benefit to society

2. What is the additional total lifetime benefit for all youth clients if FOTC achieves their scaling goals?

7500 forecast youth served – 1400 youth currently in system = 6100 additional youth served

6100 additional youth served x \$838,030 net individual lifetime benefit = \$5.11 billion total lifetime benefit to society

3. How would FOTC's SROI ratio change if they achieve their scaling goals?

Write the following chart on the board (pro forma adapted from FOTC's Business Plan)

Chapters + Affiliates	FY 16	FY 17	FY 18	FY 19
Children Served	2650	4360	7500	10,000
Total Expenses	\$13,768,000	\$16,008,000	\$18,130,000	\$19,607,000
Yearly Cost / Child	\$5195	\$3671	\$2417	\$1960

\$1960 in forecast yearly cost per child x 12 years = \$23,250 forecast total cost per FOTC graduate

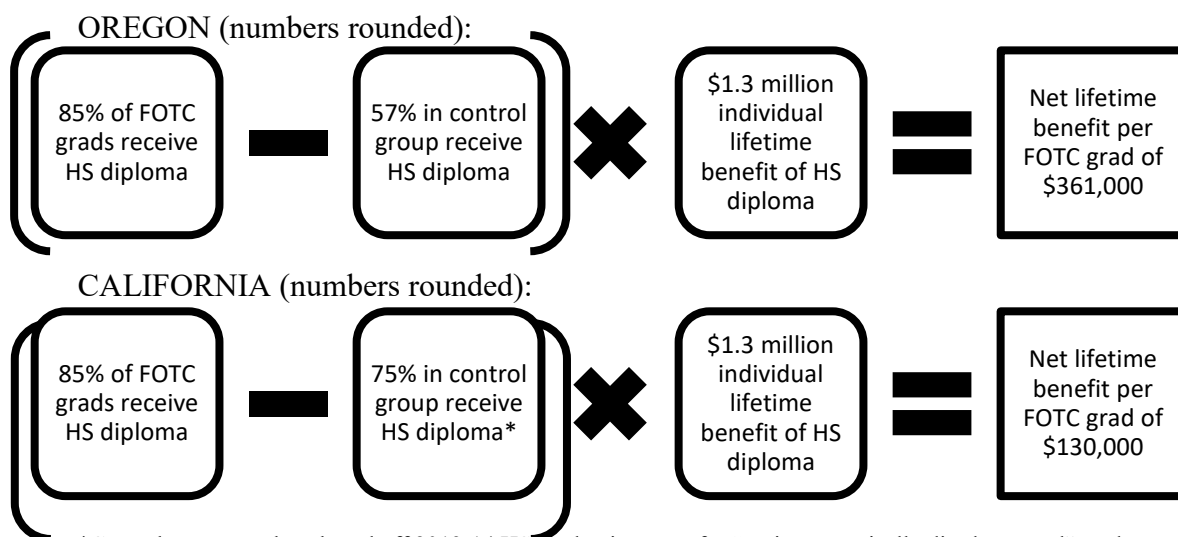
\$838,030 net lifetime benefits per FOTC graduate / \$23,250 in forecast total cost per FOTC graduate = SROI ratio of 36:1

Note that the yearly cost per child in FY 16 is roughly half that calculated in the Harvard Business Association's 2010 SROI analysis (\$5195 * 12 years = \$62,340, versus \$125,000 implied in the earlier calculation), so the SROI ratio has already improved since the time of the study. This is probably due to greater efficiencies in adopting affiliate partners. Note that the pro formas in the business plan do claim to include affiliate costs, as well as children benefited by affiliate programs.

4. Lifetime Benefit Calculation for New Region

As FOTC expands into new regions, even if they are able to achieve the same outcomes as in Oregon, the difference in achievement among target populations will affect the total benefit delivered. For example, Oregon has some of the lowest high school graduation rates in the nation. When FOTC expands into virtually any other state, the lifetime benefit calculation for

program graduates will necessarily decline in the education category, even if outcomes hold steady. Write the following charts on the board and walk students through the calculations:



*Control group numbers based off 2013-14 HS graduation rates for “socioeconomically disadvantaged” students. “State Schools Chief Tom Torlakson Reports Record High Graduation Rate.” California Department of Education, 28 Apr. 2015. Web. 25 Nov. 2015. <<http://www.cde.ca.gov/nr/ne/yr15/yr15rel34.asp#tab2>>.

Suggested Discussion Questions

1. Friends of the Children had an outside group conduct their Social Return on Investment Analysis. Should they develop this skill in-house to conduct future SROI calculations?

At the time the case was written, the Harvard Business Association’s SROI analysis, created in 2010, was already five years old. Although the Association provided FOTC with an Excel model and user manual that could be updated to reflect new data, it was unclear if FOTC staff received training in the model. As FOTC expands, measuring the SROI of new chapters and affiliates—both of which may subtly alter the program—will become more important to understanding the effectiveness of their scaling strategy and communicating it to funders. FOTC would do well to build in-house capacity for this work, and budget it into their business plan.

2. What are some of the weaknesses in their SROI calculation?

The conservative approach of the SROI calculation may understate the total benefits of the program, resulting in lower funding support. FOTC could create an updated calculation that includes both a lower and upper bound for the SROI ratio, allowing them to maintain a conservative approach but also communicate a more complete picture of the total benefits. The one-off nature of the calculation could also result in potential inaccuracies. Repeating the calculation each year, if feasible from a financial and human resources standpoint, would help create a more complete picture, allow for corrections, and enable FOTC to use updated or revised economic data for each benefit category.

3. Is an SROI analysis needed if Friends of the Children is able to complete the longitudinal, randomized control trial of their programs?

The longitudinal study would provide a more robust analysis of FOTC's impact, but only for a single cohort, and therefore does not serve as an effective substitute for repeated measurement. Given the cost and time involved in a longitudinal study, multiple studies of the type are extremely unlikely. SROI analysis offers a more cost-effective approach.

4. Scaling Strategies (15 minutes)

FOTC planned to grow from serving 1400 children to serving 7500 in less than five years through three approaches: "Demonstrate Impact," or growth in existing chapters and the launch of new chapters; "Embed Model," with FOTC's programs adopted by affiliate organizations; and "Share What Works," with broad marketing of the impact of FOTC's programs coupled with paid trainings for other organizations interested in utilizing aspects of FOTC's model. Most of the growth in children served was expected to come from the third approach. The first and third question below can be part of a classroom discussion even when none of the recommended readings have been assigned. Instead, the instructor can provide the info above and additional details from the business plan.

Suggested Questions

1. Does the scaling strategy outlined in Friends of the Children's business plan fit with their mission and vision statement?

FOTC's mission and vision statement outlined an expansive approach to impact that would eventually affect all children in the nation. Clearly, growing chapters and affiliates alone would not be sufficient to achieve these goals, so other approaches were needed. It seemed unlikely that the "Share What Works" model suggested in the business plan was sufficient to achieve this additional scaling goal. In short, FOTC's scaling strategy, though ambitious, may not have been ambitious enough to achieve their mission.

2. Which of the nine pathways identified by Bradach and Grindle in "Transformative Scale" should Friends of the Children pursue?

FOTC's business plan outlined two main organizational pathways to scaling impact beyond simply growing in size: distributing the model through existing platforms (via affiliates through the "embed model" of the business plan) and recruiting and training other organizations (through the "share what works" model of training and knowledge sharing). Some potential field-building pathways were hinted at in the business plan, and students may argue that FOTC plans to implement one or more.

Two organizational pathways suggested by the article were conspicuously absent in the business plan: unbundling and scaling for impact, and leveraging technology. FOTC's model didn't necessarily include a high-impact, cost-effective approach that could be effectively spun off, but the proposed training initiative, if successful, could lend itself to such a model. It would also fit the field-building pathway of adopting for-profit models. In terms of leveraging technology, FOTC might consider creating an online learning or training package for organizations interested in adopting a similar model. This could be available for free (creating greater opportunities for scale) or by payment (generating additional revenue opportunities).

3. How does Friends of the Children's organizational model need to change to support their strategy for scale?

FOTC's business plan identified new hires for each element of their scaling strategy: A Director of Chapter Fundraising to assist with the "Demonstrate Impact" approach of growing chapters; a Chief Expansion Officer and Director of Affiliate Fundraising to support the "Embed Model" of affiliate growth; and a Share What Works manager to lead the approach of the same name. The additional clarity in roles between the national organization and local chapters, with national assuming a greater fundraising, strategy, and marketing role, would also help with scale. However, these needs would be different if FOTC pursued some of the additional pathways outlined above.

5. Funding Strategies (20 minutes)

Remind students that FOTC's original target of raising \$3 million to support their scaling strategy was increased to \$25 million, in part to enable direct financial support to local chapters. This is a major shift from their original approach that required new chapters to raise startup costs with minimal national support, and a recognition that successful scale may require more direct control over growth, rather than focusing on affiliates and knowledge sharing. It also signals an understanding that with an emphasis on revenue sharing from local chapters, establishing additional directly-managed chapters could support a more predictable revenue stream over the long term.

The questions below are suggested as a follow-up to discussions and analysis of FOTC's scaling strategy and impact measurement approach, to illustrate how funding strategies are driven by an organization's mission, goals, and approach. Depending on which articles were assigned as additional reading, the instructor may wish to skip some questions.

Suggested Discussion Questions

1. Is Friends of the Children pursuing the right funding approach for their scaling strategy?

In "From Small to Scale," Kim, Tollerud, and Perreault argue for three tradeoffs: focusing primarily on one key type of funding (for up to 80% of revenue), institutionalizing focus on that type by investing in development capacity, and identifying future changes in funding strategy. FOTC failed to do the first, instead expanding their focus from individual donors and large foundations to a broader earned revenue strategy incorporating revenue sharing, affiliate fees, and training fees. Indeed, "From Small to Scale" explicitly argues against a reliance on foundations to finance growth above \$10 million a year in annual revenue—a milestone already passed by FOTC. However, FOTC did plan to raise money to institutionalize and nationalize their funding strategy, and believed that diversifying their funding sources was a necessary change for the future, which meet the second and third tradeoffs suggested in the article.

2. Which of the ten nonprofit funding strategies suggested by Foster, Kim, and Christiansen in "Ten Nonprofit Funding Models" do you think is the best fit for Friends of the Children's scaling strategy?

As described in FOTC's business plan, the bulk of their past funding had come from "Big Bettors"—wealthy individuals and large foundations that make a long-term commitment and donate significant sums. In the new strategy laid out in their business plan, FOTC planned to expand this with a greater focus on "Local Nationalizer" funding from chapter revenue sharing and affiliate fees. However, FOTC's proven model and strong measurement systems made it a good candidate for a "Policy Innovator" approach, pursuing pay-for-success approaches such as social impact bonds.

3. Do you think that Friends of the Children should pursue social impact bonds as a funding source?

FOTC met the two criteria laid out by Rangan and Chase in "The Payoff of Pay for Success:" it could "effectively deliver and measure [its] social impacts," and had monetized those impacts with a clear link to governmental budget savings. The three target areas of FOTC programs—high school graduation, avoided incarceration, and avoided teen pregnancy—provided both increased tax revenues (high school graduates earn more than those without a degree and are more likely to be employed) and reduced costs (medical, justice system, and safety net) for government. However, because pursuing social impact bonds as a funding source was not explicitly outlined in FOTC's business plan, they may need a new approach to successfully do so.

4. If Friends of the Children pursues social impact bonds as a funding source, how might they need to change their organizational model and measurement strategy?

At the time this case was written, FOTC was unsure if the longitudinal study on their clients would be carried through to completion, when the youth cohort being studied finished high school. Funding the remainder of the study was a stated goal of the funding strategy in their business plan. This shift in their measurement strategy to include a completed, longitudinal randomized control trial could position FOTC well to be a recipient of social impact bond investments given the rigor of such an evaluation—but would require additional financial support from the organization.

The business plan already outlined the needed shift in FOTC's organizational model to support such research and the dissemination of results, with a strengthened national organization that would focus on this role.

6. Conclusion and Wrap-up (10 minutes)

The instructor can conclude the discussion with a suggestion that students brainstorm additional revenue-generating approaches for FOTC, should they pursue a more pronounced shift towards an earned-revenue strategy. For example, FOTC might launch a fee-for-service impact measurement program that built on their current metrics and expertise in the area to provide impact measurement services or training to other nonprofits. They might also take the training concept mentioned in the business plan and launch it as a wholly or partially-owned subsidiary business. The purpose should be to help students apply an innovative lens to funding FOTC's scaling strategy and evaluate their proposed approach in light of all available pathways.