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Scaling

The Networked Nonprofit

Management wisdom says that nonprofits must be large and in charge to do the most good. But some of the world's most successful organizations instead stay small, sharing their load with like-minded, long-term partners. The success of these networked nonprofits suggests that organizations should focus less on growing themselves and more on cultivating their networks.

By Jane Wei-Skillern & Sonia Marciano | Spring 2008

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Habitat for Humanity International (http://www.habitat.org/) is a classic nonprofit success story. The organization now includes 2,100 affiliates operating in 100 countries. It boasts a vast portfolio of corporate sponsors such as Lowe's, Bank of America, and Cisco. And it has built 200,000 houses that shelter more than 1 million people.

Yet according to the United Nations, some 100 million people worldwide remain homeless, and nearly 3 billion live in poverty. If Habitat for Humanity continues to build homes at its current rate, the organization will fall far short of its goal of eliminating homelessness and what it calls "poverty housing" – that is, the substandard, overcrowded, and even dangerous conditions in which many poor people live.

But one country program, Habitat for Humanity Egypt (HFHE) (http://www.habitat.org/intl/ame/61.aspx) , is covering more ground in pursuit of its mission. Whereas a typical Habitat for Humanity country program produces around 200 houses each year, HFHE has on average built some 1,000 houses annually, for a total of more than 8,000 houses in just eight years. At the same time, HFHE has transformed the communities in which it works by collaborating with local organizations to address the root causes of poverty and homelessness. Indeed, HFHE is on track to realizing its vision: "to serve 10 percent of the 20 million Egyptians living in poverty and to develop the local capacity to serve the remaining 90 percent in need over the next 25 years."

Our research reveals the secret of HFHE's success: It has replaced the traditional nonprofit focus on internal activities such as fundraising, staff recruitment, and program development with an external focus on building its network. Taking stock of his organization's resources – capital and housing program expertise – HFHE's national director, Yousry Makar, asked himself what other resources his organization needed to reduce homelessness in Egypt. He concluded that it needed the on-the-ground knowledge and deep relationships that community- based organizations already had. This led him to develop the loose network of local nonprofits that has made HFHE such a success.

We have studied several organizations that exemplify this network approach. By mobilizing resources outside their immediate control, networked nonprofits achieve their missions far more efficiently, effectively, and sustainably than they could have by working alone. Many traditional nonprofits form short-term partnerships with superficially similar organizations to execute a single program, exchange a few resources, or attract funding. In contrast, networked nonprofits forge long-term partnerships with trusted peers to tackle their missions on multiple fronts. And unlike traditional nonprofit leaders who think of their organizations as hubs and their partners as spokes, networked nonprofit leaders think of their organizations as *nodes* within a broad constellation that revolves around shared missions and values.

Most social issues dwarf even the most well-resourced, well-managed nonprofit. And so it is wrongheaded for nonprofit leaders simply to build their organizations. Instead, they must build capacity outside of their organizations. This requires them to focus on their mission, not their organization; on trust, not control; and on being a node, not a hub.

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Network for a Change

Nonprofits that understand how to network range across both nations and issues. One organization we have studied, for instance, is the Guide Dogs for the Blind Association (GDBA) (http://www.guidedogs.org.uk/) , a United Kingdom-based nonprofit that is the world's largest breeder and trainer of guide dogs. When Geraldine Peacock became its CEO in 1997, GDBA was providing guide dogs to only 5,000 clients. Yet the organization's own research suggested that more than 200,000 people in the United Kingdom needed mobility services, which include providing guide dogs and training clients to use canes. At the same time, the organization was losing millions of pounds sterling per year operating hotels and a travel agency for the visually impaired.

Peacock decided to scale back her organization and focus only on its primary area of expertise: mobility training. But her clients still valued GDBA's hotel and holiday operations. Rather than abandoning these enterprises altogether, Peacock offered to partner with other organizations that serve the visually impaired – GDBA's former competitors. GDBA then not only handed over the management and control of the hotel and travel programs to its partners but also invested an additional £8 million to improve the programs' quality and to ensure their sustainability. GDBA's partners only had to meet jointly determined performance benchmarks.

GDBA also partnered with local governments to improve the quantity and quality of mobility services. In the United Kingdom, local governments are legally responsible for providing mobility training, independent living skills, and communication skills to the visually impaired. Yet government budget constraints leave many of these services underfunded. And so GDBA offered to fund local governments' mobility training initiatives. The governments could use the funds to subcontract with either GDBA or another nonprofit. When governments chose the latter, GDBA offered to give technical support to its peers. In exchange for the funding, the government agencies reallocated the money they saved to other services for the visually impaired.

Finally, Peacock created an independent umbrella organization, Vision 2020 UK (http://www.vision2020uk.org.uk/). The organization helps various service providers coordinate their efforts and share the costs of operations (such as payroll). It also brings together eye care service users and providers to produce a unified plan for action on all issues relating to vision. Within five years of creating these partnerships, GDBA more than doubled the number of clients to whom it provided mobility services without scaling up its own operations. Instead, it worked through other nonprofits and the government to achieve its mission. After witnessing GDBA's success, the U.K. government established a £125 million fund in 2002 to invest in the types of nonprofit networks that GDBA and its partners had pioneered.

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Some microfinanciers have also learned the power of nonprofit networks. Women's World Banking (WWB) (http://www.swwb.org/) is one of them. Founded in 1976, WWB seeks to expand the economic assets, participation, and power of low-income women.

When Nancy Barry assumed leadership of WWB in 1990, the organization reached approximately 50,000 clients and lent approximately $25 million through its network of affiliates. To deliver on its mission, Barry decided to grow the WWB network to include more independent microfinance institutions – such as ASA in Bangladesh – and banks – such as Shorebank in the United States. Today, the WWB network includes 53 microfinance institutions and banks in 30 countries. By 2003, WWB's expanded network gave 18 million people worldwide $8.5 billion in direct credit services. This growth translated into a more than 350-fold increase in the number of clients whom WWB served. At the same time, WWB's staff barely grew – from 16 employees in 1993 to 50 employees in 2003. Its budget likewise did not keep pace with its impact: from $3 million in 1993 to $10 million in 2003.

WWB gives its network members the services for which scale improves efficiency, such as technical and financial services, market research, and loan guarantees. It teaches affiliates best practices. And it advocates better microfinance policies. Yet most of the network's power lies in the support that its members give to each other. WWB network members share product and process innovations, provide technical services, evaluate each other, and hold each other accountable for results. "To create real networks, you have to believe that the center of an operation does not have a monopoly on truth," says Barry. "You need to trust the people, trust the process."[1]

Mission, Not Organization

Although HFHE, GDBA, and WWB are building different types of networks to achieve disparate missions, they share a common mind-set. First, they put their missions rather than their organizations at the center of their operations. By sharing the pursuit of their mission, these organizations forsake many organizational benefits, such as control over program implementation, funding, and recognition. At the same time, however, they have far more impact than they could ever have had on their own.

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For example, when Makar began to lead Habitat's efforts in Egypt, he first identified nongovernmental organizations (NGOs) that were already tackling issues related to poverty, such as economic development, education, and health care. "We have an Egyptian proverb that I use, which is that 'the basket that has two handles should be carried by two people,'" says Makar. "So I put this proverb in my mind and this is how I began to think to address this problem [of housing in Egypt]."

He then partnered with these organizations to develop housing programs, keeping in mind that alleviating poverty would require more than housing. Indeed, Habitat for Humanity International has built homes in communities that deteriorated into slums because no one had confronted the root causes of poverty.

Rather than impose his ideas upon the network, Makar supports HFHE's partners to the point when they become self-sufficient. Some of these alliance partners now attract their own funding, operate their own housing programs, and even disseminate their expertise without HFHE's involvement. When these partners and HFHE agree to part ways, HFHE can turn its attention to new communities with unmet needs.

HFHE freely shares recognition for its successes. At an event commemorating the building of HFHE's 6,000th house, Makar was invited to say a few words about HFHE's achievements. In his remarks, Makar said: "It's not Habitat. The community is doing it. We just provide support." He then invited his network partners to join him on stage.

GDBA likewise gives up control, funding, and recognition to support competitor NGOs and local governments that are dedicated to the same mission. Peacock readily acknowledges that GDBA cannot single-handedly serve the mobility needs of the entire visually impaired population of the United Kingdom, even though the organization is the second largest charity in this domain. In an interview she said: "It was less important which organization was providing services, or in turn which organization got credit or recognition for doing so, be it the government, or competing nonprofits, as long as services were being provided to the visually impaired at a high quality on a sustainable basis. … It's really about working smarter and thinking laterally."

Trust, Not Control

In many partnerships, nonprofits feel they must exert control to ensure quality. But when networked nonprofits share the same values, they do not have to try to manage for every contingency. Although partners may still opt to have formal contracts, they more often use them to define roles and responsibilities rather than to enforce rules. For them, trust governs the network.

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Before HFHE accepts a new partner, for instance, it examines not only the potential partner's track record in community development, but also its alignment with HFHE's core values: integrity (following through on commitments), diversity (no discrimination on the basis of color, religion, gender, nationality, or disability), and equity (serving those in greatest need). To assess the potential partner on these dimensions, HFHE conducts extensive interviews with local leaders, beneficiaries, and NGOs.

The organization also involves the potential partner in volunteer activities. Because HFHE spends considerable time and resources selecting partners, it does not need to rely on traditional top-down approaches to control them. Instead, the nonprofit treats its partners as trusted equals who play a central role in designing and executing the housing programs that best serve their community's needs.

Barry likewise works hard to build a shared vision and culture throughout her organization's network. For example, WWB facilitated a series of meetings with its partners to define their shared values. According to Barry, these values included a belief in poor women as entrepreneurs, clients, and change agents; in business approaches to economic and social changes; and in the power of self-determined organizations bound by mutual accountability for results, rather than in donor-driven approaches or top-down controls. "We believe that the practitioners are the experts," she says.[2] Thus, unlike its counterparts that advocate for a specific method of microfinance, WWB relies on its partners' values to ensure adherence to the network's shared vision while encouraging network members to tailor their methods to local contexts and client needs.

Networked nonprofits cannot take values alignment among partners for granted. They must commit time and resources at the outset to assess whether there is sufficient common ground on which to build a network. They must then invest in strengthening the shared values and monitoring adherence to them. Above all else, all network members must demonstrate their ongoing commitment to the social impact of the network rather than to their own organizational interests. Despite the cost of these investments, networked nonprofits are often far more productive because they don't have to rely on formal control mechanisms. Instead, their partners' internal motivation and commitment drive them to work hard for the shared vision of the network.

Node, Not Hub

Networked nonprofits like HFHE, WWB, and GDBA share a third trait: They see themselves as nodes within a constellation of equal, interconnected partners, rather than as hubs at the center of their nonprofit universes. Because of the unrestricted and frequent communication between their different nodes, networked nonprofits are better positioned to develop more holistic, coordinated, and realistic solutions to social issues than are traditional nonprofit hubs.

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For example, although HFHE's network partners receive 95 percent of their funding from HFHE, Makar knows that his organization is equally dependent on these partners to bring superior knowledge of the local communities and credibility in them. As a result, HFHE encourages its partners to tailor their housing grants to community needs and then spreads the resulting innovations. In one case, a partner asked HFHE if it could use its overhead contribution (5 percent of its capital) to build homes for families that were too poor to qualify for HFHE loans. HFHE agreed, and then promptly offered the partner's innovation to all of the other nodes in its network.

WWB similarly relies on network members' knowledge and expertise to amplify its impact. According to WWB founder Michaela Walsh, "Instead of running a global institution from on high, we wanted decisions made from the bottom up, through consensus building."[3] WWB staff help members by coordinating technical and financial products and services and offering training. Yet WWB depends on network members themselves to help each other achieve high performance. In 1998, a core group of network members worked together to establish minimum performance standards. By treating network members as equals and valued peers, WWB was able to establish demanding performance standards that were far more credible and effective than if they had been pushed down from WWB headquarters.

Change for the Better

According to our research, nonprofits that pursue their missions through networks of long-term, trust-based partnerships consistently achieve more sustainable mission impact with fewer resources than do monolithic organizations that try to do everything by themselves. Unfortunately, however, many practices in the nonprofit sector inhibit the creation of such networks.

Nonprofit leaders often view organizational growth and revenue increases – rather than impact – as their primary metrics of success. As in the corporate sector, the nonprofit sector considers growth of some form – whether scaling up existing programs, expanding to new locations, raising more money, or proliferating new programs – to be a sign of vitality and impact. Organizations whose budgets, staff, and programs are growing in direct response to an urgent need are often viewed as the most successful.

Nonprofit boards can also prove to be an impediment to network building. Boards are charged with overseeing the accountability of the nonprofit. This mandate often translates into an internal, organization-level focus on activities and performance, such as costs and revenues, number of new programs, number of clients served, or brand building and fundraising. Boards do not have strict, clear standards for measuring progress toward their mission.

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Donors likewise hinder the broader use of networks in the nonprofit sector. Although many funders today encourage collaboration among grantees, they often do so in a top-down manner. They fail to realize that relationships cannot be forced with the blunt tool of funding. Furthermore, donors have historically preferred to give restricted funding to specific programs rather than unrestricted funding to the organization. Dictating what and how programs should be delivered severely limits the creativity and flexibility that experts need to build powerful networks.

Even high-engagement philanthropy, with its longer-term funding, organizational capacity investments, and strategic coaching, does not go far enough: Its emphases on organizational performance, accountability, and going to scale often preclude leveraging resources beyond organizational boundaries. Instead, they drive nonprofits to concentrate on outcompeting their peers and building their own organizations' brands so that they can secure funding in competitive philanthropic capital markets. Even organizations that can afford to go it alone should explore whether working through a network can generate greater impact with fewer resources.

To harness the tremendous potential of networks, all nonprofit leaders – presidents and CEOs, board members, and funders – must let go of conventional wisdom and shift their focus from organization-level goals to network-level impacts. Nonprofit leaders should put the pursuit of their missions – not the growth of their organizations – back at the center of all of their organizations' activities. They should identify their organizations' unique competencies and actively seek partnerships with other organizations that will help them serve their missions more efficiently and effectively. They should look to both complementary and competing organizations as potential partners.

Board members must grant nonprofit leaders the autonomy to develop innovative approaches to achieving their missions in the long term, even if it means sacrificing short-term organization- level achievements. The board should also invest organizational resources in network building, enable formal relationships with external parties, and value impacts over outputs.

Funders too can nurture nonprofit networks. They should select grantees that embody the vision, values, and leadership capabilities needed to create and work through networks. By selecting for these values and providing unrestricted, long-term support, funders can help their grantees build and develop strategic networks that have the greatest impact. Because no single organization can claim the achievements of the network, funders must also fundamentally rethink their accountability systems and remain realistic about the timelines required for achieving network-level impacts.

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More With Less

Networked nonprofits are some of the most effective nonprofits in the world. They are different from traditional nonprofits in that they cast their gazes externally rather than internally. They put their mission first and their organization second. They govern through trust rather than control. And they cooperate as equal nodes in a constellation of actors rather than relying on a central hub to command with top-down tactics.

By mobilizing vast external resources, networked nonprofits can focus on their own expertise. At the same time, these external resources enhance the value and influence of each organization's expertise. They help each network partner respond to local needs and become self-sustaining. And they allow networked nonprofits to develop holistic solutions at the scale of the problems they seek to address.

Although the social problems that nonprofits are tackling are growing in both magnitude and complexity, funding is failing to keep pace. Networks do not require more resources, but rather a better use of existing resources. And so networked nonprofits are uniquely poised to face the perennial challenge of the nonprofit sector: achieving lofty missions with decidedly humble means.

Notes

[1] http://www.alumni.hbs.edu/awards/2005/barry.html.

[2] James Austin and Susan Harmeling, “Women’s World Banking: Catalytic Change Through Networks,” Harvard Business School (1999).

[3] Ibid.

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