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Scalability and Sustainability in non-profit sector

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Scale is very difficult in the non-profit sector, says Smith. The franchise model is not successful because there is no authority or ability to take away value if a franchise is not performing.

Transcript

The question is scalability and I would add sustainability because they're interrelated.. I was looking down because I usually have on this page a comment about the big challenges being scalability and sustainability.. Thank you for bringing us back to that.. Yes, scale is very difficult, particularly in the nonprofit sector or in the social sector even if it's a for-profit partly because the capital markets aren't there so you can't get the funding to develop an infrastructure to go to scale.. And even if foundations push you to go to scale, they won't fund your core organization with enough money to do it well so there are some funding issues there.. We only invest in organizations that are building to scale and it is very hard.. We have tended the spectrum between kind of inform other people so they can copy you which is just sort of dissemination to the far other end of the spectrum which is wholly owned and managed entities and franchise that's sort of in the middle.. It goes back to the theory of change and what you think is possible in your space.. In some spaces, it's really just about changing how people think and the dissemination model works because they have the scales, they know how to do it, they just to need to know your idea and off they go.. That sort of worked in the Grameen Bank example..

People needed to understand microfinance.. Once they got it, people started in different countries.. It's not run by Grameen.. It's all over the world now, right? Great idea, just tell people how to do it.. It's very hard to find successful franchises in the social sector usually because in my opinion, in the McDonald's franchise experience, there's a great deal of value that you're getting by becoming a franchisee so you are willing to follow their rules and if you don't, they take it away.. So there's quite a bit of influence on the quality.. What often happens in my opinion in the nonprofit sector especially is people pursue the franchise model but there is no authority.. There is no real value that you get to take away if they're not doing quality and so what usually happens having the communities in schools that happen to boys and girls that happen to the YMCAs is very high variability in quality from site to site.. Some sites are amazing.. Some sites are terrible..

And it's a risk to the brand of the organization that started it.. So those groups who have done a bit of a franchise model have recently begun to try to do sort of inspection, official authorization model, will inspect you once a year, every two years or whatever, and if you're not really doing a good job, you're not officially authorized and they take it away.. It can work if you really are taking away something of value.. It often I think works best when the franchiser is giving money to the franchisee.. And so if they're not quality, the money gets taken away.. We focus almost exclusively on wholly owned and managed entities because our ventures tend to be so complex in what they're doing that it's not easily franchisable.. We tried a franchise model in our first portfolio, a group called High Tech High of San Diego and in the end, High Tech High had four new schools getting off the ground realized all these lessons and now are becoming a charter management organization with wholly owned schools in San Diego because they couldn't really get around that question...