How Nonprofits Get Really Big
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Abstract

Since 1970, more than 200,000 nonprofits have opened in the U.S., but only 144 of them have reached $50 million in annual revenue. Most of the members of this elite group got big by doing two things. They raised the bulk of their money from a single type of funder such as corporations or government – and not, as conventional wisdom would recommend, by going after diverse sources of funding. Just as importantly, these nonprofits created professional organizations that were tailored to the needs of their primary funding sources.

Squeezed around a conference table designed for eight people, 12 leaders of a highly regarded nonprofit discuss how to fund the organization's growth. With the support of a large national foundation, several family foundations, a few major individual donors and many smaller ones, a handful of government agencies and corporations, and even an earned-income venture, the organization has grown significantly, if erratically, to reach about $3 million in annual revenues.

The group's programs bring young people from the inner city together with their peers from the suburbs to engage in leadership activities. Now, a decade after the organization's founding, the board and staff are eager to grow. The problem is, some board and staff members fear, that their funders are nearing the limits of what they can or will contribute. And without increased funding, the organization will not be able to expand. Has the organization hit a funding wall? Where should it turn for additional money?
One board member makes the case for additional government funding. Another sees enormous potential in a direct mail campaign. The executive director and staff maintain that the organization can secure funding from one more large national foundation. Without any clear path, no idea is a bad one. As the conversation winds down, the leaders identify the most promising funding sources, divide responsibilities, and put the next steps into motion. They do not know the odds of success, but their hopes are high.[1]

Funding Growth Is Difficult

As the number of nonprofits and the scope of their ambitions explode, conversations such as this one have become commonplace in nonprofit board meetings across the U.S. Almost to a person, all of the nonprofit leaders with whom the Bridgespan Group has worked want to increase their organization's reach.[2] In a recent study of the most dynamic, midsized youth-serving nonprofits in the country, the people we talked to repeatedly asked, "How do we get really big?"[3]
The answers to this question are anything but obvious. And examples of nonprofits to imitate do not readily come to mind. The average founding year of the 10 largest U.S. nonprofits is 1903.[4] What can younger nonprofits learn from organizations that began before the First World War?
Moreover, figuring out how dollars flow within the nonprofit sector is infamously difficult. The nonprofit "capital markets" are often irrational. Some donors strictly limit the number of years that they will provide support, and they often meet increased efficiencies with decreased funding.[5] Many of the most successful nonprofit leaders have their hands full simply keeping existing funders engaged, let alone planning for major growth. When funding breakthroughs do occur, they seem idiosyncratic – due more to luck or personal charisma than to planning.
To discover whether there is logic hidden in the haze, Bridgespan identified and studied nonprofit organizations and networks founded in the U.S. in or since 1970 that had achieved $50 million or more in annual revenue by 2003. (Hospitals and colleges, where sources of major funding are well understood, were not included in the study.) Our hope was that we might discover some rules of the road for nonprofits that want to jump to the next level and get really big.

Our findings contradict some of the conventional wisdom about nonprofit growth. First and foremost, although it may be hard to get really big in today's environment, it is not impossible – nor is it simply luck and connections that help a nonprofit make the jump. Greater numbers of nonprofits achieve substantial growth than is generally perceived. Bridgespan identified 144 nonprofits that have gone from founding to at least $50 million in revenue since 1970. Some of these organizations, like Habitat for Humanity

International, America's Second Harvest, and the Make-a-Wish Foundation of America, are household names. Most, like Youth Villages, Communities in Schools, and the National Wild Turkey Federation (NWTF), are not – at least not yet.

Further, the way funding flows to organizations this large is neither completely random nor illogical. On the contrary, we identified three important practices common among nonprofits that succeeded in building large-scale funding models: (1) They developed funding in one concentrated source rather than across diverse sources; (2) they found a funding source that was a natural match to their mission and beneficiaries; and (3) they built a professional organization and structure around this funding model.

Getting big is not the right choice for every nonprofit, of course. Securing large-scale funding generally involves some programmatic trade-offs. And large sources of funding appear to be more readily available for – and appropriate to – some missions than others. Admittedly, using revenue as the metric for growth has its limitations. It does not necessarily capture all the elements of an organization's "scale" (for example, volunteer hours). But revenue does allow comparison across organizations, and it is the central constraint that prevents many nonprofits from growing. For those nonprofits that do want to grow their revenues, understanding the paths that others have blazed over the past three decades will increase their odds of success.

The Myth of Diversification

Many leaders of aspiring nonprofits state that their No. 1 funding objective is diversification. It seems sensible. When government funding stalls, why not try to raise money from individual donations? When corporate money dries up, why not try to replace it with foundation grants? And isn't having a wide array of funding sources a good way to mitigate the risk of losing any single source of money?

Diversification may seem like a good idea, but in practice most of the organizations that have gotten really big over the past three decades did so by concentrating on one type of funding source, not by diversifying across several sources of funding. Bridgespan obtained solid financial data for 110 of the 144 high-growth nonprofits we identified. Of the 110, roughly 90 percent had a single dominant source of funding – such as government, individual donations, or corporate gifts. And on average, that dominant funding source accounted for just over 90 percent of the organization's total funding.

To better understand this finding, we conducted in-depth interviews with leaders of 21 of these 110 organizations. We found that more than two-thirds of them had not only a dominant source of funding, but also a specialization within that area: for example, not just government funding but also state government funding; not just individual donations but also small individual donations; and not just corporate donations but also in-kind corporate donations.

Only a few of the 21 interviewees knew from the start where they would find their most promising funding sources. Often, they were uncertain about which source was most promising. But as these organizations pursued their growth, they realized which sources of funding seemed most promising and were willing to concentrate their efforts on that source, recruiting people and creating organizations that could best pursue that funding source.

Consider the example of the American Kidney Fund (AKF), which helps low-income people with kidney disease. From its founding in 1971 until the mid-1990s, the AKF was a relatively small organization, never surpassing $6 million in revenue and relying on a mix of funding including a large number of small individual donations. In 1996, changes in federal law made it illegal for medical providers to assist low-income patients by subsidizing the roughly 20 percent of dialysis expenses that Medicare did not cover – effectively cutting patients off from treatment. To cover these expenses and restore care to low-income patients, the AKF set up a major initiative to raise donations from corporations. The AKF became highly skilled at this work and the organization grew rapidly, passing the $20 million mark in 2000 and reaching nearly $70 million in 2004. "Switching our emphasis to corporate partners was the real turning point in our organization," says Chief Financial Officer Don Roy.

Previous Bridgespan research suggests that the AKF's experience is not idiosyncratic.[6] In multiple nonprofit domains (such as environmental advocacy and youth services) there are distinct breakpoints at which the number of nonprofits decreases dramatically from one revenue category to the next. After each of these breakpoints, both the average level of diversification and the mix of funding change.

Take the examples of youth services and environmental advocacy. When nonprofits in these domains are small, they typically have a diverse set of funding sources, with a large percentage of the money coming from foundations. As these organizations grow to $3 million and $10 million in size, respectively, they diversify their funding sources even more. But as they get larger these organizations increasingly rely on a single funding source – in these cases, government and individual support, respectively. As they reach $50 million or more in size, the concentration of funding from one source increases even more.

This concentration by funding source does not replace the need for diversification and risk management. The leaders we interviewed were quite focused on minimizing funding risk. Although most relied on a single source for the bulk of their funding, they did not rely on a single payer. Organizations achieved diversification and mitigated their funding risk by securing multiple payers of the same type to support their work. Youth Villages, for example, receives more than 90 percent of its funding from state government contracts, but it has minimized its risk by tapping a number of government departments in a number of states. Similarly, when Population Services International (PSI) had roughly $4 million in revenues, it received more than 90 percent of its funding from the U.S. Agency for International Development. Now, with revenues in excess of $200 million, PSI still receives the large majority of its funding from government agencies focused on international development – but its supporters include the governments of Germany, the United Kingdom, and the Netherlands, as well as the United Nations.
Although dominant funding sources fuel nonprofit expansion, secondary sources are still important. Of the 101 organizations that have a dominant funding source, more than 20 percent have a secondary source that accounted for 10 percent or more of their revenue. Even when secondary funding sources account for a smaller percentage of total revenue, they can be quite valuable for furthering the mission. The Metropolitan Boston Housing Partnership, for example, receives less than 1 percent of its funding from unrestricted foundation and corporate donations. But according to Executive Director Julia Kehoe, those funds “allow us to do critical prevention work that is not currently funded by government programs.”

Finding the Right Match

When nonprofits are small, they often raise money from a wide variety of sources. That’s because there are many potential donors who are able to give small amounts of money, and because a particularly inspiring executive director can stand out from the crowd and convince these small donors to give. But when very large sums of money are involved, the picture changes. Sizable funding sources are fewer, and their goals are more developed. As a result, the funders’ interests matter more than does the executive director’s charisma.

The NWTF is one organization that found a funding source – hunters – aligned with its mission. The NWTF aims to preserve and expand wild turkey habitats. Since its founding in 1973, the NWTF has helped increase the U.S. wild turkey population from 1.3 million to more than 7 million birds. The NWTF is also a financial success: Its revenues in 2003 totaled some $87 million, with the lion’s share coming from 2,000 local chapters made up of more than 500,000 members. Hunters, who tend to make a sharp distinction between conservation and environmentalism, are the primary donors. The organization raises about 80 percent of its annual revenues by sponsoring more than 2,000 fundraisers each year, generating large numbers of individual contributions and event-related purchases. Local chapters run the fundraisers with assistance from national headquarters, and then funnel the proceeds back to the national organization.
Many nonprofits never find a dominant funding source, while others hesitantly drift toward it. This need not be the case. There are natural matches between many organizations and particular funding sources. Nonprofit leaders need to identify and target those funding sources that are most likely to be a natural match with their organizations. Far from being random, large funders’ interests often fall into distinct categories. Corporations almost always offer in-kind support focused on hunger or health issues. And individuals tend to give to issues that cross socioeconomic boundaries – like environmental advocacy – and to organizations that have clear, compelling, and simple messages.[7] We have broken funding sources into five categories – government, service fees, corporate, individuals, and foundations – and describe what we have learned about their general areas of interest. (See the table beginning on p. 48 for a list of all 144 organizations and their principal funding source, and visit http://www.bridgespan.org for profiles of 21 of the organizations.)

Government. Government is by far the most important source of funding for the high-growth nonprofits in our study. It provided most of the money for 40 percent of the organizations. In most cases, government-funded nonprofits address needs that easily fall within a particular government agency’s set of responsibilities. Federal agencies, for example, are most likely to support organizations in medical research, food, and foreign affairs. State and local governments are most likely to support human services, employment development, and education organizations. Government also provides most of the financial support for nonprofits that address the needs of lowincome Americans. The major exceptions are food banks, which receive large amounts of in-kind corporate contributions, and Habitat for Humanity, which relies for the most part on individual donations.

Many people talk about the government getting out of the social sector, but available data tell a different story. Not only our findings, but also national data show that government funding of the nonprofit sector is growing faster than the nation's GDP.[8]

People may perceive reduced government funding because of the devastating and often public impacts of reductions in particular services, or because of increases in what nonprofits are expected to accomplish with each dollar. The perception of reduced government funding is not accurate, however, and could be harmful if it leads nonprofits to forgo government funding, or if it reduces the public's attention to government's role as the primary funder of social services.

Service Fees. Program service fees are the second most important source of funding for high-growth nonprofits, providing most of the money for 33 percent of the organizations in our study. Service fees are also the second most important source of funding in the nonprofit sector as a whole.[9] Community health clinics, student loan providers, and employment agencies for the disabled are likely to depend on program service fees as their dominant source of funding.

Many of the human services organizations (such as Vinfen Corporation, which serves people with mental illness, mental retardation, or behavioral health disabilities) contract with the government to provide services. In healthcare, several large community health clinics earn a large portion of their fees from Medicaid reimbursements. The 12 student and housing loan organizations in our study likewise rely on fees and interest income.

Analyzing service fees is notoriously difficult because nonprofits have wide latitude in what they report as program service fees. Funding from the same source could be treated as government support by one nonprofit and as program service fees by another nonprofit.

Adding to the confusion is the fact that program service fees are often equated with earned-income and social enterprise ventures. Contrary to the current buzz over social enterprises, free-market commercial ventures are not the major generators of program service fees for nonprofits in this study.[10] Instead, in 90 percent of the cases for which we have detailed information, the fees had some government connection (for example, government guarantees of student loans or favorable contracting rules for those employing the disabled), further emphasizing the important role of government in the nonprofit sector.

Corporate. Corporate giving represents a relatively small share of total charitable giving in the nonprofit sector, but it is a prominent source of funding among these high-growth nonprofits. Corporations are the primary funders of 19 percent of the nonprofits we surveyed. The vast majority of corporate support is in-kind donations, not cash. Every food bank and about half of the international development nonprofits, for example, rely on in-kind corporate gifts of food and medical supplies.

In the small number of cases when corporate cash fuels a nonprofit's growth, the corporation usually has both an altruistic and a financial motive for the support. Nonprofits often garner corporate cash when a real market exists for their products or service, but laws or public opinion prevent corporations from entering the market. For example, there is a real market for blood, bone marrow, and other human body parts, but by and large, corporations do not enter this market, and instead fund the nonprofit organizations that handle these transactions.

Individuals. Individuals are the primary funders of only 6 percent of the high-growth nonprofits in our study. Interestingly, small gifts power all of the surveyed high-growth nonprofits in this category, even though major gifts account for a large majority of individual giving in the U.S.[11, 12] Although some organizations develop major donors as a significant secondary source of funds, small donations seem to fuel the broadest expansions. This may be because major gifts require greater personal involvement or because the kinds of techniques that generate smaller donations (direct mail and special events, for example) are easier to scale up.

Issues that directly touch middle-class Americans, such as the environment and health, tend to secure broad individual support. In some cases, as with the Juvenile Diabetes Research Foundation, they involve a benefit that will accrue to society in the future. In others, the benefit is more personal and immediate, as with the NWTF. Organizations that receive strong support from individual donors typically have a clear and basic message. Paul Velaski, vice president and chief financial officer of the Make-a-Wish Foundation of America, states that the top reason for their growth is "the purity and simplicity of our message. We cannot muddy it up." A clear message also helps build a strong brand that resonates with individual donors, as in the case of Habitat for Humanity.

Foundations. The least frequent source of funding for highgrowth nonprofits is foundations, which are the primary funders for only two of the organizations in our study, or 2 percent of the high-growth nonprofits. These two organizations are both in healthcare: Program for Appropriate Technology in Health; and the Stowers Institute for Medical Research, which employs nearly 300 people and researches ways to prevent and cure genetic diseases. The only other organization that comes close to this level of foundation funding is Conservation International, which aims to protect the 2.3 percent of land that contains over half of the Earth's biodiversity. In the case of the Stowers Institute and Conservation International, the pathways to solving their target issues are relatively clear, though very expensive. (This is in contrast to other issues, like education reform, where the pathway itself is still a matter of debate.)

Though it is impossible to draw conclusions from so few examples, it seems plausible that foundations become dominant funders only when sufficient funding seems to be the major missing ingredient from solving an enormous problem. In general, foundations seem to be more focused on their traditional role of starting new programs rather than supporting them at scale. This may make sense, because foundations represent only 5 percent of nonprofit funding for the domains that we studied.[13]

Unlocking Growth

Finding the right funding source to scale an organization is important, but it's only the first step. The high-growth nonprofits in our study also invested significant amounts of time and money to develop their ability to attract and solicit the right kinds of funding. The organizations that grew the most brought in talent and built organizations that support a high-growth strategy. As Catherine D'Amato, chief executive officer of the Greater Boston Food Bank, states, "We started as a charity and became a charitable business."
For example, Help USA, a housing organization, created a finance staff of more than 30 people to apply for and manage complicated government contracts. The Oregon Food Bank built a $10 million distribution center that can handle both fresh and frozen food, which greatly expanded the range of food donations it can accept. And Opportunity International cultivated a sophisticated fundraising group that is on par with those of the best universities and medical centers.

Many leaders of high-growth nonprofits experienced a pivotal point when they needed to bring in new talent. Typically, there was a strong tension between promoting internal, often program-oriented employees and hiring external candidates with deep experience in areas like marketing or logistics. Introducing new blood into critical roles, though vital, is usually trying. Similar tensions often arise when someone with a greater focus on management takes over from a visionary leader.

Bill Milliken, founder and vice chairman of Communities in Schools, recently elevated a new president within the organization. "The '60s saw a lot of great movements that died," he says. "They were led by great frontier people who couldn't relate to the settlers. They wanted new ideas but didn't build organizations. Passion and professionalism keep them in balance."

Many high-growth leaders also concluded that "virtuous and poor" was not the best way to fulfill their missions. For organizations built on the passion of committed program people, this represented a real cultural shift. Focusing on dollars and cents was not what brought them into the sector. And with so many problems to address, the idea of reserving money to create financial stability or to fund future capacity was often deeply, even morally, uncomfortable. But they realized that to fulfill their missions they needed to spend as much time, or more, on margins.

When Patrick Lawler arrived at Youth Villages in 1980 as the new chief executive officer, he was just 24 years old. "I'd been a probation officer," recalls Lawler. "I'd never seen a budget. I didn't know anything about management. What I knew about was how to take care of tough kids. For my first two or three years, I acted like we were a charity and we had to take in just enough money to pay the bills. Around 1982, one of our board members told me how we had to have margins or we couldn't run our business. Not a charity, a business. We were running on extremely limited resources and raising money via yard sales, car washes, and garage sales. That board member opened my eyes to a broader future."

In 1984, Youth Villages began focusing on its financial margins and launched its first capital campaign. The money raised was used to acquire land in the middle of Tennessee for a residential facility. This helped Youth Villages grow from a western Tennessee service provider to one that served the entire state. Having identified the state as its dominant funding source, Youth Villages proposed a contract structure that reduced the state's financial burden during a time of financial crisis. "We convinced the state that they shouldn't be buying beds. They should buy outcomes, successful outcomes." Youth Villages made sure it was in the business of providing those outcomes – adding services, such as family-based, in-home counseling, to do so. Today, Youth Villages has over $70 million in revenue and has had an annual growth rate of more than 20 percent since 1990. Focusing on margins is not just about growing revenues. It is also about controlling costs. Core to the success of the NWTF's special events is supplying auction items and gifts – what it calls "banquet-in-a-box" – to each chapter that is having a fundraising banquet. Originally, the national office had multiple retailers ship their wares to each local event. Then they centralized purchasing, built a warehouse, and shipped just one package to each location. Now the organization orders many of its banquet supplies (such as diamond bracelets, guns, and gas grills) directly from the manufacturers, including some in China. "We had been running it like a small business, but then we realized we had grown far beyond that," says Chief Financial Officer James Sparks. These moves have reduced costs by more than 70 percent. As Sparks notes, "To save a dollar is as good as to earn a dollar."

Limits to Growth

Growth is not always the right choice, or even a possible choice, for an organization. Some missions simply do not have many (or any) natural large-scale funders. And when money is available, it often comes with restrictions that can drive an organization off course. Above all, it is important to remember just how rare it is for a nonprofit to get big. These 144 high-growth organizations, although greater in number than one might expect, represent less than one-tenth of 1 percent of the nonprofits founded since 1970. Knowing when not to pursue growth is as important as knowing what may improve the odds of success when you do try to grow.

Timing can have a major influence over a nonprofit's ability to raise money and to grow. Some nonprofits have the good fortune of being founded during a period of heightened interest in their mission. Take environmental and international aid groups, for example. About 70 percent of all U.S. environmental groups over $50 million in size were founded in or after 1970. And about 40 percent of all U.S. international aid groups were founded since 1970. By contrast, only 15 percent of all educational groups and 16 percent of all arts and culture organizations of that size were founded during that period.[14]

Before 1970, the environmental movement was still in its infancy. Many experts point to the first Earth Day on April 22, 1970, as the real awakening of the movement. Hence, it isn't surprising that environmental groups starting in or after 1970 had a better chance of growing rapidly during a period in which public concern about the issue was also growing rapidly. Judith Keefer of the Natural Resources Defense Council, which was established in 1970, explains: "The issues took off. It's the macro stuff." International aid organizations seem to have experienced similar growth after the Ethiopian famine of 1984.

Growth can also be limited by nonprofits' missions and activities. For instance, funding for services – be it from government, individuals, or corporations – is more readily available than funding for advocacy. Less than 5 percent of the organizations in this study cite advocacy as their central activity. The Oregon Food Bank provides a good illustration. Its mission is to "eliminate hunger and its root causes, because no one should be hungry." In 2003, the organization was approximately $55 million in size, with more than two-thirds of that support coming from in-kind corporate contributions of food. Although the Oregon Food Bank cares deeply about policy issues and willingly takes controversial stands on such issues as the minimum wage, its primary program, the one that has received the most funding, is providing food to people who need it.

Most of the nonprofits that we studied also report that their programs or operations were restricted as a result of their dominant funding source. Some organizations choose to give up funding in order to avoid having to change their missions, whereas others choose to make adjustments. In housing, for example, government funding now favors giving housing directly to individuals rather than developing facilities, and so Help USA has had to modify its programs to accommodate that shift. Likewise, federal testing objectives have narrowed schools' focus to very specific reading objectives, forcing Success for All to modify its programs.

PSI has developed a creative way to manage these tensions. PSI receives funding from a wide range of federal and international bodies, each of which carries some restrictions. PSI has developed terms to identify activities that are off-mission (the "mush") and those that are on-mission but inefficient (the "yuck"). At times PSI must conduct activities that are mush or yuck to satisfy the interests of important funders. Nevertheless, its leadership is always cognizant of the percentage of its work that falls into these two categories.

Finding the Right Path

The fact that so many nonprofits have gotten big in recent decades is encouraging. It demonstrates that organizations tackling solutions to social problems can grow to large scale. But not all paths and practices are equal. As is the case in business, nonprofit leaders must consider the best long-term path for their organizations, whether that is choosing to stay small or trying to grow.

The good news is that nonprofit executives and board members pursuing expansion do not have to resort to guessing or hoping. With large-scale funding, there are rules to the game, even if at times they may seem unfair or opaque. If nonprofit leaders become more systematic in evaluating how (and whether) to pursue large-scale growth, boardroom conversations could become more productive, greater numbers of those in need could receive help, and scarce social resources could be better deployed.

Footnote:

1. The Bridgespan Group agreed not to reveal the name of the nonprofit.
2. The Bridgespan Group is a 501(c)(3) nonprofit applying management strategies, tools, and talent to help other nonprofits and foundations achieve greater social impact.
3. The Bridgespan Group, "Growth of Youth-Serving Organizations," March 2005.
4. *The NonProfit Times* 100, 2003.
5. For an excellent discussion of the differences between for-profit and nonprofit funding, see Clara Miller, "The Looking-Glass World of Nonprofit Money: Managing in For-Profit's Shadow Universe," *Nonprofit Quarterly*, Spring 2005.
6. The Bridgespan Group, "Funding Patterns" white paper, September 2003.
7. Exceptions to this cross-socioeconomic characteristic include selected faith-based organizations, such as Habitat for Humanity and the Christian Foundation for Children and Aging, which have a focus on lower-income beneficiaries and receive high levels of individual support.
8. Data for the years 1977 to 1997 are from *The New Nonprofit Almanac and Desk Reference* (Jossey-Bass, 2002). Data for 2002 are from the National Center for Charitable Statistics, Giving USA, and the Foundation Center.
9. Ibid.
10. For a discussion of the complexities of earned-income ventures, see "Should Nonprofits Seek Profits?" *Harvard Business Review*, February 2005.
11. National Center for Charitable Statistics, Center on Nonprofits & Philanthropy, and Center on Philanthropy at Indiana University, "Nonprofit Fundraising and Administrative Costs Study," 2004.
12. "Small" gifts were designated as gifts under $10,000. Data were not available for Focus on the Family, which could be an exception to the pattern described.
13. Foundations provide about 2 percent of overall funding in the nonprofit sector, but about 5 percent for the domains that Bridgespan covered in this study (which exclude hospitals and colleges).
14. National Center for Charitable Statistics.