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Managing Risk to Scale Impact

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CASE STUDY

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Can expecting the best, but planning for the worst, prepare nonprofits and their funders to turn unexpected roadblocks into opportunities?

BY ERIC STOWE

We like to think of nonprofit organizations as the brave wayfarers of broad social change, scoffing at risk and thirsting for the opportunity to "go big" as they relentlessly pursue their missions. But with more than 10 million NGOs operating globally—and still a seemingly endless list of problems to tackle—it strikes me as fair to question the validity of that view.

In fact, from my vantage point, it seems that most nonprofits have little appetite for risk.[1] Small, one-off initiatives, isolated pilot projects, village-level programming, or limited-scope endeavors are the norm, not the exception. While that approach, often seen through proofs of concept, shouldn't discount their efficacy, impact, or worth, these programs rarely ever go to scale.

A big piece of the issue, of course, is the availability of big-bet funding. The expressed desire for transformative change from the donor community has never been greater than it is right now. And increasing numbers of grantors *say* that they would like to see third sector organizations take big risks. But funding opportunities are far from commensurate with that ambition. In fact, investments are actually quite sparse relative to the level of attention and zeal the funding community has placed on systems change and big bets over the last few years.[2] In any case, taking on major social initiatives without clear pathways to success, as it turns out, seems to be a difficult thing to do with other people's money.

What could change this picture? Besides a complete overhaul of how NGOs and donors engage with one other when thinking of and planning for broad social change, here's what I think could be a good first step: more frank discussion about risk—the nature of it, how to anticipate and prepare for potential crises, and what to do in the event of one. It has become common to hear axioms about organizations taking big risks when working toward big change, but it's rare to hear what doing so actually looks like on the ground. By acknowledging and having a plan to deal with risk, grantors and NGOs alike can feel more comfortable in making calculated big bets.

That's why I have written this essay—to share my experience with risk as founder and CEO of Splash, a nonprofit committed to ensuring safe water for children and families worldwide. In a nutshell, I've learned that the bigger the goal, the greater the potential for a fairly unremarkable event to become a fairly monumental challenge or crisis. So when I hear funders talk about organizations taking bigger risks, my question is this: Is the organization built to withstand a crisis, and is the funder ready to support the organization in the event of one? Because whether or not its leaders and staff members have triple-checked every line item and every moving part of their program, if they are working toward real scale, then real crisis is inevitable.

What follows are descriptions of three specific times when we at Splash had to assess our goals and strategies in response to unforeseen and sometimes calamitous events—events that radically altered our organizational vision and posed existential threats to our programs if not handled strategically. In all three cases, our donors played a critical role in helping us to effectively deal with potential crises and chart a path forward.

China: Our (Almost) "Mission Accomplished" Moment

Splash's first major project launched in China in 2007. Due to a strong preexisting working relationship with the government there, we were able to initiate an expansive project focused on providing safe water to every orphanage in the country—there were 700 on our list—in relatively short order. With China's geographic size and cultural complexity across its many regions and provinces, it was a mighty task—especially when you consider that at the time, Splash was an agency of two people. But we poured everything into the project's success, and we saw fast returns.

You can imagine my unbridled joy when we were close to completing the project in 2012. With only 20 orphanages left on our checklist until 100 percent coverage, you can also probably imagine my unfiltered shock when the government informed us that there were actually more than 500 orphanages still left on the national roster, facilities that hadn't been included on our original list.

Keep in mind: We had already done the bulk of fundraising for the initial target and therefore had reallocated our fundraising attention and resources to other programs; we had widely discussed the projected completion date publicly, which allowed us to initiate new donor conversations for new initiatives based on the success of this soon-to-be completed accomplishment; and we had begun planning a celebration with key donors of the program, which had been scheduled to be completed on time. To hear that we were barely beyond the halfway mark was absolutely crushing, to say the least.

In the government's defense, the facilities that the officials had left off the list were the most sensitive and remote orphanages in the country, and until they were sure that we weren't there to politicize or proselytize under cover of our license, they hadn't been willing to share them. In our defense, we honestly didn't know about these facilities, as they were truly the most protected and remote of the country's orphanages—off the grid completely from common view. In the end, we were provided an unprecedented level of access into the government's child-serving programs because we had proven ourselves across the country over the previous five years.

While I take pride in the level of trust we earned, the news caused an immediate and monumental crisis within our organization. We were committed to serving *all* of China's orphanages. But the immense funding deficit we faced; the barrage of questions from staff, board members, and donors about our seemingly anemic project planning (even though we were transparent about what had happened); and the acute concern that our reputation was at stake, all collided to raise serious doubts (ours, our donors', our other clients') about our abilities to reach this new milestone goal.

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Once we decided to stay true to our goal of reaching 100 percent, we ended up approaching our largest funder and pitched them to ease previous funding restrictions on other grants to Splash. In so doing, we were able to ease the strain on the organization while also allowing for flexibility in moving capital toward areas of greatest need rather than toward rigid business plans built in a vacuum.

It is only now, five years later, that we are mere months from completion. It wasn't easy to course-correct our work in-country, or to revise Splash's programming outside of China to help ease the financial and operational burdens placed on our organization with the addition of the 500 orphanages (for a new total of 1,200). In fact, it took at least three years to relearn our rhythm and regain our pace in China, to divert resources toward rebuilding our fundraising efforts, to reassign people throughout our organization to newly revised work plans, and to restructure our global plans to ensure that we could meet the needs of all the countries we had committed to helping.

Without the flexibility of our primary donors, we would have had to choose between collapsing the China program and significantly downsizing other country programs to stave off organizational entropy. I honestly shake my head when thinking about how much we had to reshuffle to keep this program in China on track.

India: Too Much of a Good Thing

Our work in India is similar in audacity to what we set out to accomplish in China. Here, we're determined to ensure clean water, clean hands, and clean toilets for 400,000 of the poorest kids across 2,000 government schools in Kolkata, the nation's third-largest city.

Most people have a hard time imagining what a water crisis looks like in an urban setting. This is even true of government officials who live and work in the same cities in which we operate. We have routinely found that officials working in the Education, Health, and Water ministries in India are unaware of how unhealthy and unsafe the water, sanitation, and hygiene (WASH) conditions are in poor urban schools. To change that scenario, we shifted our funding strategy in 2015 to invest significant resources in collecting deep data around this subject—knowing that providing evidence of the critical WASH situation in urban India was critical to mobilize everyone concerned about schoolchildren and their education.

We took extensive measures to ensure that our data collection process and findings were unassailable.[3] We spent several months in Kolkata and in two other locations, sending teams to every public school to assess the WASH infrastructure, evaluate the schools' existing WASH knowledge and programs, and test the drinking water on site. In total, we reached more than 3,000 schools providing education for more than one million children. The data we gathered showed a dramatic gap between what public officials believed the WASH standards to be and what they actually were.

Our findings inspired our teams, compelling us to reframe our own strategies and our programming. So it shouldn't have come as a surprise that when we presented our data to the representatives of various ministries in India, and other NGOs and international NGOs (INGOs) interested in the same issues, over a four-month span, they were shocked by the results.

Specifically, once the stark conditions at these schools were spotlighted, global INGOs, Indian organizations, and government bodies with a vested interest in education, urban poverty, and WASH began approaching us, proposing potential partnerships that would stretch our work well beyond our original targets in Kolkata—and even beyond our planned focus on improving conditions in schools. Many of the groups that approached us were significantly larger than Splash (by several orders of magnitude).

These were much bigger organizations pitching a much smaller and far more resource-constrained organization to partner on initiatives that would see meaningful revenue increases for us but would also require an appreciable stretch in both our scope and services. We realized that in order to align with these new co-funding opportunities, we would have to expand our model to accommodate the other organizations' broader scope of work, speed up our growth and outputs exponentially, and carry a much greater fundraising burden.

The power dynamics associated with the negotiations, the internal discussions we had about the decisions we would have to make in order to control mission drift, the speed in which the agreements had to happen (before the opportunities dried up)—all intersected very quickly. And in the end, we simply couldn't keep up.

Not only did we lose momentum overall, but also we actually lost some credibility in the marketplace because we were talking about operating at scale, but we were not necessarily ready to implement in such a multidisciplinary fashion. What had begun as a groundbreaking chance to spend our resources to prove the need ended up as a protracted situation that tested our ability to maintain our clarity of purpose. All of the opportunities in front of us had great potential but also could have pulled us from our core focus, and they certainly could have diminished our ability to deliver for the core communities we had committed to serve. It was a prime example of how even the most positive developments still present risks.

Ultimately, we decided to refocus on our core commitment to design a scalable WASH-in-Schools model for Kolkata that could be replicated across India's major cities and beyond. We moved forward with one critical strategic partnership and deepened the support of one of our key donor groups to take advantage of this opportunity. Today, thanks to their support, we have been able to build internal expertise at our Seattle headquarters, in India, and in our two other main program countries, Nepal and Ethiopia, paving the way for broader future success and far greater scalability.

Now, with our core program model strengthened, we will be selectively reengaging with the global INGOs, Indian organizations, and government bodies to reassess opportunities for partnership, with a clearer perspective on mission creep and greater leverage in negotiations.

Nepal: Doing the Right Thing—and Getting Punched Anyway

In Nepal, we're focused on ensuring safe water for all of the schools in the nation's capital city of Kathmandu. In keeping with our long-term goal of transferring full control and autonomy to local country offices over time, we decided to invest heavily in the professional development of the local country leader, a smart, charismatic, engaging, and entrepreneurial individual. Between 2013 and 2015, Splash spent significant resources, influenced our networks, and committed funding to build his leadership capabilities.

By early 2016, Splash was closing in on ensuring clean water for 70 percent of all the students in the city. We estimated that it would take an additional two years to get to 100 percent coverage, and we were ramping up for the final leg of implementation, with a larger goal of seeing our model replicate in cities across the country in our sights.

Then we learned that our country director, the same one in whose development we had invested so heavily, had been caught consolidating control over our commercial relationships in Nepal. Shell companies were presented as legitimate vendors, existing policies and procedures were ignored, financial documents were manipulated, and funds from new donors to Splash were being rerouted to this individual's personal business. He was gaming to reap substantive personal gain from our philanthropic projects.

We pride ourselves on building our model for plagiarism, but not in this way!

These revelations were shared with donors to the program in real time (sharing internal findings within hours of receiving them at the organizational level), which compelled two of Splash's largest funders to hit "pause" on their funding to us while we tracked all the possible routes of malfeasance. With the assistance of local auditors, lawyers, and business consultants, we were able to determine the extent to which this man had manipulated the policies, opportunities, and relationships that we had built together.

Fortunately, the staff in Nepal alerted us before this individual's actions caused an irreversible loss. Still, this situation cost us at least a year of momentum and put a pause on more than $1 million in expected funding. Being blindsided in this way was harder for us to overcome than any of the other disruptions we had experienced in Nepal, including those caused by the continuous political upheavals there. Recovering from the fallout of this one person's actions was even more difficult for our organization than rebounding after the massive earthquake of 2015.

At the time, we were spending more than 35 percent of the organization's funding on our work in Nepal. The precipitous drop in revenue that followed this unfortunate discovery effectively slammed the brakes on everything we were doing in the short term and forced us to alter our long-term plans as well. It placed enormous strain on our local staff of 30 in Nepal, on our relationships with the government and with schools there, and on our relationships with donors in the United States and Europe. It also taxed our team and our operations in Seattle.

Globally, we are now a much stronger agency because of what happened. The reactions of key donors helped us make the decision to push pause on this program and take the steps necessary to strengthen our management structure in Nepal. The bent toward spotlighting the individual social entrepreneur (the Heropreneur, as we think of it internally) was a dogmatic and ill-conceived philosophy to begin with, but an approach all too common in the social sector.[4] This learning transferred quickly to our other program countries and areas, to the benefit of all our work. While we count ourselves lucky to have caught it when we did, in Nepal we have had to spend a lot of time rebuilding relationships because of what transpired. Trust is built slowly, but it can be destroyed in a flash.

The Butterfly Effect

Strong government partnerships, data-driven programming, and deep investment in local leadership are all essential to the scale and sustainability of any nonprofit venture. We wholly subscribe to them all, even though they ultimately exposed us to significant risk in China, India, and Nepal.

But that's part of the process, right? Isn't it what we all signed up for? All nonprofits face a barrage of unforeseen threats (or organization-changing opportunities) on a regular basis. And for those truly pushing the boundaries in the social sector, the risks and opportunities can multiply 10-fold. The greater the goal, the higher the probability that a small action will someday trigger an exponentially larger reaction. In other words, the deeper you go into systems change, the greater the butterfly effect. But all of it—the good, the bad, and the blind side—leads me to three primary conclusions about risk.

First: To be durable, an organization must be built with the expectation that it will have to survive crises. It has to have a responsive and adaptive leadership team that is ready to shift resources, divert and manage funding, and mobilize staff to focus on (potentially) entirely new paths—all while retaining the social fidelity of the organization and navigating to the same North Star. The organizational muscle memory associated with navigating crises well is a net positive for any major future investment. Not every shock or surprise leads to a negative outcome, though. Far from it. And being prepared for a crisis doesn't necessarily suggest a work atmosphere of constant frenzy; that's not healthy anywhere. But the team at the helm of the ship has to be agile enough to course-correct quickly in the event that lightning does strike, and do so with efficiency, integrity, and accuracy.

Second: Organizations must be swift, honest, and transparent in conversations with their donors as challenges arise, not after they've become too big to handle. Too often, organizations attempt to show that they've solved a budding issue, and by the time it has morphed into something more difficult, funding partners are belatedly informed. In each of the three cases I described, we reached out to key funders very early on in the process of assessing the shifting landscapes. Most said that they had never been given that sort of visibility within such a short time frame. This led to totally different discussions between real partners, rather than the usual transactional discussions between donors and grantees. If anything, we now have deeper relationships with each of the funders that were associated with the three cases.

Third: Organizations need to build their capital reserves so that they will be able to weather the unexpected major storm. Open Road Alliance recommends a reserve of at least 20 percent of the overall project costs to mitigate significant risks throughout the life of the project. Judging from our experiences in China, India, and Nepal, that figure seems appropriate. For us, funding allocation and reallocation became the critical linchpins holding programs together in times of tumult *and* opportunity. Were it not for the cash reserves we had built up, coupled with unrestricted funding, support, and guidance from progressive donors, any of these projects, in isolation, might have slid inexorably off the rails. Progressive philanthropists would also do well to accept that with any transformative project there will be a corresponding likelihood of risk associated with their investments. Thinking about how to set aside a percentage of grant funds to help NGOs deal with crises and opportunities would be both prudent and visionary.

It just goes to show that risk and reward do go hand in hand, and that planning for risk is an approach that donors *and* nonprofits can rally behind. ◀

NOTES

1 There is no shortage of amazing, risky, and transformative interventions by tenacious, talented, and fearless organizations. But if you took every group ever featured by Ashoka, Skoll, Acumen, Schwab, Clinton Global Initiative, TED, and other award-making funders, and multiplied that by 100, the final tally would still be minuscule compared with the 10 million NGOs that operate around the world.

2 Bridgespan has done some tremendous work on this topic. One of their important findings is that most large donations go to institutions—such as universities, hospitals, and museums—not to social sector causes.

3 Splash worked with multiple global development organizations to design a survey capable of spotlighting critical gaps in urban WASH; we curated the final assessment tools with the relevant government bodies overseeing education in those cities, and we paid premium rates to hire third-party enumerators and third-party water-quality laboratories to undertake the surveys.

4 http://tacklingheropreneurship.com