Scaling Pathways

Insights from the field on unlocking impact at scale

Excerpt from **Financing for Scaled Impact**

KEY TAKEAWAYS FOR SOCIAL ENTREPRENEURS

What Strategies Do Experienced Social Entrepreneurs Use to Finance their Scaled Impact?

Too busy to read the full paper? Need a takeaway to summarize what you learned? Below is a synthesized version of our work which explores lessons in financing from a pool of 100+ social entrepreneurs recognized by global funders for their experience in scaling their impact. Click the links to access additional detail from the paper.

EXTERNAL FUNDING STRATEGIES

Bring in a mix of capital types and sources to fuel your scale of impact.

STRATEGIES	**FIND FLEXIBLE CAPITAL** *to give you room to test, iterate, and shift resources as needed* Page 7	**DIVERSIFY FUNDING TYPES AND SOURCES** *to reduce the risk of any one funder changing strategy, and to even out cash flow* Page 9	**LEVERAGE RESULTS-BASED FINANCING** *to access new capital sources that provide flexibility to focus on outcomes* Page 11
MISTAKES	• Assuming that funders of flexible capital require less rigor for reporting on progress.	• Not understanding the different motivations and communications preferences of investors and donors. • Not leading your own deal terms. Do your homework and negotiate for what is aligned with your needs and goals.	• Under-planning for the significant time and effort required for set up, including legal and accounting. • Underestimating costs to deliver on outcomes, and using inaccurate secondary data to set the baseline against which you will be judged. • Draining internal resources to be able to effectively manage the contract.
TIPS	• Beyond foundation grants and HNW individuals, consider sources such as SE-focused accelerators, corporate foundations, low-interest loans, and crowdfunding. • Carve out uses of capital that give you more flexibility, such as core components of your model or an R&D fund to help you continuously innovate. • Sell funders on your vision and business/venture plan rather than specific activities. • Build trust with your donors to help them provide more flexible funding over time. • Do great cost accounting to tell a clear story with specific figures about what you need unrestricted money to do. • Articulate the costs that will not decrease as you scale your model, and will thus require ongoing unrestricted subsidy.	• Don't be afraid to say no—avoid funding that is misaligned with your goals or would result in mission creep • Align the complexity of your funding relationships with the operational capacity and sophistication of your enterprise. • Understand the level of impact evidence that different funders will expect. • Leverage key moments and build on momentum with current funders to provide a signaling effect prompting new funders to commit. • Look for creative ways to engage with impact investors, and don't be afraid to invent new structures (such as spin-offs or hybrids) that work best for both of you.	• Pursue only if you are genuinely convinced that it is strategic and aligned with your future goals, as the cost to develop and execute can be quite high. • Ensure you have a robust unit model and monitoring and evaluation systems to implement and manage against outcomes. • Identify grant funding to support a pilot of the model, so you are better positioned to negotiate a future RBF contract. • If pursuing a SIB/DIB, carefully select the role (service provider? intermediary?) that best aligns with your scaling goals. • Look at everyone's costs, not just yours. If the third party evaluator is getting more money than the service provider, the DIB may not be scalable.

> **"Starting [a hybrid] will not save a struggling organization. Don't strap an eagle to the back of a turkey in the hope that both will fly."**
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> Yaver Abidi,
> Managing Director of WSUP Advisory, on scaling impact and growing earned income through a hybrid structure.

INTERNAL/OPERATIONAL STRATEGIES

Leverage resources within your organization to power your scale of impact.

STRATEGIES	**REDUCE COSTS** *to create a more efficient model and decrease the need for external capital* Page 14	**EARN SOME OF YOUR INCOME** *to provide a source of (unrestricted) funding for growth and/or sustainability* Page 15	**LEVERAGE HYBRID LEGAL FORMS** *to expand impact, leverage new financial stakeholders, and mitigate risks* Page 18
MISTAKES	• Failing to adequately test the implications of cost-efficiencies on the full model.	• Underestimating the costs to pursue earned income, including staff skills and capacity, systems, time to test and iterate. • Misaligning the earned income product/service with the venture's mission and core assets. • Prioritizing profitability over impact goals.	• Assuming that creating a hybrid will help save a struggling organization. • Misalignment between teams, cultures, and systems working for separate but related entities. • Underestimating the costs and complexities of hybrid forms—legal, financial, and reputational.
TIPS	• Create a performance-based culture and processes that incentivize cost-efficiency. • Even small tweaks can add up to large savings over time, but be sure to have systems in place to set criteria and stages for what you test, and at what level of effort. • Leverage technology, when appropriate, to drive cost-efficiency. • Map your ecosystem to identify other actors in your value chain whose work you could leverage. • Pay attention to the scaling limits of your value chain partners. Can they scale as fast as you can? • Consider implementing through other partners, but be careful about program fidelity.	• Be realistic about revenue goals, and do not assume 100% sustainability is the best goal—especially given the cost to deliver impact to underserved populations. • Use a metric that measures value per dollar spent to help stakeholders understand your value—especially if you anticipate always being reliant upon some amount of philanthropic capital. • Beware of mission creep and the potential for profitability to negatively affect impact goals. • Consider different cross-subsidy models (including differentiated pricing and products) but carefully balance your core customers with up-market customers to ensure you are staying true to mission.	• Lead with mission—will a hybrid form help expand impact, not just the bottom-line? • Ensure parent organization's financial health is strong so that subsidiary has a platform from which to grow. • Consider piloting the opportunity internally as a proof of concept. • Ensure appropriate operational and governance systems are in place (or budgeted for) to support both/all entities. • Clearly delineate roles between entities to decrease confusion amongst funders/investors and increase complementarity of the work. • Maintain control of the assets that matter to your mission.