

Part II: Synthesis of Concepts from the Complexity Sciences

Going to Scale

Kirsten Moy of the Aspen Institute discussed her work relating to increasing the scale of an organization, and leadership models that are presently being used in different types of non-profits and collectives.



The Aspen Institute is a think tank of sorts. For a number of years we've worked with non-profits in the US. Did you know we have more non-profits in the US than anywhere else in the world?

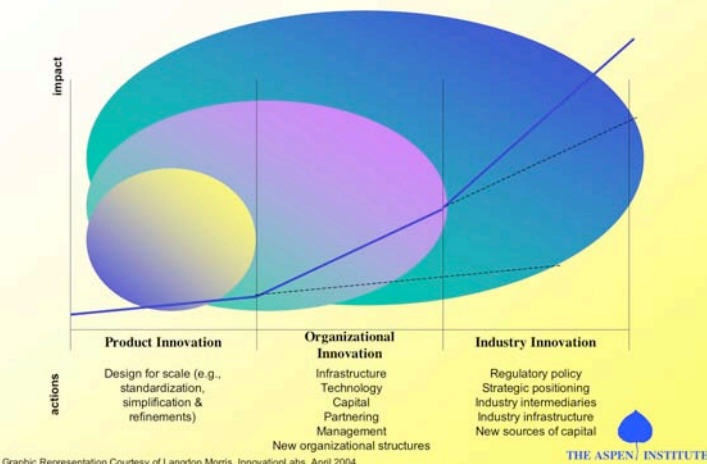
They do good things but the problem is that they don't go to scale very well. They are very mission focused and it's hard to inject financial or structured standards into them.

So we asked the questions, "How do they get bigger and how can they be more sustainable?" In most cases, "scale" means serving more customers. Most non-profits don't refer to economies of scale. They think about growing the number of customers they serve.

Most non-profits - not including hospitals and universities - serve about 1% of the people in need. In the work force area they serve about 5% of the need that exists.

To learn more, we studied organizations that have gone to scale, and that are sustainable.

New Pathways to Scale for Community Development Finance



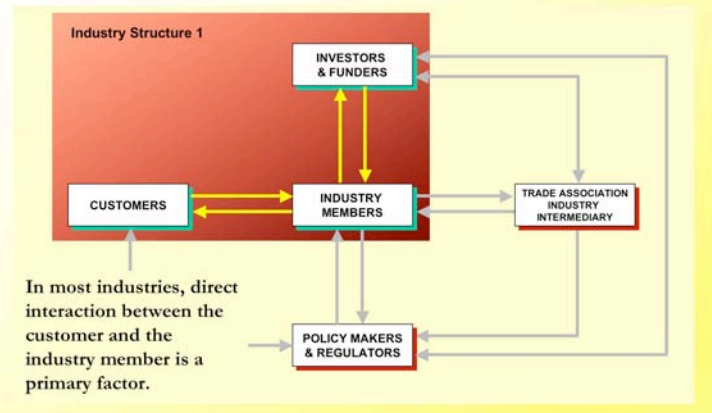
Scale isn't one simple concept. There is scale at a product level. There is scale at an organizational level, but we've found out the real opportunity is at the industry level. Most organizations don't have the intention to become national. They just want to

serve more people in their local area.

If a new piece of equipment is developed, the company that develops it wants to produce lots of them - they think in terms of 1000s. Most non-profits are very small. Many non-profits think in terms of 10s or maybe 100s. 95% of the non-profits have budgets of less than \$100,000 per year.

If we have an industry of small local players the only way to make them bigger or better is to work at the industry level. Industry intermediaries have a huge role to help change things. Developing an industry infrastructure and having good data easily available with privacy assured is key. A lot of industry time is spent lobbying because of that need. So we tried to map this out and see the different kinds of industries that exist. There are typically five different players in an industry. Customers are one type. Industry members are another. Investors or funders (payers) are another. There are trade associations and then there are policy makers and regulators.

Industry Structure 1: The Corporation -Customer Dynamic



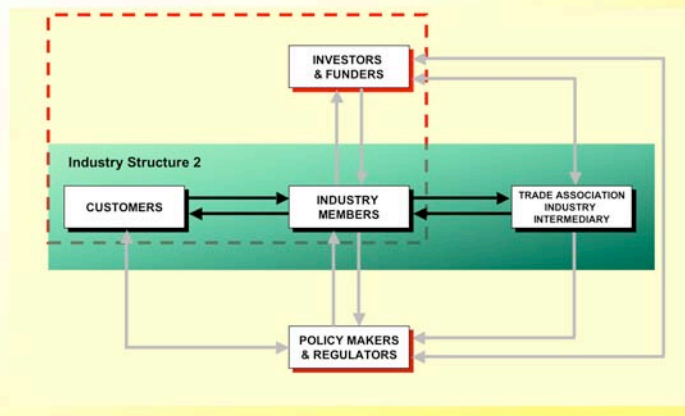
The most basic structure is one that sells a product. The basic relationship is between the organization and the customer. The investors are in the picture in this basic structure, but they are hands-off.

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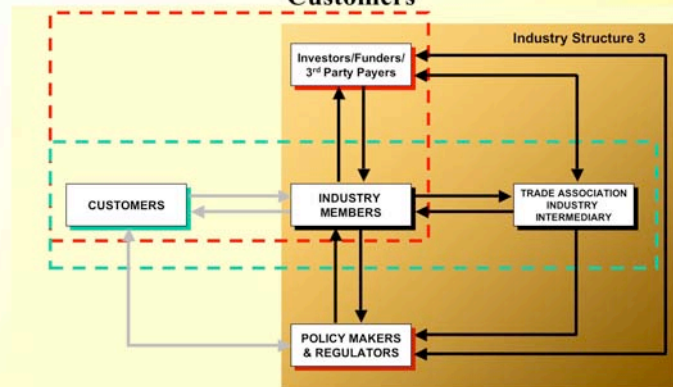
Industry Structure 2: The Small Players Dynamic: Industry Associations/Intermediaries Help the Many Small Members Compete with the Few Large Members



This next structure shows customers, but like the example of grocery stores there are mostly little grocery stores and then there are trade associations that do a lot for the small members.

What was most interesting to me was this diagram. We developed this for organizations that are dependent on subsidies. They produce things that people cannot fully pay for. Who is actually paying for this? Foundations are important. Regulators are also important because a lot of money comes from them. There are also trade associations, but they don't have a lot of capacity to help.

Industry Structure 3: Subsidy Dependent: Behavior of Industry Members Driven More by Funders/3rd Party Payers & Policymakers/Regulators than Customers



What is most interesting is the customer is left out in these types of industry structures. These organizations rarely do customer service. Even though non-profits say they exist to serve, they don't actually do much customer service.

It is not surprising that there are few established processes to deal with the customer. In this kind of industry the member is most responsive to the payers, so trade associations have a very large role.

Imagine a scenario with two different organizations, one which has no customer and the other is comprised of all customer groups. The outcomes would be very different in each of those scenarios.

Collaborative models can help organizations. By a collaborative model I mean something that helps all the individual players work more efficiently, get more capital, and get some things done at an industry level. Some kind of collective or collaborative models have some great benefits. You can have local control and reduce management (or have better management).

So I want to talk about a couple of interesting examples of collaborative business models.

Unified Western Grocers is a grocery coop distributor. They serve about 500 grocers at 1500 stores. They are credited with saving the individual grocery industry in the western part of the US. They provide grocery buying. They have a smart warehouse in California. They teach people how to pick real estate sites and how to purchase. The members own this coop. You buy into a coop. The way they maintain themselves is by taking a spread off the savings on the cost of groceries purchased in large quantities. They also provide consulting, but the percentage of revenues from consulting is very small.

The Housing Partnership Network is not a coop. No one is forced to go into anything. They have created for-profit organizations that support and serve the members. Non-profits can have for profit entities

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All their for-profit activities are in the support of the mission of the member organizations.

CCA Global Partners is 20 years old. They started out as a group of about 16 leaders in the carpet industry because the large groups like Wal-Mart were coming. This has morphed into a combination of coop, franchise and licensing model.

They started with Carpet One, a flooring retail group, and then they created Mortgage One, Lighting One, and a network of biking stores. They provide key benefits to the individual owners, which could not compete with the larger groups without being part of this cooperative. CCA offers real estate programs, educational programs, services, research, and they negotiate larger contracts and then coordinate the work. They are now within the top five in the country for carpet stores. They do not let everyone in. You have to be above a certain size.

They have built a real culture. I went to one of their summits, where they had several 1000 people, and they are like a family. The CEO said that if you create something they can join and the culture will develop by the fact of being a part of something. They are very community oriented.

They are looking at a buying program for the Housing Partnership Network.

In studying these groups what works and doesn't work? We observed that these collaboratives haven't been started by large groups. The ownership is typically by the members. There is no "us and them" when the members own the collective.

Attributes that Work and Don't Work

	Doesn't Work	Works
Initiators	Large Groups	A Few Leaders
Ownership	Third Party	Members Own
Management	Amateur	Professional
Membership	Anyone	By Design
Entity Type	Trade Association	Operating Entity
Representative	Anyone	CEO or Principal
Revenue Stream	Donations	Earnings
Driving Rationale	Weak	Strong
Value Proposition	Nice to Have	Must Have
Relation to Members	Non-Responsive	Very Responsive

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They have professional management. Not anyone can join, and that is by design. The entity type is a designed entity that has a bottom line. Trade associations have to let everyone in. Trade associations seem to serve the lowest common denominator; they try to do things for the lowest tier.


In some ways it's a peer association, a peer alliance. These groups are formed by high level people like CEOs or Principals. Revenue streams are typically earnings. Member fees never seem to be enough to cover operating costs. Revenue streams could initially be donations but they morph to revenue streams at some point.

There was a really strong reason for having a collaborative. The value proposition has to be such that everyone gains.

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Organizational Models	Criteria for Membership	Ownership	Governance / Control	Degree of Professional Management	Where Does the \$\$ Go
Nonprofits					
Membership Organizations					
Network of Affiliates					
Peer Alliances					
Cooperative					
Co-Ops					
Credit Unions					
Corporations					
Multiple Locations					
Franchise					
Licenses					
Combinations					

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There are many types of models for organizations. Across the top are parameters. There are all kinds of coops and credit unions. What you pick to some extent determines your criteria for membership. If you are a coop then you are owned by the members. There is a force on some affiliates in the Habitats for Humanity group for more accountability.

A peer alliance or a coop is the best model we've found. Coops seem to be viewed as a social movement rather than a corporate movement. Excess revenue over expenses is distributed to members. A coop allows ownership.

There are so many different types of organizations so there can be multiple or mixed models. A central entity sometimes creates entities of different structures. Shore Bank in Chicago is a bank that has created non-profits to carry out its mission. CCA is a coop and franchiser and has licensing entities.

Charter Schools are an example of creative destruction. They are going to step out a bit but they are still within the public school system.