

**Social Impact Exchange**

Taking successful innovation to scale

# Due Diligence Framework for Scaling Initiatives

(beta)

Developed in Collaboration with the Alliance for Effective Social Investing

## Due Diligence Framework for Scaling Initiatives (beta)

### Introduction

The main purpose of this due diligence framework is to provide funders with guidelines on basic topics to cover when doing due diligence on scaling initiative. These guidelines are not intended to replace funders' existing due diligence or grant review processes. They are supposed to serve as a resource that can add to funders' existing processes when they are evaluating scaling investments, which have distinctive analysis considerations associated with them. Its intent is to enable higher quality funding decisions by providing information that investors can use to help them distinguish nonprofits that are high-performers and have an strong opportunity to generate scaled impact. It is not meant to be an exhaustive list of topics – it is focused on the main categories related to *scaling impact*.

The development of the framework is a response, in part, to the significant interest expressed by funders for more information on how to evaluate scaling investment opportunities. This version of the framework has been collaboratively developed by a large group of experts and practitioners in the field of scaling and social impact. Members of the Social Impact Exchange's Market Development Working Group and the Alliance for Effective Social Investing collaborated to create the common framework, which has undergone three sets of revisions to date and now has five sections, including a major section on evidence level and several sections on organizational readiness to scale.

### Next Steps

We consider this a "beta" version of the framework. The goal over the next 6-9 months is to develop another version of the framework (1.0) based on feedback from a wider audience of funders. For example, the framework in its current iteration is geared more toward replication and scaling of direct service programs and nonprofits. Enhancing it to include other methods/strategies for scaling impact, such as policy initiatives, would make it useful to a broader set of funders. A second goal over the next 9 months is to develop a more robust resource "how to" guide to accompany the framework that helps users to understand the implications of their findings, and use their findings to make good investment decisions. The guide would then be piloted with various groups of users and their feedback incorporated as it is introduced to more and more users. In this sense, the framework and guide are intended to serve as a continuously updated **educational tool** for the field.

# Social Impact Exchange: Due Diligence Framework (beta)

## Categories of Due Diligence for Nonprofit Scaling Initiatives

(**Draft** – Not for Circulation)

### Purpose:

The intent of this framework is to provide guidance to funders who are considering a scaling investment (serving more people more effectively). By collecting the types of information identified in this framework a funder should be able to make a more fruitful investment. This beta version of the due diligence framework is a starting point. Analysis of the framework's effectiveness will be ongoing and results will be used to continuously improve the guidance it offers.

### A. Scaling Goals & Market Analysis

Social Impact Goals	1. Are the nonprofit's scaling aspirations (including growth and impact goals) clearly stated?
Industry/ Field/ Ecosystem	1. What are the main strategies being employed in the field to address the problem? Which are the most effective? Which have scaled successfully? How large is the target population? 2. What does the comparative landscape look like, e.g. market share, players by geography? How does the funding flow in this field? Are there significant potential funds, available for scaling?

### B. Social Impact and Levels of Evidence

Self-Reported Data	1. Is the program's Theory of Change based on evidence and/or knowledge that has been gathered by the field? 2. Is a strong system in place to track individual participants' outputs and outcomes <u>before</u> , <u>during</u> , and <u>after</u> program participation? Is the same data collected consistently from all program sites? 3. How does this data trend over the last three years? 4. Is the data compared to baseline data (target population's "outcomes" prior to the intervention)?
Third-Party Evaluations	1. Were the evaluations well designed and conducted? 2. What were the results regarding program outcomes (immediate, intermediate, and long-term outcomes) and impacts? If outcomes differ substantially between different participant segments then why and what did you do to address this? How do your outcomes correspond to state of the art knowledge regarding what is most helpful for the group(s) you serve? How closely do these outcomes align with the organization's social impact goals, TOC and core program? 3. Were unintended outcomes considered? 4. Were program recruitment and selection processes reviewed for skimming and motivational bias? Did the evaluation consider the rate of pre-mature program drop-outs? 5. Have program completion rates for various subgroups been analyzed? Are there any relevant groups that are unlikely to complete the program? And have appropriate adjustments to the program been implemented? 6. What difference does the program make beyond what would have happened without it?
Quasi- Experimental Studies	1. What were the results of any quasi-experimental studies? 2. Are outcomes stronger than what happens without an intervention? 3. How similar a population were the comparison groups?

Randomized Control Trials (RCT)	<ol style="list-style-type: none"> <li>1. Is an RCT appropriate for this program?</li> <li>2. If one was performed, what increased impact did the program have compared to the control group(s)?</li> <li>3. What are the limits of what the RCT(s) proved?</li> </ol>
Other Impact Indicators	<ol style="list-style-type: none"> <li>1. Are there multiple early indicators and/or proxies that give a strong degree of confidence that the intervention results in the desired outcomes?</li> <li>2. How consistent are the outcomes or impact across program sites?</li> <li>3. What are the economic savings to society based on the program outcomes?</li> <li>4. Do the reported outcomes reinforce the validity of the organization's theory of change?</li> <li>5. Is the level of evidence commensurate with the nonprofit's stage of growth and capital request?</li> <li>6. How does the organization understand how its primary constituents see it?</li> </ol>
Broader Impact	<ol style="list-style-type: none"> <li>1. What strategies are in place to scale impact beyond the people served by the nonprofit itself, <i>e.g. policy initiatives, catalyzing a broader movement or coalition, training executives from other nonprofits, creating a market-based solution, forging a public/private partnering model, leveraging systemic change and implementing a broad-based communication strategy?</i> <ol style="list-style-type: none"> <li>a. Does the organization have clear goals for these strategies?</li> <li>b. How effective have these strategies been? How does the organization measure their effectiveness?</li> </ol> </li> <li>2. Does the organization seek to partner/collaborate with others where appropriate? How does it assess and improve its relationships with third parties?</li> </ol>

### C. Program

Program Elements	<ol style="list-style-type: none"> <li>1. How much training and expertise is required to deliver the program? How customized is the program to a specific location and population? Will the program be difficult to standardize and therefore does it present a greater challenge to replicate?</li> <li>2. Has the program identified Key Elements that need to be held constant to achieve outcomes?</li> <li>3. Have aspects of the program that lead to outcomes been examined, <i>e.g. intensity, dosage, recruitment process, level of participation and completion, quality of materials, experience of staff?</i></li> <li>4. Does the nonprofit know which factors lead to poor outcomes and how to improve weak sites?</li> <li>5. Can the program adapt to local conditions? Is it clear which program elements can be customized as the program enters new communities or targets new populations?</li> </ol>
Program Standardization	<ol style="list-style-type: none"> <li>1. Are program processes and elements standardized and documented?</li> <li>2. Is there a complete and thorough operating manual? Is it suitable for use in scaling efforts?</li> <li>3. As the organization has scaled-up, has it maintained fidelity to the key elements of its program model? Does it have performance data to demonstrate this?</li> </ol>
Training	<ol style="list-style-type: none"> <li>1. What is the quality of initial and on-going training for staff, management and site leaders?</li> <li>2. Are there training tools and curricula that can be rolled out during scaling?</li> </ol>
Quality and Performance Systems	<ol style="list-style-type: none"> <li>1. Is the organization quality and performance driven? Does it have systems and standardized processes in place to ensure consistent outcomes? Is it focused on continuous improvement?</li> <li>2. Is there a "performance scorecard" in place? Are short- and long-term goals and metrics clear?</li> <li>3. Are systems and people in place to gather, analyze, and act on the right data in a timely and strategic manner?</li> <li>4. Has the organization considered how its processes and systems need to evolve as it grows?</li> <li>5. Does the nonprofit have an on-going performance management and evaluation strategy with staff and resources dedicated to it?</li> </ol>

## D. Organizational Strength & Capacity

Management	<ol style="list-style-type: none"> <li>1. Has an assessment of the nonprofit leader been conducted? Have references been checked? How experienced is the leader in raising money, thinking strategically, motivating and directing staff, and cultivating a learning environment?</li> <li>2. Is there enough management depth to scale at the projected pace? Do managers work well as a team?</li> <li>3. Does management have the skills and expertise required for scaling?</li> </ol>
Board of Directors	<ol style="list-style-type: none"> <li>1. What is the Board's level of engagement and strategic competence? Is the board committed to assuring sufficient operating revenues? What is the board's level of involvement in developing growth capital and revenues?</li> <li>2. Will the Board be a strong asset in the nonprofit's scaling effort?</li> </ol>
Governance	<ol style="list-style-type: none"> <li>1. What is the relationship between the national office and local sites, e.g. legal structures, decision rights, agreements in place to govern quality standards, services, fundraising, etc.?</li> <li>2. Will this governance structure be appropriate during and after its intended scaling?</li> <li>3. How transparent &amp; accountable is the management team to the Board?</li> <li>4. Does the nonprofit comply with governance best practices regarding conflict of interest, whistleblower policy, CEO compensation, etc.?</li> </ol>
Operations	<ol style="list-style-type: none"> <li>1. How strong and scalable are the nonprofit's non-program operations, e.g. finance, accounting, IT, HR, knowledge management, public relations, volunteers, government relations and marketing?</li> </ol>

## E. Readiness to Scale

Organizational Structure for Growth	<ol style="list-style-type: none"> <li>1. What is the nonprofit's growth structure (e.g. an affiliate model). How effective has it been to date?</li> <li>2. What limitations does the nonprofit's chosen structure place on its ability to scale-up?</li> <li>3. Have the trade-offs of different growth structures been considered?</li> <li>4. Are program sites satisfied with the structure and with the support received from the national office?</li> <li>5. Do sites have formal input into how the program network is managed?</li> <li>6. Are there tensions between the sites and national office that affect program outcomes or fundraising?</li> <li>7. How is quality ensured if sites have significant autonomy?</li> <li>8. Are there complications with raising money locally given the existing structure, e.g. if local programs are part of a larger local nonprofit do they receive enough attention?</li> </ol>
Scalable Process	<ol style="list-style-type: none"> <li>1. Are there standard RFPs and criteria for selecting new sites or expansion partners?</li> <li>2. Are there standard processes for entering new markets? Are they consistently applied?</li> <li>3. How are local funders engaged in starting up new sites or programs?</li> <li>4. Does the organization adequately focus on its resource chain, e.g. pool of staff, volunteers, etc. when entering new markets?</li> <li>5. Is there experience with local scaling, i.e. "going deep" in a city once a program is established? If so, what are the successes to date? What lessons have been learned?</li> </ol>
Demand	<ol style="list-style-type: none"> <li>1. What is the market demand for the program? Is there a backlog of requests for the program?</li> </ol>
Market Entry and Ramp Up	<ol style="list-style-type: none"> <li>1. How long does it take to get new sites established? What are the major impediments to site start-up?</li> <li>2. What are the costs of starting a site and the average budget of maintaining a site?</li> <li>3. What is the success/failure rate of program sites?</li> </ol>
Commitment to Growth	<ol style="list-style-type: none"> <li>1. Are the board, management, employees and other constituents committed to scaling?</li> <li>2. Do these constituents understand their roles and responsibilities to ensure successful scaling?</li> <li>3. Do they understand the implications of scaling for the nonprofit, e.g. funding, operations, risks, etc.?</li> </ol>

Brand Equity	<ol style="list-style-type: none"> <li>1. How strong is the nonprofit's brand equity among constituents who are important to successful growth, e.g. foundations, donors, public officials and partners?</li> <li>2. Are there plans to protect the brand equity during (potential) scaling challenges?</li> </ol>
Growth Planning	<ol style="list-style-type: none"> <li>1. Has a high-quality, multi-year growth plan been developed that includes growth and outcomes targets, strategies, interim goals, operational plans, and capital requirements?</li> <li>2. Is there a prioritization of goals in case resource constraints require scaling back the plans?</li> <li>3. Has the nonprofit engaged the appropriate partners for scaling?</li> <li>4. Are projected growth, revenue, and cost targets realistic? Have the main assumptions been tested?</li> <li>5. Were alternate scenarios evaluated?</li> <li>6. Have risk factors been identified? Is there a contingency plan? Are enough funds being raised?</li> </ol>

## F. Economic Model & Sustainability

Financial/Expense Review	<ol style="list-style-type: none"> <li>1. What are the major categories of expenses? How are these expected to change with scale?</li> </ol>
Financial/Revenue Stability	<ol style="list-style-type: none"> <li>1. What percentage of national and local revenue comes from private contributions, fee for service income and government funding? What portion of private contributions comes from each of the following: foundations, individuals and corporations?</li> <li>2. Are the revenues consistent, reliable and adequately diversified?</li> <li>3. Does the organization dedicate sufficient resources to revenue generation?</li> <li>4. Will the revenue model be able to scale in line with the projected growth of the organization?</li> <li>5. Will scaling require the nonprofit to have additional reserves?</li> <li>6. What percentage of contributions are unrestricted?</li> </ol>
Capital Structure	<ol style="list-style-type: none"> <li>1. Does the organization distinguish between growth capital and operating revenue?</li> <li>2. Is capital being raised via the growth plan for support of ongoing operations, or to support the costs of expanding the operation and establishing the infrastructure to manage at scale?</li> <li>3. Is the nonprofit investing in its ability to generate increased revenue to support a scaled up organization?</li> </ol>
National Office Growth & Sustainability	<ol style="list-style-type: none"> <li>1. Is there an achievable plan for sustaining the national office at scale with reliable revenues?</li> <li>2. Does the nonprofit's plan include earned income to support scaling? If so, do they have a track record of doing so, and the capacity to increase their earned income?</li> <li>3. Has the national office attracted growth capital in the past? Have national funders expressed strong interest in funding increased national office capacity to manage growth?</li> </ol>
Local Program Start-Up and Sustainability	<ol style="list-style-type: none"> <li>1. Is there a demonstrated model and ability to raise start-up capital for local sites?</li> <li>2. Is there a track record of local sites becoming sustainable? Can local sites become sustainable in the future without ongoing fundraising assistance from the national office?</li> <li>3. Where does sustainable funding for local office operations and growth come from, e.g. philanthropy, earned income, a reliable third-party payer, state government contracts?</li> </ol>