What's Your Endgame?
By Alice Gugelev & Andrew Stern

→ Nonprofit leaders who ask "How do you scale up?" are most likely posing the wrong question. Most nonprofits, after all, face barriers to organizational growth that remain too high. But by asking a different question, and by focusing on a different kind of goal, leaders can maximize their ability to achieve significant social impact.

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Illustration by BLAIR KELLY

The Reciprocity Foundation works with homeless youth in New York City. Like many other nonprofits, it works tirelessly to make a deep and highly focused impact on a relatively small population. Its founders believe that transforming the lives of 90 young people in a profound and long-lasting way is more meaningful than working with thousands of young people in a superficial way. They worry that if an organization like theirs attempts to expand—by opening new locations in New York State or across the United States—it likely will dilute its impact and reduce its overall sustainability.

Yet the magnitude of the challenge that Reciprocity has targeted prompts a crucial question: How can a nonprofit that operates at such a modest scale even scratch the surface of a social problem that is growing exponentially? More than 20,000 homeless young people live in New York City alone, and there are an estimated 1.7 million homeless minors nationwide. Wouldn't all of them potentially benefit from the Reciprocity program?

In recent years, the Reciprocity Foundation has adopted a new approach to dealing with the challenge of scale. Instead of expanding its base organization, Reciprocity partners with large social-service agencies to train their staff in the Reciprocity model and to deliver programming at their sites. "It's a way of covertly scaling—of growing our impact without having to add office space, increase funding, or replicate staffing," says Taz Tagore, cofounder of Reciprocity. Such partnerships enable Reciprocity to broaden its impact and deliver high-quality outcomes that benefit the sector as a whole.

The scale of an organization, in other words, does not necessarily equal the scale of its impact. In fact, most nonprofits never reach the organizational scale that they would need to catalyze change on their own. High structural barriers limit their access to the funding required to grow in a significant and sustainable way. Given those barriers, it's time for nonprofit leaders to ask a more fundamental question than "How do you scale up?" Instead, we urge them to consider a different question: "What's your endgame?"

An endgame is the specific role that a nonprofit intends to play in the overall solution to a social problem, once it has proven the

effectiveness of its core model or intervention. We believe that there are six endgames for nonprofits to consider—and only one of them involves scaling up in order to sustain and expand an existing service. Nonprofits, we argue, should measure their success by how they are helping to meet the total addressable challenge in a particular issue area. In most cases, nonprofit leaders should see their organization as a time-bound effort to reach one of those six endgames.

So what is *your* endgame? Is it "continuous growth and ever greater scale"? In light of the enormous challenges that exist within the social sector, that is an easy and compelling answer for nonprofit leaders to give. But it may not be the right answer.

THE PROBLEM OF ORGANIZATIONAL SCALE

For nonprofit organizations that aim to scale up, the odds of success are long. If you held a conference on "managing large-scale organizations," the number of for-profit CEOs in attendance would dwarf the number of nonprofit CEOs. Between 1970 and 2003, 46,136 for-profit businesses in the United States surpassed $50 million in annual revenue, whereas only 144 nonprofits did so. The situation for nonprofits has improved only slightly in recent years: Between 1975 and 2008, just 201 nonprofits reached that $50 million mark.[1] Today, more than half of all registered US nonprofits receive less than $100,000 in annual funding, and only 7 percent of them receive funding of $1 million or more.[2] In short, very few nonprofits are reaching a significant degree of financial scale. More to the point, few of them are reaching a scale that is commensurate with the scope of the challenges they seek to overcome.

In our view, a US-based nonprofit needs to reach an annual funding level of at least $5 million before it qualifies as having attained "breakout scale." Roughly speaking, an ideal nonprofit will follow a growth trajectory that goes through the following stages (with the size of its annual budget serving as a proxy for its scale): start-up (less than $500,000), proof of concept ($500,000 to $2 million), early scaling ($2 million to $5 million), breakout scaling ($5 million to $10 million), and full scale ($10 million or greater).

Foundations, which often serve as early-stage funders for nonprofits, have little or no incentive to support an organization through later stages of growth. Even if they want to provide such support, foundations often don't have the financial means required to do so. In fact, foundations were the primary funder for only 2 of the 144 nonprofits that passed the $50 million barrier between 1970 and 2003. Of those nonprofits, one-third of them depended primarily on revenue-generating programs, and one-third relied primarily on government funding.[3] Other significant sources of potential funding—commercial lending, for example—are typically not available to early- and mid-stage nonprofits. Those sources often require a nonprofit to have a budget of at least $5 million. (Several years ago, we presented a nonprofit investment opportunity to a commercial banker. The banker told us to come back when the organization in question had at least $100 million in funding!)

In the for-profit sector, angel investors or venture capital firms might fill this gap. In the nonprofit sector, organizations persistently face what we call a "social capital chasm"—a gap that yawns wide between them and the budget of $10 million or greater that they need to achieve full scale. (See "The Stages of Organizational Growth and the Social Capital Chasm" on page 43.)

The nonprofit sector, of course, has undergone a great deal of change in the new millennium. A new generation of nonprofit leaders is implementing revenue-generating models that promise to alter the scale at which their organizations can raise funding. Have they made headway in narrowing the social capital chasm? It may be too early to tell; growth takes time. But early evidence does not offer much cause for optimism.

To analyze this question, we looked at 142 nonprofits that receive support from a group of leading US funders. We then focused our attention on 41 organizations that were founded between 2000 and 2007.[4] These organizations have had at least five years to grow but are not so mature that their previous growth would account for their current size. For 39 of those 41 nonprofits, we were able to locate relevant, comparable data, and we found that those organizations had achieved varying levels of financial scale by 2012: Two-thirds of them (27 of the 39) had reached $2 million, but only one-fifth of them (8 of the 39) had reached $10 million. These organizations are some of the most promising nonprofit ventures of the past decade, yet only a few of them are operating at a significant scale.

INSIDE THE SOCIAL CAPITAL CHASM

There are several structural factors that distinguish the nonprofit sector from the for-profit sector.[5] Because of those factors, we argue, a well-functioning "social capital market" to support nonprofits through each stage of growth has not yet emerged—and may never emerge. Here, we point to four challenges in particular that make it difficult for nonprofits to scale up.

Lack of ownership or equity | For structural reasons, nonprofits find it difficult to attract the sort of managerial talent that helps lead for-profit companies through periods of significant growth. They cannot offer deferred compensation packages that involve equity (in the form of stock options, for example), and therefore it's hard for them to recruit high-caliber people during their early growth stages. For nonprofit founders, similarly, there is no financial incentive—no "exit value"—that would encourage them to keep expanding an organization until it reaches a given scale. The nonprofit sector also lacks the kind of incentive structure that would promote scale-enhancing mergers and acquisitions. There are no shareholders to reap the benefit of such transactions. Instead, there are senior managers, who often have little to gain and much to lose when two organizations become one.

Nonalignment between funding and service | In the for-profit sector, the success of an organization depends on its ability to develop a product or service that will drive revenue. Its ability to achieve commercial "impact," therefore, aligns with its ability to raise money. Rich Leimsider, vice president of fellowship programs at Echoing Green,

describes this challenge: "In the social sector, you have to win two games simultaneously: a product game (delivering real social impact) and a revenue game. And since the product users are not always the same people as the revenue providers, that's pretty hard to do."[6]

Bias against investment in growth | The now-common (and sometimes accurate) depiction of large-scale nonprofits as bloated and bureaucratic institutions has led to a trend in favor of supporting smaller nonprofits. Critics routinely malign large-scale nonprofits—those that, say, break the $50 million annual revenue barrier—for being inefficient in their allocation of resources. Partly as a result, a general norm has emerged in the social sector that requires 85 percent or more of an organization's capital to go toward funding programs rather than operations (also known as "overhead"). This norm strongly limits organizational growth, which hinges on investments in structures, processes, and capabilities. Too often, funders want to contribute only to programs that deliver direct, immediate impact. As other observers have noted, this bias among funders destabilizes the sector and hinders the ability of organizations to scale up.[7]

A skewed grant funding structure | Instead of supporting an organization's overall mission, funders often prefer to provide grants to programs that target a particular issue over a limited period of time. Corporate foundations, in particular, often allocate capital to efforts that align with their own institutional goals but not necessarily with the broad goals of the nonprofits they fund. The International Institute of Rural Reconstruction, for example, can easily acquire one-time grants to install solar lights in schools, but it struggles to secure multiyear grants to train teachers or to operate schools. Fundraising thus becomes a continuous scramble to meet annual targets, and nonprofits focus on applying for small, piecemeal grants—an effort that taxes their resources and further limits their ability to grow.

FROM SCALING UP TO ENABLING IMPACT

Given these structural barriers and the unlikely prospects for overcoming them, most social-sector organizations will struggle to reach the breakout-scale stage, let alone the full-scale stage. Without the capital needed to develop certain core capabilities, they will most likely end up with an empty bank account and a great deal of unrealized potential. For that reason, nonprofit leaders should shift their focus from the scale of their organization to the impact that their organization can help to achieve.

Paying close attention to social impact is, of course, a common characteristic of nonprofits today. Leaders of nonprofits routinely develop not just a mission statement and vision statement, but also a statement that outlines the organization's "intended impact" and its theory of change. Along with the use of traditional for-profit tools— from strategic plans to impact metrics—these statements have become widely recognized signs of a well-run nonprofit organization. Many intended impact statements cover a specific period (five or ten years, for example), a certain number of beneficiaries (say, 10,000 children), a particular location (such as Kerala, India), and a particular issue (such as vaccination). Here's a noteworthy example of that approach: "Over the next decade, Harlem Children's Zone's primary focus will be on children aged 0-18 living in the Harlem Children's Zone project, a 24-block area of central Harlem. ... Harlem Children's Zone's objective will be to equip the greatest possible number of children in the HCZ project to make a successful transition to an independent, healthy adulthood, reflected in demographic and achievement profiles consistent with those in an average middle-class community." Other nonprofits create broader impact statements. Habitat for Humanity, for instance, has announced its intention "to eliminate poverty housing and homelessness from the world, and to make decent shelter a matter of conscience and action."[8]

The move toward developing intended impact statements has led the nonprofit sector to become significantly more focused and, arguably, more effective. But these statements typically lack two crucial elements. First, they often fail to account for the overall scale of the problem that a nonprofit aims to confront. As a result, they fail to reckon with the gap between what the nonprofit can achieve and what the problem actually requires. A nonprofit might cite an intended growth rate in the range of 10 percent to 15 percent annually, for example. In the for-profit world, such a growth rate would be quite impressive. But it will hardly make a dent in a social problem whose scale would require a growth rate of 500 percent or even 1,000 percent.

Second, and more important, these intended impact statements do not specify how the organization in question will contribute to solving that broad social problem. Is there a plan to replicate programs through a franchise model, for example? Is there a path toward persuading government agencies to take over a given program or service? Nonprofits, in short, should take into account not just the direct impact they hope to achieve, but also the sector-wide change they ultimately aim to create. We believe that every nonprofit should define not only its mission, its vision, and its intended impact, but also something that is no less critically important: its endgame. Again, by "endgame," we mean the specific role than an organization intends to play in confronting the total addressable challenge in a certain issue area. In our research on nonprofits, we have encountered very few organizations that clearly define that role.

The Stages of Organizational Growth and the Social Capital Chasm
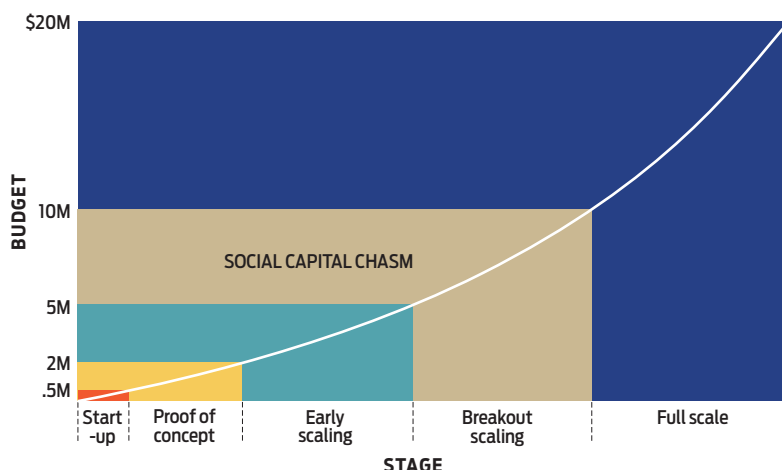
ENDGAMES THAT ORGANIZATIONS CAN PLAY

We have developed a framework of six endgames for a nonprofit to consider. (See "Plotting an Endgame: Six Options" below.) This framework builds on previous research on scaling up nonprofits. Organizations such as Arabella Advisors and the Bridgespan Group, for example, have conducted studies on how nonprofits can use advocacy, partnerships, replication, networks, and other approaches to make a dent in the immense challenges faced by the social sector.[9]

How do nonprofits determine what their endgame should be? They can begin by thinking about the essential characteristics both of the social problem they have targeted and of the operational model they use. Those factors should inform which endgame they pursue, as well as the capabilities they build as their organization matures.

Open source | A nonprofit that chooses an open source endgame invests in research and development in order to develop and refine a new idea or intervention. It then works to spread an idea or intervention by serving as a knowledge hub from which other organizations can draw resources. In some cases, a nonprofit that pursues an open source model will also engage in advocacy efforts. A classic example of the open source model is Alcoholics Anonymous (AA)—a framework for dealing with addiction that any religious group or other nonprofit can adopt and implement. The AA organization, in fact, doesn't run any AA meetings. Instead, it operates a resource center that provides instructional and inspirational materials to local AA groups, and those groups host meetings for participants. In sum, the core competency of an open source organization is effective knowledge management.

Replication | A nonprofit with a replication endgame seeks to expand usage of its product or model without having to expand its organization. To pursue this endgame, the nonprofit needs to demonstrate the efficacy of its approach and then to find other organizations that can deliver its product or model. In many cases, other organizations are able to implement that approach more effectively than the original organization because they have a stronger existing infrastructure or because they enjoy greater trust within a certain community. In some cases, nonprofit founders pursue a replication model because other parties have approached them about starting a similar organization elsewhere, but they have neither the motivation nor the ability to extend their model to other locations. Once other organizations adopt its product or model, a nonprofit that pursues a replication endgame can serve either as a certification body that maintains quality standards or as a center of excellence that demonstrates best practices to potential replicators.

Charter school networks are a prime example of the replication model. Along with adding a level of competition to school systems in which they operate, charter schools test new pedagogies, new curricula, and other new approaches to improving student achievement. But the implementation of those innovations typically requires a deep familiarity with local institutions. For that reason, successful charter schools—Harlem Success Academy in New York City and North Star Academy in Newark, N.J., for instance—often set up replication centers where educators from other communities can learn how to follow their model.

Government adoption | In the government adoption endgame, a nonprofit proves its concept and demonstrates that its intervention can be delivered at a significant scale. Then it mounts an advocacy effort to influence policy and budget decisions. Once government adoption occurs, the nonprofit can continue to serve as an advisor or service provider to government agencies. The scale of delivery required to confront many (if not most) social problems is high enough that government involvement often becomes indispensable.

The development of universal kindergarten in the United States at the turn of the 20th century provides a good case study in how this model works. Private charities, orphanages, and parochial schools ran the first kindergartens in the country. After boards of education started recognizing the developmental benefits of early education, they began to fold kindergarten classes into existing public school systems. By World War I, all of the largest American urban school systems included kindergarten, and kindergarten students in public schools outnumbered those in private schools by almost 19 to 1.[10]

Commercial adoption | A nonprofit with a commercial adoption endgame aims to alleviate either a market failure or a market inefficiency, such as uncertainty or lack of information. Sometimes a nonprofit organization can explore ways to fill gaps in production or delivery that occur when start-up costs or strategic risks are too high for commercial interests to absorb. Such ventures need to have a revenue-generating component that a for-profit enterprise could exploit once a nonprofit provider has reduced the real or perceived risks associated with it. In recent years, for example, many

Plotting an Endgame: Six Options

ENDGAME	CHARACTERISTICS	CORE APPROACH	FUTURE ROLE
Open source	A breakthrough idea that is easy for other organizations to adopt and integrate	Conducting research and development, and sharing knowledge	Serving as a knowledge hub for research related to a breakthrough idea
Replication	A breakthrough product or model that is easy for other organizations to adopt and deliver	Defining a replicable operating and impact model, demonstrating its efficacy, and sharing it with other organizations	Providing certification of franchise programs and training services, and serving as a center of excellence
Government adoption	A model with high coverage potential, along with a capacity for integration into public sector programs	Delivering results at a sufficient scale and level of efficiency to make a case for public sector involvement	Offering services to government agencies, and maintaining research and advocacy efforts
Commercial adoption	A product or service with profit potential that solves a market failure or reduces market risk	Demonstrating the impact and the profitability of a product or service, and reducing associated risks	Maintaining advocacy and monitoring efforts, targeting hard-to-reach market segments, and working to ensure commercial delivery
Mission achievement	Defined and achievable outcomes related to solving a discrete problem	Maintaining a focus on targeted intervention	Applying (where relevant) unique assets and capabilities to additional issue areas
Sustained service	A strong organization, with a proven ability to sustain funding, that fills a market or public service gap	Creating a cost-effective model, building a strong organization, and making efficiency improvements.	Continued provision of a core service at an ever-increasing level of efficiency

universities have created centers where engineers and other faculty members can develop and test product or service prototypes that a commercial provider might ultimately adopt.

Or consider the field of microfinance. Early pioneers such as BRAC and the Grameen Foundation showed that it was possible to provide financial services to the poor and to do so profitably. Commercial banks subsequently moved in to serve the higher end of the microfinance market. Nonprofits continue to serve harder-to-reach segments, to prepare borrowers for the broader market, and to conduct research and development on new products. They also help to ensure that the quality of service provided by the commercial microfinance market remains high.

Another form of commercial adoption occurs when a nonprofit incorporates an earned revenue component that ultimately results in all or most of its revenue coming from commercial activity. With the pioneering efforts of organizations such as Ashoka and with the recent emergence of the impact investing movement, we have seen a growing emphasis in the social sector on the pursuit of market-based solutions. Donors, moreover, are now more likely to include revenue generation as one of their grant criteria. The Spark Fund of the Global Alliance for Clean Cookstoves, for instance, states that it requires each grantee to "demonstrat[e] how the business will achieve sustainable growth over the long term." Sometimes it is the founders of nonprofits who drive this quest for commercial viability. Examples of that trend include Digital Divide Data, a digital content services provider that receives most of its revenue from paid clients, and Riders for Health, a health-care logistics organization that aims to double its impact while moving toward a sustainable earned revenue model.

Mission achievement | A nonprofit that uses a mission achievement endgame has a well-defined and plausibly achievable goal. Organizations that focus on the eradication of diseases such as polio and malaria are good examples of this model. One organization that is pursuing this endgame today is End7, a nonprofit whose mission is to stamp out seven neglected tropical diseases by 2020. That mission gives End7 a singularity of purpose that helps align its near-term activities with its long-term strategy.

In most cases, once a nonprofit attains its goal, it should wind down. Too often, though, nonprofits in this category enter a period of drift as they try to stay alive even after they achieve their mission. An organization should continue beyond that point only if it has an especially valuable asset or capability that it can deploy for another social purpose. The March of Dimes, for example, was founded to fight polio through a combination of patient aid programs and vaccine research. Then, after Jonas Salk and Albert Sabin developed vaccines that effectively ended the polio epidemic in the United States, the organization redeployed its core assets—an extensive grassroots network and a trusted brand—to serve a new mission: preventing birth defects and infant mortality.

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Sustained service | The decision to sustain a service indefinitely seems to be the default endgame for most nonprofits—yet it's not always the right endgame. This model makes sense only when a nonprofit can satisfy an enduring social need that the commercial and public sectors cannot or will not satisfy. With respect to commercial adoption, nonprofit leaders can test whether the risk-return profile of their product or service would meet the needs of a for-profit company. Regarding government adoption, they should evaluate whether public sector institutions are unwilling to adopt their intervention or simply lack the capacity for doing so. (In the latter case, a nonprofit may want to engage in advocacy efforts to help build that kind of public sector capacity.)

US nonprofit hospitals present a good example of how to apply the sustained service endgame. They fill gaps in the nation's health-care system—particularly gaps related to equity of service—that government and private sector entities are unlikely to fill. These organizations sustain their funding through a combination of earned revenue and philanthropic contributions, and they depend on strong local community ties. In addition, they often have an orientation toward customer and community service that helps drive accountability and efficiency.

Efficiency, in fact, is an essential characteristic of nonprofits with a sustained service endgame. Typically, they must strive to create an ever-greater impact using the same amount of resources, or even fewer resources. For that reason, they need to develop world-class leadership and world-class operations.

THE "END" AS A BEGINNING

"Death is the destination we all share," Steve Jobs said in his commencement address at Stanford University in 2005. "No one has ever escaped it. And that is as it should be, because Death is very likely the single best invention of Life. It is Life's change agent."[11] The purpose of a nonprofit, like the purpose of an individual life, should derive from its inevitable conclusion. To be sure, a minimum level of scale is essential for a nonprofit to develop its capabilities. But scaling up is not its reason for being.

Nonprofits need to account not just for the impact they hope to achieve, but also for the sector-wide change they aim to promote. "Scale," in this context, takes on a new meaning. Indeed, for some organizations, achieving impact on a large scale will involve slowing the growth of their budget and transferring services to other providers. In any event, a nonprofit that defines its endgame early will tend to make better use of resources during its initial stages of growth.

Each of the six endgame options that we have outlined has a defined lifecycle and a predictable budget trajectory. Once an organization has achieved a proof-of-concept and a minimum scale, its budget should shift to match the endgame it is pursuing—and only in the sustained service model should budgets continue to increase. In each of the other endgames, the budget of a nonprofit won't rise steeply over time; instead, it will level off or even decrease. With the open

source, replication, or mission achievement endgame, funding will drop significantly as a nonprofit evolves into a knowledge hub (open source), becomes a center of excellence (replication), or declares "success" and winds down (mission achievement). In the case of government or commercial adoption, budget trajectories will vary depending on the niche that an organization fills and on whether it plays a continuing role in service provision for the government and commercial adopters of its intervention. (See "The Budget Implications of Various Endgames" below.)

The hard truth is that a nonprofit is likely to be most effective if it pursues an endgame that centers on creating a movement through an open source or replication model, or if it works to promote government or commercial adoption. (Mission achievement is a special case that applies mainly to nonprofits that work in certain issue areas.) Adopting one of those models isn't easy. Creating a movement requires nonprofit leaders to be collaborative in a way that an early-stage organization—an organization that must focus on sustaining its own operations—will find especially challenging. Government adoption often means working with a large bureaucracy, and commercial adoption poses the risk that a nonprofit will appear to be "selling out" to the corporate sector. As we have noted, however, nonprofits that reach one of these endgames are often able to achieve ongoing impact by other means.

GAME CHANGERS

There are social sector leaders today who resist the common tendency to focus primarily on "scaling up." These leaders understand that increasing the size of their organizations is not the only means, or even the best means, of achieving impact. In our research, we have encountered several high-performing nonprofits that are pursuing endgames that align closely with their capabilities and their circumstances.

Consider Root Capital, a lender to smallholder farmers in Africa and Latin America. In 2013, Root Capital had an average outstanding loan portfolio of about $70 million, and its cumulative loan disbursements came to $574 million. The addressable global demand for smallholder financing is $20 billion to $40 billion per year.[12] To reach just 10 percent of the lowest estimate of addressable demand, therefore, Root Capital would need to increase its annual loan portfolio by nearly a factor of 30. Recognizing the need to collaborate with other parties to achieve its mission, Root Capital has decided to pursue activities that advance a commercial adoption endgame. To help catalyze the broader market for agricultural finance, it serves as a research and development platform that develops new financial products, it encourages commercial banks to serve the top end of that market, and it works with other agricultural lenders to create industry standards and responsible lending practices. Willy Foote, founder

> Analyzing nonprofits according to their endgame represents the next stage of maximizing impact. Nonprofit leaders need to define their endgame early, therefore, and funders need to help them bring that endgame to completion.

of Root Capital, says that in its effort to create such partnerships, the organization aims to be "pathologically collaborative (but not suicidally collaborative)."

Another successful nonprofit that has adjusted its scale—and its strategy—is mothers2mothers (m2m). The mission of m2m is to prevent mother-to-child transmission of HIV, and its core intervention involves enabling "mentor mothers" to provide education, psychosocial support, and referrals to health-care and other services. At one point, m2m operated 800 direct implementation sites and reached about 15 percent of the 1.2 million HIV-positive pregnant women in the world. But in 2010, the organization redefined its endgame. Leaders and board members at m2m realized that the organization would need to increase its budget sixfold (to more than $120 million per year) before it could reach all HIV-positive pregnant women through its existing service delivery model. Today, m2m strives to reach those women not by serving them directly, but by encouraging governments to adopt its Mentor Mother program and by helping local NGOs and other partners to replicate that program. To promote government adoption, the nonprofit also advocated successfully for inclusion of its program in a UN global plan for eliminating HIV infections among children. In addition, m2m maintains facilities for research and training purposes, and in some cases it acts as a local implementer.

ENDS AND MEANS

For stakeholders in the social sector, asking "What's your endgame?" is only a first step. To play their part in maximizing social impact, they need to change how they manage their own organizations and how they interact with other organizations. Nonprofit leaders, we believe, must reckon with three basic imperatives.

The Budget Implications of Various Endgames
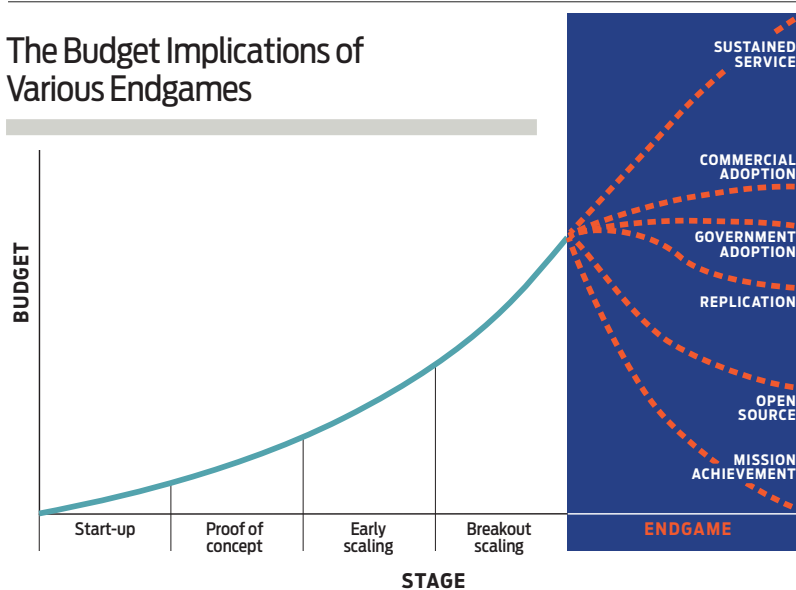
Define your endgame early | The start-up routine for nonprofits should include the creation not just of mission and intended impact statements, but also of an endgame statement. Endgames aren't necessarily mutually exclusive, nor is the right endgame always fully evident when an organization's founders begin to act on their initial idea or inspiration. But deliberate reflection on a nonprofit's endgame will help set the organization on a path toward maximum impact and prevent it from focusing exclusively on organizational growth. Nonprofits should make clear to funders, beneficiaries, and supporters which endgame category they fall into, and under which circumstances their organization will dissolve, merge, or change scope. Going through this exercise can also help nonprofit leaders clarify their theory of change.

Focus on your core | With a defined endgame, nonprofits can spend more time on the core activities that will advance their mission. For some organizations, having that sense of focus will mean being "pathologically collaborative" about knowledge sharing. For others, it will mean building strong relationships with government agencies or commercial banks. Focusing on core activities allows an organization to make seemingly difficult decisions more readily. If the ultimate goal of a nonprofit is to transfer its operations to local partners, for example, then opting to engage in direct implementation would not be in its best interest—even though taking that step might expand its reach in the short term.

Prepare your team | Nonprofit leaders are not just stewards of their mission but also stewards of the people who join their organization. Both stewardship roles are important. Yet the purpose of a nonprofit is, first and foremost, to achieve a social goal. Nonprofit leaders, as their organization nears its endgame, need to communicate with their team about the likely inevitable reduction in the size of its budget and its staff. Managed properly, that process will create a sense of purpose that will motivate staff members during their time at the organization.

Funders of nonprofit organizations, meanwhile, face a different set of imperatives.

Fill the gap | Making a large impact, as we have emphasized, does not necessarily mean attaining a large scale in financial terms. But nonprofits do need a minimum level of funding to develop certain core capabilities. In our research, we have noted a gap between the point at which nonprofits can easily secure early-stage foundation funding and the point at which they can access commercial or government funding. Funders can help grantees move forward by filling the social capital chasm and by working with them to develop sustainable growth strategies.

Invest in catalytic impact | Funders, as they evaluate grantees, should consider the total impact on a field that each grantee makes—or has the potential to make. Traditionally, they have paid attention to impact that is direct (delivering health care to beneficiaries, for instance) or indirect (lowering infant mortality). But they should also consider the *catalytic* impact that a nonprofit can achieve by pursuing an endgame such as government adoption or commercial adoption. Similarly, funders should base their grants less on small-bore considerations ("What level of funding do you need for a particular program?") than on broad issues related to mission achievement. Some funders have started to take this approach. The Skoll Foundation, for example, has repositioned its portfolio to target certain sectors (education and economic opportunity, water and sanitation), and it provides funding (in the form of Innovation Grants) to nonprofits that have the potential to remake those sectors.

Provide endgame support | Funders, recognizing that the social capital chasm threatens the ability of nonprofits to reach their true potential, should commit to supporting grantees until they reach their endgame stage—and then through that stage. Instead of providing piecemeal assistance to a multitude of nonprofits, they should help the most promising ones to achieve large-scale social change. As part of the grantmaking process, moreover, funders should explicitly ask each nonprofit, "What's your endgame?" With that information in hand, funders can more easily discern when a grantee should make a shift toward (for example) commercialization or replication.

In the end, the goal of a nonprofit is not to increase its budget (or even its reach) indefinitely. Its true goal, rather, is to achieve social *impact*. Analyzing nonprofits according to their endgame represents the next stage of maximizing impact in the nonprofit sector. Nonprofit leaders need to define their endgame early, therefore, and funders need to help grantees bring that endgame to completion.

Perhaps at no time in history has the social sector held so much potential. A new generation of purpose-driven professionals are flowing into the sector, and they come equipped with new business models and new tools to mobilize social changes. To achieve the true promise of social sector work, however, these and other nonprofit leaders must start a dialogue about which endgame they will pursue. ■

NOTES

1 Peter Kim and Jeffrey Bradach, "Why More Nonprofits Are Getting Bigger," *Stanford Social Innovation Review*, Spring 2012.

2 Dalberg Global Development Advisors, analysis of data from the Internal Revenue Service Exempt Organizations Business Master File (BMF), based on IRS Form 990 filings within 24 months of the October 2013 BMF release date, accessed via the Urban Institute's National Center for Charitable Statistics, http://nccsdataweb.urban.org

3 William Foster and Gail Fine, "How Nonprofits Get Really Big," *Stanford Social Innovation Review*, Spring 2007.

4   We assembled this consolidated portfolio by combining the portfolios of four leading nonprofit funders: Big Bang Philanthropy, Draper Richards Kaplan, Mulago Foundation, and the Skoll Foundation. To gather these data, we drew on IRS Form 990 documents, annual reports, and direct communication with specific nonprofit organizations.

5 Jeffrey L. Bradach, "Going to Scale," *Stanford Social Innovation Review*, Spring 2003.

6 Email exchange with Rich Leimsider, January 19, 2014.

7 Ann Goggins Gregory and Don Howard, "The Nonprofit Starvation Cycle," *Stanford Social Innovation Review*, Fall 2009.

8 The quoted impact statements of the Harlem Children's Zone and Habitat for Humanity appear in Susan Colby, Nan Stone, and Paul Carttar, "Zeroing In on Impact," *Stanford Social Innovation Review*, Fall 2004.

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