CASE Working Paper Series
No. 4

Nonprofit Geographic Expansion: Branches, Affiliates, or Both?

Jane Wei-Skillern, Graduate School of Business Administration, Harvard University
Beth Battle Anderson, The Fuqua School of Business, Duke University

September 2003

The authors would like to thank Stanford Business School's Center for Social Innovation for its financial support of the development and administration of the survey on which this paper is based and Professor J. Gregory Dees for his input the survey development and interpretation and on a previous version of this paper.

Abstract

Nonprofit organizations often move into new territories by establishing local branches, affiliates, or a combination of branches and affiliates, resulting in a plural form. This paper presents data from a survey of U.S. nonprofit leaders who have experience with or are considering expanding their organizations via branches, affiliates, or both. By capturing the perspectives of front-line nonprofit managers, this research aims to provide greater insight into the process of geographic expansion and to explore some of the key similarities and differences across these three organizational structures.

The most substantial finding from this research is that regardless of organizational structure, some of the anticipated benefits of scale failed to materialize, while other, unanticipated benefits seemed to dominate across all expansion strategies. Economies of scale were often less than anticipated, and tapping into new funding sources was a significant benefit primarily for affiliates. In contrast, the benefits from both brand and organizational learning consistently exceeded expectations across all strategies. Based on our investigations, we offer new hypotheses for exploring the strategic preferences, motivations, challenges, and benefits of nonprofit expansion via a range of organizational structures.

Throughout the nonprofit sector, countless innovative and effective programs remain limited to the immediate communities in which they were established. The inability to achieve any appreciable scale means that there are at-risk children missing out on effective after-school programs, welfare recipients who lack access to new job training services, and innumerable others who do not benefit from high impact social services and programs that exist in other locales. Therefore, many nonprofit observers and practitioners express the need for the more successful organizations to extend their services and impact more broadly. In some instances, nonprofits may be able to spread their social impact through loose forms of diffusion, such as informally through social or professional networks (Edwards and Hulme, 1992), or by means of active dissemination with or without technical assistance (Dees, Anderson, and Wei-Skillern, 2002). Alternatively, many nonprofit organizations looking to extend their reach move into new territories by establishing local branches or affiliates. Additionally, some organizations spread geographically with a combination of both branches and affiliates, resulting in a plural form. Our focus here is on these latter approaches to nonprofit expansion, scaling into new communities through branch, affiliate, or plural structures.

This paper reports the results of a large-scale survey of nonprofit leaders currently engaged in or seriously considering expanding their organizations by establishing branches and/or affiliates in new locations. By capturing data on their organization's geographic expansion and the related motivations, benefits, and challenges, we sought to better understand the process of expansion and to generate new hypotheses for further research. Additionally, our aim is to help nonprofit leaders considering expansion more systematically analyze decisions regarding a branch, affiliate, or plural structure. Our main findings are:

(1) There is no single optimal organizational structure for geographic expansion.

(2) Many nonprofit leaders may prefer expanding via branches, yet pure branch organizations are generally smaller, grow more slowly, and have less ambitious growth plans than those with affiliates.

(3) Economies of scale from geographic expansion may be less than anticipated at the outset.

(4) Regardless of structure, when expanding into new territories, the benefits from building a brand and organizational learning may exceed initial expectations.

Geographic Expansion

Key findings from the business literature on corporate expansion strategies via branching and franchising provide a basis for further exploration of the strategic implications of various nonprofit expansion strategies. Barringer and Greening (1998) define geographic expansion as growing a firm's business from its original location to one or more additional geographic sites, a strategy that is well suited for firms that believe their products or services may be appealing in other markets. Their research suggests that opening a new geographic site is much like establishing a start-up, in that the firm must select a location, recruit and train personnel, establish organizational legitimacy, motivate and supervise employees, and establish a structure to accommodate future growth. Yet, geographic expansion is distinct in that all of these tasks must be accomplished at a distance from the headquarters location. Thus, top management is faced with the dual challenges of managing an existing business and a start-up, the latter of which is complicated by the fact that the new geography presents an unfamiliar location and unteseted market potential, among other challenges. In discussing global corporate strategy, Porter (1998) emphasizes the importance of understanding the firm's value chain and then determining the configuration and coordination of activities that must take place to serve different markets, focusing on the manager's role in deciding which activities should be concentrated and which dispersed as well as the nature and extent to which dispersed activities should be coordinated across locations or autonomously tailored to local circumstances. Ghemawat (2001) discusses four dimensions of distance that companies should think about when making decisions about global expansion: cultural, administrative or political, geographic, and economic, emphasizing that despite recent technological advances, technology does not eliminate many of the very real, potentially high costs of distance. Given the many challenges of geographic expansion within a corporate context, much attention has been paid by researchers to the phenomenon of franchising.

The literature on franchising sheds further light on some of the key challenges and trade-offs to consider with various approaches to geographic expansion. In a franchising relationship, a franchisor sells the right to use its trade name, operating systems, and product specifications to a franchisee. A franchisor surrenders significant control over new outlets bearing its name and retains a small percentage of franchised outlets' revenues, while franchisees invest their own capital and receive a residual on claims from the franchise. Among the rationales for growth from franchising are to reduce production and inventory costs, speed product development, and expand new markets (Baucus,

Baucus & Human, 1996). Relative to branching, franchising has been documented by researchers to provide a source of capital for expansion (Kaufmann & Dant, 1996), enable more rapid growth relative to branching (Shane, 1996), entail lower monitoring costs (Rubin, 1978; Brickley & Dark, 1987), and yield higher profits (Michael, 2000). Among the challenges faced by a franchisor is balancing the franchisees' desire for autonomy with the franchisor's desire for standardization, consistency, and control in an effort to preserve its goodwill and brand equity (Dant & Goundlach, 1999). Research in the restaurant and hotel industries which indicates that franchise chains have lower quality than owned chains provides evidence of this struggle to balance quality control and franchise autonomy (Michael, 2000). Notably, Bradach (1999) pointed out that many private sector businesses have benefited from the plural form of organization, operating both franchises and company-owned branches simultaneously.

Although the business literature contributes to our understanding of nonprofit expansion via branches and franchises, these findings need to be further explored and adapted to the nonprofit context. Currently, nonprofit strategies for entering new markets through geographic expansion are still inadequately understood. In line with business research, one key area of research interest has been the strategic rationale for franchise and branch structures of large, multisite organizations and industry associations in the social sector (e.g., Young, 1989; Oster, 1992; Oster, 1996; Young, 1996). Oster (1992) argued that franchise affiliates mitigate many of the organizational and economic problems facing multisite nonprofits. She subsequently demonstrated that among large nonprofit organizations, affiliate models were both more prevalent than wholly owned branches and on average had substantially more sites operating in different geographic locations (Oster, 1996). Bradach (1999) noted that the advantages accruing to for-profit franchisors by retaining some branches as controlled reference sites might also hold in the nonprofit sector. Branches can serve as models, testing grounds for new ideas, and conduits for keeping the central office in tune with actual delivery of service, while the looser affiliates can enable faster growth and foster innovation. More recently, Bradach (2003) developed a framework for thinking strategically about nonprofit replication consisting of three key issues that need to be addressed once a program has demonstrated results and a clearly articulated theory of change: defining the growth strategy, designing the network of organizational units, and the role of the national office. Letts, Ryan, and Grossman (2000) emphasized this latter issue, highlighting the importance of the national office in leading program expansion, facilitating organizational learning and communication, and building organizational infrastructure and systems in a multisite organization. While the literature has enhanced our understanding of some of the key strategic issues to think about for nonprofit expansion, an in depth look at the actual process and strategies by which nonprofit organizations expand geographically is still needed.

Building on existing research, our study explores these issues in greater depth through a survey of nonprofit leaders currently engaged in or seriously considering entering new territories via affiliation, branching, or the plural structure of affiliation and branching. We define affiliates as independent, 501(c) 3 organizations that have an agreement with a central organization to be part of an identifiable network. The affiliate relationship can range from loose to tight with respect to the financial and operational interactions between affiliates and the central organization. A loose affiliation generally refers to a network of organizations committed to exchanging knowledge, pursuing a similar mission, and implementing the same program or service, but with limited formal mechanisms for central control and few prescribed interactions between local sites and the center. In contrast, tight affiliates are quite similar to business franchises, where the central organization retains significant control over the network's brand and operations. While our survey did not discern between looser and tighter forms of affiliation, nonprofit leaders considering expansion should consider where they wish to position themselves within the range of options available even within these structures.

We define branches as organizational units that are legally incorporated under the same 501(c) 3 organization and operate much like company-owned stores. Company-owned stores are wholly owned and controlled by the central business entity, with local managers operating the business but reporting directly to the central office. Thus, the key distinction between the two organizational forms, affiliates and branches, is ownership and control. Plural organizations are entities that encompass both local affiliate and branch organizations.

Methodology

Our exploration of the process of geographic expansion began with field interviews with nonprofit practitioners, funders, and consultants about their experiences with efforts to expand nonprofit organizations' impact. Based on this field research, we designed a web survey to investigate the strategic preferences, motivations, challenges, and benefits reported by frontline nonprofit leaders considering or engaged in expansion via branches, affiliates, or both.

The web format of the survey allowed us to customize the survey depending on each respondent's current organizational structure. Respondents were funneled into one of four survey paths 1) single-site organizations operating in one location, 2) branch organizations with one or more branches under their 501(c) 3, 3) affiliate organizations with one or more independent 501(c) 3 affiliates, or 4) plural organizations with both branches and independent affiliates. Organizations that had already expanded were asked to rate the importance of a series of factors from 1 to 5, with 1 being of low importance and 5 being of high importance, regarding their original motivations for expansion and the associated benefits and challenges. Single-site organizations were asked whether or not they were considering entering new territories, and if so, whether they had a preference for expansion via branches, affiliates, or both. They were also asked to rate the importance of the same set of factors regarding their motivations, anticipated challenges, and expected benefits. The lists of factors were developed from our field interviews and pilot tested among practitioners. The survey also included open-ended text responses to these questions in case the factors listed did not include those most relevant to respondents.

The survey targeted executive directors or senior management of organizations of U.S.-based nonprofits that were considering or had experience with horizontal expansion, or expanding the geographic scope in which its products or services are offered. The web link to the survey was distributed widely via direct emails, postings on electronic bulletin boards, as part of online newsletters, and through listservs of large, national nonprofit industry associations. Recipients of the survey web link were asked to complete the survey and to forward the survey link to their colleagues in other nonprofits who might also be interested in issues related to geographic expansion. By relying on interpersonal networks within the sector, we were able to disseminate the survey to a wider range of geographically dispersed respondents, a population that would have been virtually impossible to enumerate at the outset.

Survey Data

In all, 296 web surveys were collected from nonprofit leaders nationwide. The sample represented a broad range of organizational structures, fields, and organizational characteristics. Respondents included organizations operating in each of the 26 major sub-sector groups as identified by the National Center for Charitable Statistics, ranging from arts and culture to education, youth development, and community economic development, among others. There was also considerable variance in the organizations' age and size as measured by number of employees and annual budget. However, despite the survey sample's considerable size and diversity, the organizations are not representative of the general population of nonprofits. As the survey was designed to target respondents who have experience with or are considering expansion, the survey tended to capture larger, more established nonprofits. Although the findings and interpretation of the survey data are not necessarily generalizable to the broader population of nonprofits, they are helpful in generating some hypotheses and identifying some key factors for consideration by nonprofit leaders seeking to enter new territories.

-----------Insert Table 1 about here------------

Of the 296 respondents, 110 represented single-site organizations that were not seriously considering geographic expansion. These organizations chose not to expand into new areas primarily because it had never occurred to them to do so or it fell outside the scope of their mission. In some cases, limited funding and organizational capacity constraints also played a role.

Key Findings

Structural Preferences, Size, and Growth

Preference for Branches

One of the most important decisions facing nonprofit leaders seeking to expand their organization is what organizational structure to adopt as they enter new communities.

-------------Insert Table 2 about here------------

As table 2 indicates, nonprofit leaders responding to our survey exhibited a strong preference for branch expansion. Amongst organizations that had already expanded, nearly half had done so via branches as opposed to affiliate or plural structures. Amongst organizations considering expansion, 43% indicated a preference for doing so via branches, compared with only 14% via affiliates and 11% as plural organizations. The remaining 32% expressed no preference, which perhaps signals the utility of research that can guide their choice process

Branches: Smaller, Slower, and Less Ambitious

While our survey data indicate a preference for branch expansion among organizations that have already expanded, pure branch organizations were smaller, grew at slower rates, and had less ambitious growth plans than those with affiliates. The average number of locations for branch organizations was 7, significantly smaller than the average of 36 for plural and 32 for affiliate organizations. (These averages exclude two outliers in the sample: one with 999 branches and another with 850 affiliates) This finding is entirely consistent with Oster's research (1992, 1996) which suggests that expansion via franchises (affiliates) is more effective for achieving large scale growth. Additionally, the pattern echoes Oster's (1996) observation that among America's 100 largest nonprofits on the basis of revenues in 1990, the average number of units per organization was 461 for affiliates versus 9 for branches.

------------Insert Table 3 about here-----------

Furthermore, recent growth rates for the organizations in our survey seem to support the argument that looser relationships can enable faster growth, with affiliate organizations growing twice as fast as branch organizations (16.9% CAGR vs. 8.3%). and plural organizations falling in between at 14.8% (see Appendix A for growth rate and anticipated growth rate calculations). Finally, affiliate and plural organizations were much more ambitious in their future growth plans. Nearly half of the branch organizations did not anticipate establishing any new branches over the next five years, and none planned to open more than 5. In contrast, over half of all plural organizations and 37% of affiliate organizations planned on establishing more than 5 new sites in the next five years, with the maximum being 108 for plurals and 50 for affiliates. Notably, overall, plural organizations planned on establishing far more affiliates than branches in the coming years. The data suggest that nonprofit leaders with ambitious growth goals may be better able to achieve those goals through affiliate or plural strategies, while those leaders who seek only to establish a handful of additional sites may opt to expand via branches. Consistent with Chandler's pioneering work on organizational structure, the structural form should follow from the organization's strategy (1962).

Taken together, the findings that our survey respondents prefer expansion via branches despite the fact that a branching strategy seems to entail slower, less ambitious growth presents a paradox. While the preference for branches can perhaps be understood by the fact that branches enable the central office to exert more control (Oster, 1996), this preference may be at odds with the objective to achieve greater social impact through widespread expansion. Since the data seem to indicate that affiliate or plural models are better than pure branching at enabling large-scale growth, this finding suggests that nonprofit leaders must reconcile their own objectives and preferences with the best interests of their organization and society. At the very least, the data suggest that a nonprofit leader must seriously consider which structure will most effectively enable the organization to achieve the greatest social impact.

Finally, these results are even more interesting when coupled with our comparison of motivations, benefits, and challenges according to size (small = 5 or less additional sites and large = more than 5 additional sites). For larger organizations, having both a leader and a board with a strong desire to grow into new communities played a significantly greater role in motivating expansion efforts. Moreover, all of the organizational benefits we measured were significantly or marginally significantly greater for organizations with more than five sites compared to those organizations with five or fewer sites. These findings suggest that regardless of structure, nonprofits may need to reach a certain size before they will really begin to reap the organizational benefits associated with geographic expansion. While the consistency across factors is striking, these results are not altogether surprising given that larger organizations have most likely committed more resources and effort to achieving these benefits. Furthermore, more sites simply increase the likelihood that organizational benefits are realized in at least some sites. From the survey data, it is not possible to determine whether the benefits for larger organizations were greater relative to the resources invested, but these results nonetheless are notable since 68% of branch organizations were relatively small.

Motivations, Benefits and Challenges Across Structures

Motivations

Serving Unmet Need is Key Motivation for Geographic Expansion

Overall, regardless of organizational structure, the motivating factors for expansion were remarkably similar for all respondents (See Appendix B for table of means for motivations). Serving a great unmet need in other communities was clearly the primary motivation. This drive to achieve social impact among nonprofit leaders is analogous to the drive to maximize profits among entrepreneurs in business. Both of these drives translate into a drive for organizational growth. Additionally, branch, affiliate, and plural organizations all rated tapping into new funding sources, building the organization's brand, and the expectation of more efficient organizations as leading motivators for expansion. Thus, it seems that nonprofit leaders expect to realize many of the same benefits from entering new territories regardless of the structure through which they grow.

Leadership More Prominent Among Plural Organizations

While overall there was a striking similarity in the motivations for expansion, there was one notable difference between plural and pure branch or affiliate organizations. In the former, the leader's desire to serve more communities appears to have played a greater role in motivating expansion efforts. Letts, Ryan and Grossman (2000) discuss the “radical commitment to a growth agenda” that is necessary for success as a national organization. Similarly, in her work *The Theory of the Growth of the Firm* (1958: 8), Penrose states that "enterprising management is the one identifiable condition without which continued growth is precluded—this is one necessary (though not sufficient) condition for continued growth…". Given that larger organizations also reported that their leaders and their boards had significant aspirations to serve more communities, these survey results seem to highlight the importance of organizational leadership, and especially the role of the nonprofit leader, in driving expansion efforts. These findings imply that the strong leadership and commitment of the leader may be particularly critical in achieving significant scale or pursuing a plural structure, which introduces the complexity of creating and managing both branches and affiliates.

Benefits

Widespread Agreement: Brand and Organizational Learning

In addition to similar motivations for expansion, respondents generally also reported similar realized benefits, though there were a few notable differences among organizational structures (See Appendix C for table of means for benefits). Brand building and organizational learning were the leading benefits realized by all respondents, specifically with respect to a stronger brand name for attracting resources, more experience leading to more effective programs and operations, and local sites becoming more effective by learning from each other. Organizations considering geographic expansion reported a similar pattern of expected benefits, though easier access to philanthropic funds was rated among the highest expected benefits for this group.

Across all respondents, the factors contributing the least benefit were also the same: easier to attract and retain staff, less vulnerability to the ups and downs of a particular local economy, greater donor loyalty, and cost savings from larger scale operations and centralized services. While the rank order varied slightly, the data suggest a considerable degree of consistency across the key benefits to expansion.

Fundraising Power of Affiliates

One notable difference in realized benefits occurred between the single structure strategies of branching and affiliation. Affiliate organizations reported significantly greater benefits than branch organizations with respect to easier access to philanthropic funds. This finding may be explained by the fact that unlike expansion through centrally owned and managed branches, affiliation involves establishing independent local organizations. Affiliates are governed and controlled by local leadership and may thus be better able to tap into local funding networks. Caves and Murphy (1976) and Oster (1996) recognized this benefit, noting that franchise affiliates share the risk of supplying capital with the central office, reducing agency problems by creating ownership claims for the local affiliate managers. A greater sense of local ownership and the existence of a local board may also contribute to affiliates' increased fundraising ability.

Greater Benefits Accrue to Plural Organizations

Relative to both branch and affiliate organizations, plural organizations reported greater benefit in every area except for easier access to philanthropic funds. These higher ratings were statistically significant with respect to three factors in particular: size helps create systemic solutions to systemic problems, cost savings from larger scale operations, and easier to attract and retain staff. As noted previously, the final two benefits related to scale economies and staffing were ranked amongst the bottom four benefits across all structures. So even though plural organizations may have exceeded their single structure counterparts in these areas, these benefits were not among the greatest reported and thus may not have been particularly significant.

With 63% of plural respondents representing large (> 5 locations) organizations, one might presume that the greater benefits are primarily associated with having more sites. However, 69% of the affiliate organizations were large, yet plural structures still reported greater benefits than affiliates in all areas except for easier access to philanthropic funds. Given that the plural form represents a more complex, perhaps more deliberate expansion strategy, these organizations may have reported more systemic benefits because they may be more focused on effecting systemic change. The greater economies of scale may reflect some gains from sharing operating standards and systems across a network of affiliates and branches (Blau, 1970). The plural structure may enable branches and affiliates to specialize at what each does best, perhaps, as Bradach (1999) proposes, with branches serving as models and affiliates serving as laboratories for innovations. Plural organizations may best be better able to differentiate various tasks among subunits as there may already be some degree of specialization among subunits by virtue of their distinct character as either branches or affiliates. Finally, a plural organization may offer a greater variety of roles and opportunities for staff to move between branches, affiliates, and a national office, thereby making it easier for these organizations in hiring, developing, and retaining staff.

Moreover, there was also a marginally significant difference favoring plural organizations over branches for more innovation as a result of local experimentation as well as increased effectiveness from shared learning and more experience overall. This finding is consistent with Bradach's (1999) hypothesis that branches can serve as role models and laboratories for testing new ideas, while affiliates can be an important source of innovation. Taken together, these results lend further support to Bradach's argument in favor of plural forms of organization. However, while plural organizations reported a number of benefits beyond what their single structure counterparts experience, they also required strong senior leadership and more managerial resources for successful execution. Furthermore, as described in the following section, plural organizations also reported facing significantly greater challenges than their single structure counterparts, branches or affiliates.

Challenges

Organizational Capacity an Overriding Challenge

In general, while there were certainly similarities in the challenges faced by organizations growing with different structures, there was less uniformity than was found among their motivations and benefits (See Appendix D for table of means for challenges). Building organizational capacity and systems was clearly among the greatest challenges for all respondents, which is consistent with the role of the national office as highlighted by the organizations profiled by Letts, Ryan and Grossman (2000). Other considerable challenges were related to culture, finding the "right" local leaders, quality control, governance, and fundraising.

Culture and Leadership Challenges for Branches

While there were few systematic differences in the challenges faced by branch-only and affiliate-only organizations, results did show that maintaining a close-knit culture and recruiting the right leaders were significantly more difficult for branch-only than affiliate-only strategies. Perhaps these challenges can help explain the slow growth of branch organizations discussed earlier. Branches are created and managed by the central office. In contrast, affiliates are created through partnering with new or existing local organizations, and the local organization has the hiring responsibility and authority. Thus, it follows that identifying local leaders and creating a strong culture and sense of teamwork are more prominent concerns for branch organizations. As an organization expands into new territories, maintaining the culture of the original organization becomes more difficult. Moreover, branch organizations may have chosen a branch strategy in part because of the desire to maintain control over the organization's culture was viewed as critical to their success. For this same reason, identifying the right leaders to be stewards and protectors of this culture would likely be challenging, especially if the central office is not located near the branch location, thereby limiting interaction and communication. Furthermore, although leadership may be deployed from the central office to head new sites, an organization's capacity to promote from within is often limited. Thus, organizations will face the challenge of recruiting outsiders who are capable of acting in accord with the organization's existing culture without having had the benefit of experiencing it themselves.

Affiliates Struggle to Define Relationships

Affiliate organizations reported significant challenges related to defining both their relationship with their affiliates and the overall governance structure. Defining an appropriate affiliate agreement was second only to building capacity. Additionally, affiliates ranked ‘creating an effective governance structure for the network’ as a key challenge, reflecting the difficulties of managing and leading a looser network of sites effectively. Since local governing and advisory boards play such a prominent role in nonprofits, defining the nature of the relationship for affiliate organizations involves negotiating the relationship among multiple boards, such as between the affiliate unit's board and the parent organization's board. As affiliates are neither subsumed under a parent organization as branch organizations, nor are they entirely autonomous units by virtue of the affiliate relationship, defining the governance responsibilities for this organizational form is particularly challenging and complex.

Fundraising and Excess Bureaucracy Challenge Plural Organizations

Plural organizations found avoiding too much bureaucracy and raising money for parent sites, local branches, and independent affiliates to be more challenging than their single organizational form counterparts. As noted earlier, organizations with the plural strategy were found to have the most ambitious growth goals. This ambition may explain the greater fundraising challenge that plural organizations face. After all, most nonprofit leaders we interviewed attest that even modest growth strains organizational resources and capabilities, and a plural strategy would likely exacerbate these resource constraints. These findings suggest that the plural strategy may, in fact, be the most complex strategy in that it presents significantly greater challenges relative to expansion via a single structural form.

In general, the data on the challenges imply that although some challenges are similar across the various organizational structures, expanding via branches, affiliates, or a plural form entails distinct sets of challenges. An awareness of these specific challenges can help nonprofit leaders formulate their expansion strategies based on the organization's own resources and capacities or ability to procure outside assistance for tackling these challenges. Anticipating potential challenges may increase the organization's ability to overcome them or may enable an organization to avoid squandering resources on an organizational structure that it is ill equipped to execute.

Initial Expectations versus Actual Experience

Finally, comparing motivations to actual benefits reported suggests that some realized benefits were greater and others were less than anticipated. We compared each respondent's ratings of motivating factors, or expectations of organization expansion, to ratings of the same or similar factors as realized benefits. Overall responses showed a number of statistically significant differences between expectations and outcomes.

Cost Savings Less Than Anticipated

Efficiency gains, specifically 'cost savings from larger scale operations and centralized services,' were significantly less than expected for affiliates. Branches showed the same pattern, but the difference was only marginally significant. Given the nature of affiliate relationships, which are generally looser than branches and entail less central control, it is perhaps not surprising that significant economies were not realized since affiliates would tend to operate more autonomously. However, it is striking that organizations expanding via affiliation rated efficiency gains as a top motivation, ranking it even higher than organizations with branches. Perhaps this greater expectation of economies of scale by affiliates is reflective of their more ambitious growth plans and generally larger status. Regardless, neither structure appeared to benefit as much as initially anticipated from scale economies as a result of expansion.

Interestingly, efficiency gains were a key motivating factor for branch, affiliate, and plural organizations, yet as a realized benefit, it consistently ranked among the lowest across all organizational structures. Although certain economies of scale, such as pooled purchasing, or shared training costs, might be realized, the actual resources required to expand geographically and to coordinate across multiple sites may have been greater than anticipated at the outset. Blau (1970) notes that while organizational growth creates economies of scale from within unit efficiencies by enabling greater differentiation and specialization, this growth also entails an increased need for between unit coordination. Given the large number of service delivery organizations in our sample, the lack of economies of scale may be due to the fact that the costs of expansion, and the increased need for additional managerial coordination among units (Lawrence and Lorsch, 1967), may actually far outweigh any actual savings or efficiencies gained through specialization. Additionally, Letts, Ryan, and Grossman (2000) point out that "the organization managing expansion is not doing more of something, but doing something different," and this transformation requires an investment of resources, leadership commitment, and developing new capacities, all of which are potentially costly.

Brand and Learning Exceed Expectations

While organizations did not appear to achieve the anticipated efficiencies from scale, they did realize greater than anticipated benefits with respect to brand and organizational learning. Even though building a stronger brand name was already identified as a leading motivator for expansion among respondents, as a realized benefit, it was consistently rated significantly higher and was among the top realized benefits across all organizational structures. The results from this survey do not shed light on the specific ways in which brand created tangible benefits for the nonprofit organizations, but based on her research into brand orientation in the charity sector in the UK, Hankinson (2001) proposes that nonprofits are increasingly using brand as a strategic resource in order to accomplish “a variety of organizational objectives by capturing the essence of what the charity does and the values it represents.” A strong brand identity could help strengthen relationships with a variety of stakeholders: funders, clients, staff, volunteers, politicians, or the local, regional, or national community. Hankinson (2001) further argues that for global organizations such as the Red Cross and Save the Children, making the brand a priority for all affiliates might help reduce tensions and achieve a “greater sense of oneness and intra-organizational cooperation.” These survey results support her findings and her conclusion that a brand orientation is particularly appropriate to the nonprofit sector, especially given nonprofits’ complex aims and relatively long-term objectives.

Organizational learning was not considered a leading motivator for expansion, yet three factors that capture various aspects of learning were consistently rated significantly higher as realized benefits: 'local sites have become more effective by learning from each other', 'more experience has led to more effective programs and operations', and 'more innovation as a result of local experimentation'. Taken together, these factors suggest that organizational learning is clearly a key benefit from expansion, though not always a key driver.

Discussion

As a whole, the survey results discussed above led us to the following hypotheses for further research and consideration by nonprofit leaders interested in expanding their organizations:

(1) There is no single optimal organizational structure for geographic expansion.

(2) *Many nonprofit leaders may prefer expanding via branches, yet pure branch organizations are generally smaller, grow more slowly, and have less ambitious growth plans than those with affiliates.*

(3) *Economies of scale from geographic expansion may be less than anticipated at the outset.*

(4) *Regardless of structure, when expanding into new territories, the benefits from building a brand and organizational learning may exceed initial expectations.*

There is no single optimal organizational structure for geographic expansion.

Our central question upon starting this research was whether geographic expansion via branches, affiliates, or both was preferable. In looking at the motivations, benefits, and challenges of expanding nonprofit organizations via branches, affiliates, or both, we concluded that there is no single optimal structure. Although the specific challenges vary, there were striking similarities in motivations and benefits across all organizational structures. The desire to serve unmet needs in other communities was clearly the overriding motivating factor, and regardless of organizational structure, leading realized benefits included building the organization's brand and increasing organizational learning through greater experience and mutual learning across locations. Admittedly, plural organizations did report greater benefits in certain areas, but they also reported significantly greater challenges related to fundraising and excess bureaucracy. So these benefits did not come without cost, and from this survey, it is impossible to assess if the benefits exceeded the costs. Furthermore, branches faced more challenges with organizational culture and leadership issues, while affiliates faced greater challenges in governance and defining the affiliate relationship. While these patterns are not necessarily generalizable to all nonprofits, they do suggest that no one organizational structure is universally superior and different approaches may be more or less appropriate for different organizations depending upon the context, resources, strategy and organizational capacity. They also raise the question of what role distance (Ghemawat 2001) may play in deciding upon a structure for geographic expansion. Is branching the preferred approach for expanding to areas that are more culturally, politically, and economically similar as well as closer geographically? As expansion plans move into areas more distant on these dimensions, do affiliate or plural structures begin to prevail?

Many nonprofit leaders may prefer expanding via branches, yet pure branch organizations are generally smaller, grow more slowly, and have less ambitious growth plans than those with affiliates.

Respondents demonstrated a clear preference for branching over affiliate or plural structures. Thus, while previous research (Oster, 1992; Oster, 1996) showed that affiliates dominate amongst the largest nonprofit organizations, we found that branches dominate amongst smaller organizations and those considering expansion. Furthermore, affiliate and plural organizations reported greater recent growth and more ambitious growth plans. This set of findings suggests that in planning a strategy for expanding, nonprofit leaders must consider a range of structures and align their organizational expansion strategy with their growth goals. It also raises some interesting questions for further research: Is growth via branches more appropriate in earlier stages of expansion to accommodate nonprofit leaders' preferences and allow for tighter initial control? Can branch organizations effectively transition to an affiliate or plural model to foster faster growth if and when their expansion plans become more ambitious?

Economies of scale from geographic expansion may be less than anticipated at the outset.

Regardless of structure, increased efficiency from economies of scale associated with being a larger organization was one of the leading motivators for expanding geographically. Yet overall these benefits generally did not materialize to the degree expected. While plural organizations did report significantly more benefit from economies of scale than pure branch or affiliate organizations, their reported benefits nonetheless fell short of expectations. While larger organizations (>5 locations) did report marginally greater benefits from economies of scale than smaller ones, even for them economies of scale were one of the lowest rated benefits and were less than expected.

Moreover, notably, one of the most significant challenges faced by all organizational structures was building organizational capacity and systems to support new locations. This finding may help explain the less than anticipated benefits from economies of scale as capturing scale economies likely requires some upfront investment in new organizational capacity and systems and perhaps a longer learning period than had been anticipated. Many nonprofits attempting to enter new territories may not have the resources or expertise to build their organizational capacity, or may underestimate the required resource and time investment, making it difficult to capitalize on any potential scale economies. Regardless, the survey results raise the question of whether there are significant economies of scale associated with nonprofit organizations' expanding via branch, affiliate, or plural structures. If so, how do they vary according to organizational structure? What types of systems and structures must be in place to capture them? What are the learning processes about growth management? And how many units are necessary to begin taking advantage of economies of scale?

Regardless of structure, when expanding into new territories, the benefits from building a brand and organizational learning may exceed initial expectations.

Across all organizational structures, the benefits from both brand and organizational learning were considerably greater than anticipated at the outset. Further research into these areas might help identify ways in which nonprofit leaders may be able to increase their ability to capitalize on these benefits through more deliberate planning. For example, which stakeholders (e.g., clients, funders, staff, volunteers, communities) derive the most value from a stronger brand name? How specifically does a stronger brand name translate into value for the organization? In terms of organizational learning, at what level does organizational learning take place? For instance, does expanding via branches, affiliates, or both increase learning on managerial and administrative processes, in the specific program or service offerings, or some combination of both? What are the mechanisms through which various types of knowledge are transferred effectively? It seems that if nonprofit leaders were aware of the value of building a brand and organizational learning from the outset and consciously considered ways to increase brand awareness and knowledge-sharing as they developed their plans for entering new geographic markets, they could capitalize on the benefits to an even greater extent than if these benefits were to emerge in an ad hoc manner.

The findings from this study are just a start to opening the black box of the process of expanding via branch, affiliate, or plural structures. As with most research, it raises more questions than answers. There are some clear distinctions between the branch, affiliate, and plural structures, but the degree of similarity across structures may be even more surprising and striking. When might one structure be preferable to another, and what are the major factors to consider in making that decision? We have put forth some hypotheses here, but additional research is necessary before making any generalizations for the sector as a whole, or even for a particular sub-sector or type of organization. Moreover, presumably, the objective of geographic expansion is not merely to increase an organization's size and reach but ultimately to maximize the organization's overall social impact. Future research that contributes to a deeper understanding of any potential economies of scale and the various levers that affect brand building and organizational learning has the potential for even greater impact on the effectiveness of nonprofit efforts to expand via branch, affiliate, or plural organizations.

References

Barringer, B.R., and Greening, D.W. “Small business growth through geographic expansion: A comparative case study.” Journal of Business Venturing, 1998, 13, 467–492.

Baucus, D.A., Baucus, M.B., and Human, S.E. “Consensus in franchise organizations: A cooperative arrangement among entrepreneurs.” Journal of Business Venturing, 1996, 11, 5, 359-378.

Blau, P.M. "A Formal Theory of Differentiation in Organizations." American Sociological Review, 1970, 35, 201-218.

Bradach, J. L. Going to Scale. Harvard Business School Working Paper, Social Enterprise Series, No.9, 1999.

Bradach, J. L. "Going to Scale: The Challenge of Replicating Social Programs." Stanford Social Innovation Review, 2003, 1, (1), 18-25.

Brickley, J. A., and Dark, F.H. “The Choice of Organizational Form: The Case of Franchising.” Journal of Financial Economics, 1987, 18: 401-420.

Caves, R. and Murphy, W. "Franchising: Firms, Markets and Intangible Assets." Southern Economic Journal, 1976, 42, 572-586.

Chandler, A. D. Strategy and Structure. Cambridge, MA: MIT Press, 1962.

Dees, J.G., Anderson, B.B., and Wei-Skillern, J. “Pathways to Social Impact: Strategies for Scaling Out Successful Social Innovations,” Center for the Advancement of Social Entrepreneurship Working Paper Series No. 3, The Fuqua School of Business, Duke University, 2002.

Ghemawat, P. "Distance Still Matters: The Hard Reality of Global Expansion," Harvard Business Review, 79:8 (September 2001): 137-147.

Hankinson, P., (2001), “Brand orientation in the charity sector: a framework for discussion and research.” International Journal of Nonprofit and Voluntary Sector Marketing, 6, (3), 231-242.

Kaufmann, P.J., and Dant, R.P. “Multi-Unit Franchising: Growth and Management Issues.” Journal Of Business Venturing, 1996, 11, 343-358.

Lawrence, P.R. and Lorsch, J.W. Organization and Environment: Managing Differentiation and Integration. Homewood, IL: Irwin, 1967.

Letts, C.W., Ryan, W. P., and Grossman, A. High Performance Nonprofit Organizations: Managing Upstream for Greater Impact. New York: John Wiley & Sons, 2000.

Michael, S. C. “The effect of organizational form on quality: the case of franchising.” Journal of Economic Behavior & Organization, 2000, 43, 295–318.

Oster, S. M. "Nonprofit Organizations and Their Local Affiliates: A Study in Organizational Forms." Journal of Economic Behavior and Organization, 1996, 30, 83-95.

Oster, S. M. "Nonprofit Organizations as Franchise Operations." Nonprofit Management & Leadership, 1992, 2 (3), 223-238.

Penrose, E. The Theory of the Growth of the Firm. New York: Oxford University Press, 1959.

Porter, M. E. On Competition. Boston: Harvard Business School Press, 1998.

Rubin, P. “The Theory of the Firm and the Structure of the Franchise Contract,” 1978, Journal of Law and Economics, 2l (Apri1): 222-233.

Shane, S. “Explaining the Distribution of Franchised and Company-Owned Outlets in Franchise Systems.” Journal of Management, 1998, 24, 6, 717-739.

Young, D.R., Bania, N. and Bailey, D. "Study of National Nonprofit Associations." Nonprofit Management & Leadership, 1996, 6 (4), 347-365.

Young, D.R. "Local Autonomy in a Franchise Age: Structural Change in National Voluntary Associations." Nonprofit & Voluntary Sector Quarterly, 1989, 18, 101-117.

Table 1. Organization Characteristics by Organization Structure

		Single-Site	Branch	Affiliate	Plural
Age (years)	Median	9	27	14	21
	Maximum	126	150	78	148
	Mean	19.58	34.8	19.5	32
	S.D.	26.7	29.4	19.1	42.4
Budget (millions)	Median	$.25	$3.5	$.675	$5.0
	Maximum	$12	$100	$25	$55
	Mean	$1.0	$8.4	$1.8	$9.7
	S.D.	$1.9	$17.0	$4.6	$14.7
Number of Employees	Median	3	50	5	68
	Maximum	120	450	55	950
	Mean	10.3	92.2	8.2	163.2
	S.D.	18.7	115.4	11.5	256.4

N=296

Table 2. Organization Structure Frequencies

Organization Structure	Organizations Already Expanded (N)	%	Organizations Considering Expansion (N)	%
Branch Organization	62	48%	24	43%
Affiliate Organization	37	28%	8	14%
Plural Organization	31	24%	6	11%
No Preference	--	--	18	32%

Table 3. Organization Size by Organization Structure

	Branches (N=62)	**Affiliates (N=32)**	**Plural (N=32)**
<= 5	42	10	12
6-10	8	5	6
11-30	9	7	7
31-50	1	4	0
51-100	1	2	3
>100	1	4	4
Mean*	7.1	32.1	30.1
S.D.*	11.7	49.3	50.1
Median*	3	13	10
Maximum*	75	245	215

*While included in the total counts for number of units, the averages, standard deviations, medians, and maximums reported for branches and affiliates exclude two outliers, 999 for branches and 850 for affiliates.

Appendices:

Appendix A: Growth Rates and Anticipated Growth Rates

Recent Growth: Number of New Sites Established in Past 5 Years

Structure	**Mean**	**Median**	**Maximum**	**S.D.**	**5 Yr CAGR**
Branch	2.49	2.0	15	2.91	8.3%
Affiliate	13.11	4.0	108	23.89	16.9%
Plural	14.89	6.0	108	27.53	14.8%

CAGR = Compound Annual Growth Rate

Future Growth: Number of New Sites Planned in Next 5 Years

Structure	**Mean**	**Median**	**Maximum**	**S.D.**	**5 Yr CAGR**
Branch	2.52	1.0	5	6.76	5.3%
Affiliate	13.62	5.0	50	21.9	14.1%
Plural	21.12	6.0	108	30.37	15%

CAGR = Compound Annual Growth Rate

Appendix B: Mean Ratings for Motivations for Expansion (1= low importance, 5= high importance)

	Means by Structure			
Motivations	Single Site	Organization Type Branch	Affiliate	Plural
Saw great unmet need in other communities	4.57	4.11	4.55	4.38
Operate more efficiently as larger organization	3.00	2.89	3.34	3.42
Funders expected and encouraged	2.40	2.74	3.03	3.16
Tap into new funding sources	3.33	3.21	3.39	3.38
Reached limits of what could do effectively with single site	2.61	2.85	2.46	3.17^{a}
Multiple locations would give stronger voice in public affairs	3.21	2.82	3.04	2.96
Learn from experience of having multiple sites	2.98	2.46	2.92	3.13^{b}
Create challenge and career opportunities for staff	2.58	2.23	1.93	2.50^{a}
Saw value in becoming recognized brand name	3.73	3.19	3.14	3.29
Needed to be larger to survive and be sustainable	3.24	2.83	3.00	3.29
Leader not content to serve just one community	2.96	2.62	2.79	3.54^{Ba}
Board not content to serve just one community	2.62	2.55	2.64	3.17

Analysis of Variance was used to test for statistical significant differences between means.

^{a} Marginal statistical significance when compared to affiliate organizations (.05< p <.1)

^{A} Statistical significance when compared to affiliate organizations (p <.05)

^{b} Marginal statistical significance when compared to branch organizations (.05< p <.1)

^{B} Statistical significance when compared to branch organizations (p <.05)

Appendix C: Mean Ratings for Benefits of Expansion (1= not a benefit, 5= significant benefit)

	Means by Path			
	Single Site	Organization Structure		
Benefits		Branch	Affiliate	Plural
Cost savings from larger scale operations/centralized services	2.79	2.41	2.64	3.29[Ba]
Easier to attract and retain staff	2.77	2.37	2.04	3.00[BA]
More innovation as a result of local experimentation	3.57	3.00	3.32	3.67[b]
Stronger brand name for attracting resources/clients	4.09	3.65	3.86	4.14
Easier access to philanthropic funds	3.71	3.00	3.64[B]	3.48
Greater donor loyalty	3.26	2.72	2.89	3.24
Stronger voice in public affairs	3.52	3.00	3.43	3.67[b]
Local sites more effective by learning from each other	3.56	3.13	3.68	3.81[b]
More experience overall led to more effective programs/ operations	3.62	3.43	3.71	4.05[b]
Less vulnerability to ups and downs of particular local economy	2.92	2.59	2.25	2.95[a]
Size helps create systemic solutions to systemic problems	3.48	2.80	3.00	3.67[Ba]

Analysis of Variance was used to test for statistical significant differences between means.

[a] Marginal statistical significance when compared to affiliate organizations (.05< p <.1)

[A] Statistical significance when compared to affiliate organizations (p <.05)

[b] Marginal statistical significance when compared to branch organizations (.05< p <.1)

[B] Statistical significance when compared to branch organizations (p <.05)

Appendix D. Mean Ratings for Challenges of Expansion (1= not a challenge, 5= significant challenge)

	Means by Organization Structure				
	Single Site	**Branch**	**Affiliate**	**Plural**	
Challenges				**Branch**	**Affiliate**
Raising money for new local sites/affiliates	3.98	3.24	2.79	3.85^{b}	3.53^{a}
Raising money for the parent site/central office	3.85	2.95	NA	3.68^{b}	NA
Defining an appropriate affiliate agreement	NA	NA	3.36	NA	3.11
Establishing clear roles and responsibilities for sites vs. headquarters	NA	3.26	3.00	2.95	3.32
Building organizational capacity and systems to support sites	3.94	3.90	3.61	4.05	3.47
Tailoring programs and processes to different communities	3.10	2.76	2.86	3.25	2.79
Maintaining organizational focus on the core mission	2.92	2.45	2.29	2.95	2.68
Maintaining a close-knit culture and sense of teamwork	3.21	4.00^{A}	3.04	3.60	3.63
Identifying, hiring and retaining the "right" leaders for local sites	3.74	3.33^{A}	2.46	3.40	3.63^{A}
Protecting reputation of the whole network from isolated problems.	3.52	3.10	2.79	3.05	3.21
Avoiding too much bureaucracy and formality	3.42	2.71	2.61	3.40^{B}	3.58^{A}
Encouraging continued innovation at the local level	2.89	2.46	2.61	3.05^{b}	2.89
Collaborating with other organizations at the local level	2.60	2.02	2.43	2.40	2.37

Transferring lessons learned from one site to another	2.83	2.90	2.82	2.90	2.58
Exercising quality control across the network of sites	3.63	3.41	3.29	3.45	3.37
Creating an effective governance structure for the network	3.45	2.78	3.14	3.20	3.33
Creating effective local governance structures for the sites	3.19	2.51	2.41	2.53	3.16[a]
Gaining local acceptance in new communities	2.90	2.24	2.43	2.35	2.26
Capturing any economies of scale	3.07	2.71	2.71	3.30[b]	3.16

Analysis of Variance was used to test for statistical significant differences between means.

[a] Marginal statistical significance when compared to affiliate organizations ($.05 < p < .1$)

[A] Statistical significance when compared to affiliate organizations ($p < .05$)

[b] Marginal statistical significance when compared to branch organizations ($.05 < p < .1$)

[B] Statistical significance when compared to branch organizations ($p < .05$)