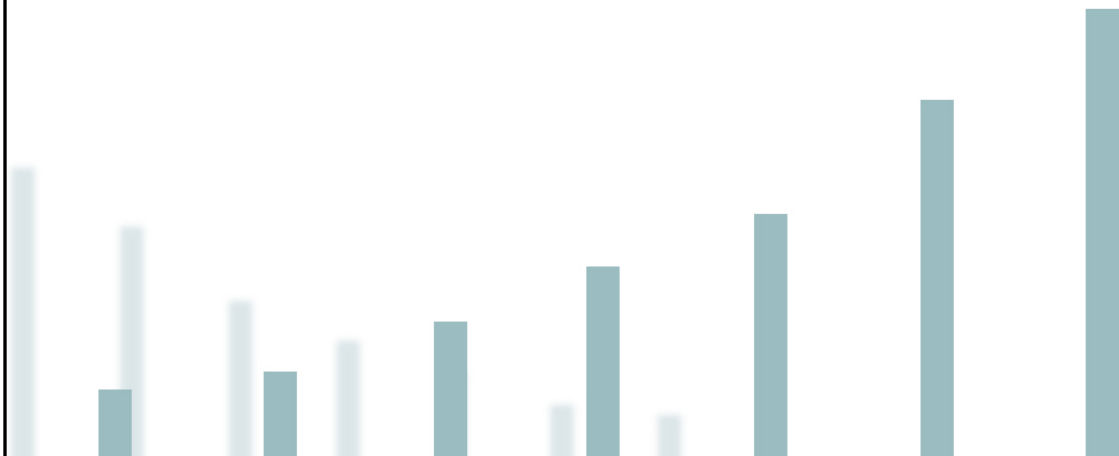


OCTOBER 2004

The Steppingstone Foundation

Expanding to new geographies while maintaining high-quality results



Summary

The Steppingstone Foundation has generated impressive results with Boston-area students, but it has had a difficult time exporting its model to another city.

Insufficient local fundraising, unclear leadership, and disappointing results plagued the pilot expansion. The organization has scaled back its geographic expansion ambitions, and is now working to saturate the Boston market and to stabilize its expansion site.

Organizational Snapshot

Organization: The Steppingstone Foundation

Year founded: 1990

Headquarters: Boston, Massachusetts

Mission: “To prepare Scholars to get into, and succeed at, top independent and public exam schools.”

Program: The services of the Steppingstone Academy are designed to identify underserved 4th and 5th graders and to prepare them to enter and succeed at top private and public exam schools in the 6th and 7th grades, respectively. The teachers, curriculum, and standards of the Steppingstone Academy are as demanding as those of any private or public exam school. The Academy offers 14 months of academic classes followed by a range of support services throughout middle school, high school, and college. In addition, the Steppingstone Fellowship is designed to attract recent college graduates to the teaching profession and to give them an intensive, two-year, hands-on experience in the field. The size of each new class of Steppingstone Scholars has grown from 10 Scholars in 1990 to 116 Scholars in 2003. Including both Scholars in the Academy and those receiving post-Academy support services, Steppingstone served 572 youth in 2003 (116 Year 1 Scholars; 92 Year 2 Scholars; and 364 youth via support services).

Size: 2.6 million in revenue; 25 employees (as of 2003).

Revenue growth rate: Compound annual growth rate (1999-2003): 17 percent; highest annual growth rate (1999-2003): 27 percent in 2001.

Funding sources: The Steppingstone Foundation relies on individual donors and supplements their support with foundation and corporate funders. In 2003, individual donors made up 57 percent of all revenues, foundations 29 percent, corporations 7 percent, and other revenues (such as interest on investments) 7 percent.

Organizational structure: Steppingstone is an independent 501(c)(3) organization, with a branch in Philadelphia operating under the national office's 501(c)(3).

Leadership: Michael Danziger, cofounder and president.

More information: www.tsf.org

Key Milestones

- 1990: Founded in Boston
- 1998: Expanded to Philadelphia; established the Magnet Program
- 2002: Slowed geographic growth and focused on building out the Boston and Philadelphia sites

Growth Story

Michael Danziger and John Simon started The Steppingstone Foundation with a hypothesis that if children, regardless of their circumstances, are given the proper academic preparation and support, they will succeed. They launched the Scholars Program in 1990 to prepare inner-city 6th-graders, who would not otherwise have the opportunity, to get into and succeed at Boston's top private schools in the 7th

grade. (Danziger is now Steppingstone's president and Simon is on the board of directors.)

Scholars participate in an intensive, 14-month academic program consisting of two six-week summer sessions before and after 6th grade, as well as after-school and Saturday classes during the 6th-grade school year. Once accepted to a school, Steppingstone keeps in close contact with the Scholars, their families, and their new schools to ensure a smooth academic and social transition.

From day one, Steppingstone expected to expand. It moved slowly, however, starting with 10 kids and growing in increments of 15 to 30 students in the early years. "In the beginning, we just wanted to get off the ground and give it a name," says Danziger.

Steppingstone grew based on its track record of success. By 1994, Steppingstone had successfully placed into 7th grade more than 90 percent of the Scholars who had completed its program. Currently, 88 percent of program participants graduate from high school and 93 percent of these high-school graduates are admitted to four-year colleges. These compelling results are even more impressive when compared to Boston public schools, where 77 percent of the high-school class entering in 1997 graduated in 2001 and only 42 percent of these high-school graduates attended four-year colleges.

Steppingstone continued to see the need for its program in Boston, and received positive feedback from the Boston community. Once the Scholars Program had become established in the Boston community, Steppingstone looked for other ways to provide opportunities to a greater number of children.

In 1998, Steppingstone established the Magnet Program, using the Scholars Program as a model. In Boston, "public exam schools" offer educational opportunities to students who score well on an entrance exam and who maintain high GPAs in 5th and 6th grade. The Magnet Program prepares inner-city schoolchildren to enter and succeed at Boston's three public exam schools: Boston Latin School, Boston Latin Academy, and John D. O'Bryant School.

Steppingstone continued to add programs such as the Steppingstone Fellowship, to attract recent college graduates to the teaching profession, and the

Steppingstone Prize, to encourage, recognize, reward, and replicate the best curricular developments in Boston public middle schools. As it has grown, however, Steppingstone has pulled back from the Prize program. “In order for Steppingstone to take full advantage of its core competence, we had to narrow our focus,” says Danziger. The Prize did not work out as planned, because of difficulties reducing Steppingstone’s intense teaching style and innovative curriculum to an off-the-shelf handbook and set of best practices.

Steppingstone’s management team and board brought in McKinsey consultants to help them decide whether to export the Scholars Program to other cities. A subsequent study described the benefits of a geographic expansion for Steppingstone, and identified 10 cities that would be likely candidates for a Scholars Program based on a market-sizing approach. It was an ambitious plan that called for adding one city per year.

In 1998, Steppingstone expanded the Scholars Program to Philadelphia. Philadelphia was chosen in part because a staff member moved there; though it was not the top choice of the McKinsey study, it was in the top 10. The program was tailored to local conditions: in Philadelphia, the program prepares 5th-graders for 6th-grade placement. Steppingstone Philadelphia accepted its first class of Scholars in 1999, with its Scholars going on to attend such private and charter schools as the Episcopal Academy, Haverford School, William Penn Charter, and the Philadelphia School. The Philadelphia site has served more than 60 Scholars to date.

While Steppingstone’s initial intention was to pilot a program in Philadelphia and grow from there, challenges with the Philadelphia program led the organization to slow its geographic growth. The Philadelphia site struggled to raise funds, to clarify leadership roles, and to match Boston’s outcomes. Graduation and placement rates were significantly lower in Philadelphia. “When a Philadelphia graduate referred to us as ‘Camp Steppingstone,’ we knew we had a problem with the Academy’s behavioral and academic standard,” says Danziger.

Philadelphia was “too small to do its own curriculum,” says Danielle Heard, executive vice president of programs. Boston staff were spending a

disproportionate amount of their time managing the new site, and the site was more expensive than Boston on a per-Scholar basis because of insufficient scale.

Key activities were implemented inconsistently in Philadelphia. For example, candidates were not fully informed of the length and intensity of the program up front, which contributed to the 40 percent dropout rate. Philadelphia Scholars also had lower program exam scores than Boston Scholars, and their families were less engaged in their children's education.

Securing funding for Philadelphia also proved problematic. A development director was not hired until two years after the program started. Philadelphia's advisory board was heavily weighted toward educators rather than those with access to potential funders, and the board was not made responsible for raising a defined level of funding. Further complicating matters, the site went through two program directors. Leadership roles and responsibilities were unclear from the beginning, leading to confusion over whose organization it was — Boston's or Philadelphia's.

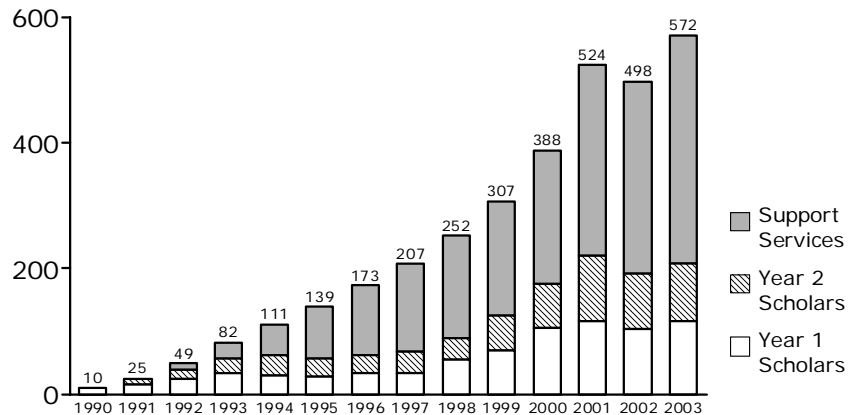
Back in Boston, Steppingstone continued to grow. Between 1998 and 2001, the Year 1 Scholar class size jumped from 55 to 116 Scholars, with staff serving nearly 600 Scholars yearly between its 14-month Academy and post-placement support services.

To keep Boston's quality high during growth, Steppingstone measured outcomes from the beginning. It was committed to maintaining a high staff-to-child ratio and to sustaining Academy graduation rates, high-school placement and graduation rates, and four-year college matriculation rates. "Anecdotal evidence is not compelling," says Danziger. "You must be able to measure results."

But as the Scholar growth rate slowed from 25 percent to 10 percent, Steppingstone wondered if the Boston site's growth was waning. (See Figure 1.) A 2002 Bridgespan study determined that almost 700 Boston-area fifth-graders per year fit the criteria for Steppingstone Scholars, suggesting that there was additional room for Steppingstone to penetrate the Boston area. Based partly on the challenges in Philadelphia, and partly on the further need and capacity identified in Boston, Steppingstone has slowed geographic growth since 2002 and has focused on building out the Boston and Philadelphia programs.

Figure 1

Steppingstone Scholars served



Source: Organization internal data

“The program works: the Scholars and teachers are engaged, and the focus is as sharp as ever, even as we have grown,” Danziger said in a recent letter to supporters. “Steppingstone is indeed a transportable model and it can, in some form, be implemented in other cities so that countless children can have the opportunities that accrue to those who go to college. While growth is fraught with challenges — known and unknown — not growing is not an option. We are proceeding prudently, but insistently.”

The challenge of sustaining growth is also related to marketing. “Teachers, parents, and staff from community-based organizations all need to know that Steppingstone offers life-transforming opportunities to children who are willing to commit to the rigors and standards of the program,” says Danziger. “We want every mother and father in Boston neighborhoods like Dorchester, Mattapan, Charlestown, Roxbury, and Brighton to know who we are and what we do. This will take a well planned and executed marketing effort, and I am confident we can pull it off.”

CONFIGURATION

Steppingstone is an independent 501(c)(3) organization, with a branch in Philadelphia.

Steppingstone's expansion to Philadelphia in 1997 was planned with the strategy of giving the Steppingstone idea to local leaders, letting them fall in love with it, and then having them secure funding to become self-sufficient. But with an unclear split of roles and responsibilities early on between Boston and Philadelphia, Philadelphia's leadership never developed a feeling of ownership, and the branch turned out to be more reliant (financially and managerially) on Boston than planned. Steppingstone's management team and board now believe that local ownership is the key to success, and future geographic expansion will be structured accordingly.

The current plan for Philadelphia involves a newly hired executive director, who has been tasked with spinning off the site. If the site meets a set of performance benchmarks by 2005, it will become its own 501(c)(3), with affiliate status, and can continue to use the Steppingstone Foundation name as long as it maintains specific performance standards.

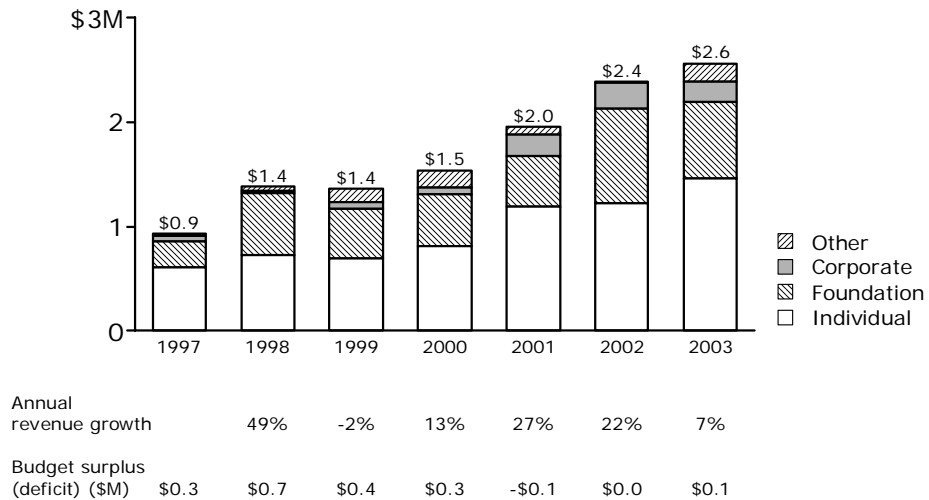
CAPITAL

Steppingstone has always relied on individual donors. Danziger has long been able to tap a strong donor base, drawing from his personal network of friends and associates and a core of committed board members. "Focusing on individuals has been a great source, because individuals don't set all kinds of constraints," says Danziger. "However, individuals can be fickle."

Almost half of all individual funding comes from special events; in 2003, Steppingstone raised over \$600,000 from events that included a black-tie gala and a golf classic. "Events really grow the donor database," says Danziger. "It's a good way to explain what we do." (See Figure 2 for a breakdown of funding by category.)

Figure 2

Steppingstone revenue



Source: Organization internal data

Foundation support has been important in recent years. The Smith Family Foundation made a \$1 million capacity-building grant to support the 2002 strategic plan and efforts to build up Steppingstone’s development operations. “Open, honest communication with donors has helped,” says Kelly Glew, executive vice president of development and operations. “Mike [Danziger] doesn’t only get in touch with donors when we need money.”

To date, Steppingstone has not focused on government funding. The organization has enjoyed the limited constraints individual donors place on it and is hesitant to move into the more heavily restricted government funding arena.

Opening the Philadelphia site complicated Boston’s fund development efforts. In 2001, for instance, Philadelphia raised only \$70,000 of its \$420,000 budget; Boston headquarters funded the remaining \$350,000. Under the new plan, Philadelphia is expected to reach financial independence by 2005. Part of Philadelphia’s challenge was its identification as a “Boston” program; the shift to more local autonomy is in part a recognition that a local identity and connections are key to fundraising.

CAPABILITIES

Almost all of the new positions added to the organization between 1993 and 2003 were program additions, with the exception of a few development support staff and a part-time office manager who takes care of human resources functions.

One these few non-program additions was the director of development role in 1993. Starting in 1998, this position became the director of development and communications. In 1999, the position added operations to its responsibilities. Kelly Glew is now the executive vice president of development and operations, having risen through the ranks after starting with the organization in the early 1990s.

The 2002 Bridgespan study helped Steppingstone reorganize. Danziger and the board realized they would need more strength at the senior management level to support growth; the jobs currently being done by the small management team soon would be getting much more time-consuming and complex. They'd need more bodies and different skills to get the work done.

For example, finding kids to apply was Steppingstone's biggest barrier to growth, so it added a director of marketing in charge of devising creative ways to reach more students. The first director of marketing the organization hired didn't work out, however. While her strength was in marketing, Steppingstone now realizes that the role requires a community worker — someone with ties to the neighborhoods, credibility, and persistence.

Danziger and the board also realized the organization would have to spend more time tracking outcomes and identifying areas for improvement. In 2003, Steppingstone added a director of organizational learning to perform internal program evaluations. This person is responsible for making sure that Steppingstone maintains its strong outcomes as the program grows.

And given that raising the money necessary to support Steppingstone's larger scale would take more time, the organization added a development assistant to support its fund development efforts.

Beyond these and other new hires, improving management capabilities would be critical, as with rapid growth the complexity of managing the organization would escalate dramatically. To foster an effective and stable management team, Steppingstone increased professional development training, began provided clear career tracks, and increased salaries to levels comparable to those at similar organizations.

The board is evolving, as well. For its first 10 years, the board was comprised of Danziger's friends. The new chairman, Brian Conway, who comes from outside Danziger's circle, has taken on a stronger role. Danziger says it's better for him and for the organization if it is no longer "Mike-centric." It had become clear to him that the board needed to take a more active role as the organization matured. Individuals are now joining the board with specific committees and specific roles in mind. There are some challenges in this transition – finding sufficient time to meet and to execute this more involved role is one of them. Going forward, the board will meet quarterly, with specific committees meeting more frequently.

Key Insights

- **Launching a successful site.** Steppingstone has struggled to replicate its Boston success. The early years of the expansion to Philadelphia floundered with insufficient local fundraising, leadership that was unclear on its roles and responsibilities, and disappointing results. The organization has decided to spin off the Philadelphia branch as an independently funded affiliate in 2005, if it meets certain performance goals.
- **Growing locally.** The organization has pulled back on national expansion for the time being, favoring local saturation where it already operates. A close examination revealed that there was plenty of room to grow in Boston.
- **Depending on individual donors.** Steppingstone's individual donor base gives it an enviable proportion of unrestricted funding, but expansion produced new challenges of fundraising at escalating levels. Going forward, the organization hopes to continue to develop its strong individual and event-

oriented funding base. Steppingstone also is working to increase its funding from foundation and corporate sources.