

# **LIFE CYCLES OF NONPROFIT ORGANIZATIONS**

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The following are general observations and vary for different organizations, but the overarching point I want to make is that organizations go through cycles much as people go through changes in their lives.

At TRANSITION points, organizations struggle and need to shift, expand, or change leadership styles and/or people in order to move through these stages in comfort. Frequently they do not realize, until a major CRISIS hits, that they are experiencing a natural (if disturbing) transition period and changes must be made.

## **STAGE ONE - START-UP PHASE**

Nonprofit organizations (NPOs) are usually started either by a charismatic leader (often called a founder) or by a group of people seeing a need to "clean up the neighborhood," "start a health clinic for the poor," "bring arts to the uncultured," or "stop drunk driving because it killed my child."

During this phase, people come together and work to solve the issue or develop a program around the reason they came together. Decision-making is by consensus, and almost everybody is a LEADER with a different role. If the group needs money, it passes around the hat, has a bake sale, or uses other simple fund raising techniques. The entire focus of the organization is on the mission that first brought people together. People enjoy meeting each other, tasks are simple and results are tangible.

Many informal organizations never get past this stage. Many neighborhood associations, crime watch groups, small acting and cultural arts groups operate exclusively with volunteers.

## **ENTERING STAGE TWO - GOVERNANCE PERIOD**

If a group of people see results and have increasing expectations, somewhere down the line MONEY will become involved. Someone picks up a grants guide, a spouse working for a large company mentions a grant, or one of the members reads about grants in the local paper. If the group wants to form a corporation, money is usually the driving force. So someone on the steering committee writes a proposal which is funded, and the organization moves onto the next phase.

## **EARLY PHASE OF STAGE TWO**

Now that the organization has raised some money, 501 (c) (3) tax exemption must be obtained. Frequently the first grants are "passed through" from another organization until the tax-exemption is in place. As the organization begins to formalize its operations, it must write bylaws, articles of incorporation and file extensive documentation with the IRS.

The committee now starts to become an organization. The group hires its first part-time staff person and that person wants to know how much money, vacation and benefits they will receive! Personnel policies are developed.

During this phase, people begin taking on roles and the groups divides responsibilities into program, funding, etc. Usually the person hired as executive director is the FOUNDER or a leading person on the founding committee. Most of the people on the board are still the FOUNGING MEMBERS but the organization starts looking at adding some people of WISDOM, rather than just WORKERS. There is now a need for technical people to help with fund raising, marketing, etc.

The mission of the organization is still very strong and the original values and ethics of the group are clear and are factored into all decisions that the NPO makes.

## **MIDDLE PHASES OF GOVERNANCE STAGE**

The NPO is starting to be successful and is raising new money. The people on the board want the organization to grow and are hiring new staff people and adding people to the board. The WORKERS (the original people on the board) are still visible, but their role is becoming less and less important as the NPO needs to raise more money and requires people with specific skills on the board. The board expands and perhaps gets its first person who has ACCESS TO WEALTH rather than ACTUAL WEALTH. This person may work for a major corporation or foundation but he or she has the ability to bring in money. More people with skills such as marketing, financial, legal etc. are added to the board.

The decision-making process is starting to be along the lines of "Robert's Rules of Order" and votes are taken on all issues rather than by reaching a consensus. Of the staff, usually only the executive director (who is generally the founder) attends the board meeting. The NPO is starting to act like a BUSINESS and grassroots people are beginning to feel lost in the structure.

There are still people with passion and compassion involved (generally the original members), but the technical and money people on the board are starting to gain in power and influence.

## **ENDING PHASE OF STAGE TWO - GOVERNANCE STAGE**

The NPO is succeeding in terms of gaining credibility, raising new funds, and increasing the number of staff. The board meetings are very structured and well organized. There are standing and ad hoc committees. On the staff level, the executive director may have an assistant director and there is probably a program director to supervise other staff.

The financial needs of the organization are now great and larger amounts of time are being spent on raising money. The organization begins to experience "mission drift" because it is starting to follow the money rather than just the mission.

During this phase, there is starting to be a reversal of MEANS and ENDS. During the first stage and the early and middle parts of the second stage, the entire focus of the group was grounded on values, mission and principles. These are the ENDS. At the end of stage two, because of the great need for money and the high expectations of the external community (fundors, media, general public, etc.) the NPO starts to reverse the means and ends and begins looking at making decisions based on "how can we maintain the organization," rather than "how can we fulfill our mission."

The board of directors increases its numbers yet again with people who can raise NEW MONEY or bring new money to the table.

At some point during the GOVERNANCE STAGE, there is a crisis of leadership. The founder who began the organization **adjusts to the changes, fights them, or does not recognize that changes are taking place.** At this stage, the founding executive director is often fired or resigns from the organization. What used to be a small group operating on consensus is now an organization with rules, structure and a developing "organizational culture."

The leadership patterns of the NPO are changing. During stage one, the founder or charismatic leader called most of the shots. During the early phases of stage two he or she played a big influence on the structure. Now the board of directors is starting to come into its own and certain standards of accountability are expected. The CEO is spending more and more time with staff and personnel issues and less and less time on the mission and with the people served.

A problem frequently arises with this charismatic first director in the sense that he or she is both the **leader of the staff and the board.** What happens? If the CEO leads the staff, that is an appropriate role. If the CEO is good at the job, he or she should be developing additional leadership on staff so that everyone on staff is defined as a leader, but with different roles. Everyone then moves between a leader and a follower role.

The problem comes when founding CEOs **do not develop board leadership** because they are leading the board themselves rather than **helping the board president to develop into a leader.** This distinction is critical for effective board leadership. If the board is to develop its own leadership, the board cannot look to the CEO for all the answers. The **CEO must work with the board president** so that he/she can lead.

What started off with a single source of funding is now starting to be very diversified, broad and complex. The NPO is spending lots of time raising money and there are conflicts over how it should be spent-staff raises versus program expenses is a common conflict.

Usually at this stage, the organization **changes its CEO.** If the founder left on good terms and recognized that it was time to leave, the board will look for someone with similar qualities. If the director was fired or left on negative terms, the organization may hire a "transition manager" rather than a leader. This person usually lasts only a few years and then the organization will hire another director who is more like the first but has better management skills.

### **STAGE THREE - INSTITUTIONAL**

Most organizations never get to this point and many organizations never even try to. At this stage, the NPO is established in the community, has a prestigious board made up of people who principally CAN BRING MONEY into the organization. The WORKERS (original founders) are long gone, the WISDOM side of the board (technical experts) are not needed because the organization can buy whatever expertise it needs. Any type of board discussion, whether public policy, mission, etc. is discussed through the filter of MONEY. At this stage, the MEANS and ENDS are reversed, and the ends goal becomes one of "maintaining the institution because without the institution there would be no services."

The leadership on the board tends to be very strong because both the board members and the organization itself are very visible in the community. Board members take their roles seriously, even though their main roles are fund raising, public relations, damage control and institutional maintenance.

The CEO is frequently more of a manager operating in a very decentralized system. Many times organizations that get into a scandal (such as United Way of America a few years back) get this way because the **board is totally out of touch** with the ultimate constituency of the organization's programs and services. The organization has "mission drift" and spends a huge amount of time raising money.

## **ANALYSIS OF THE LIFE CYCLE**

These are just some of the changes that many NPOs go through. Do you see any of these changes in your own organization? Do you see transition points where your group is going through crisis? Can you anticipate them?

Do you see the changing roles of leadership in the staff and board? At different stages of an organization, different leadership is required and different "balances" of leadership vs. management are required. Strong organizations conduct a SWOT analysis at least once a year to help identify their "transition" points so they can ACT rather than REACT to the changes.