

Expanding CDFI Coverage in Underserved Areas

Stages of Growth

Forming New and Affiliated CDFI Entities
Baltimore, MD

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Overview

- Organizational Development Framework
- Stages of Growth
 - Creativity/Startup
 - Direction/Establishment
 - Delegation/Institution
 - Consolidation/Permanence
- Human Resources, Leadership, and Culture



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Organizational Development Framework

- Four stages of Organizational Development
 - Based on Greiner, Thomas & customized to CDFIs
 - Provides a roadmap to organizational change as you grow
- The OD perspective: *Internal organizational history, structures, and practices have as much to do with success as external forces.*
 - It is critical for CDFIs to focus on the market, however, we must also tend to the organization itself if we are to accomplish our goals



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Organizational Development Framework

- Periods of *evolution* and *revolution*
 - *Evolution*: no major changes in organizational practice or structure
 - *Revolution*: change the way you do business
 - Growth occurs in both phases
 - Each phase builds on the prior one; yet the solutions for one phase will not work in the next one. Reinvention is key to growth.

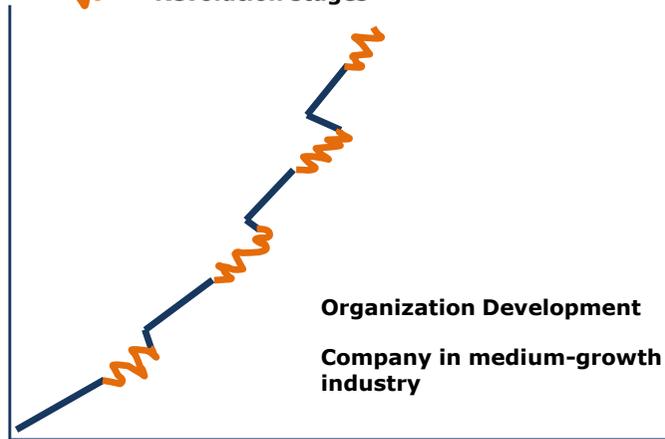


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Evolution and Revolution over Time

— Evolution stages
~ Revolution stages



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Stages of Growth: Caveats

- It is not inevitable that an organization will move from one stage to the next
- This is not a race to get to stage 4; organizations should strive to have an organizational structure that aligns with their programmatic complexity
- Generally not all aspects of an organization will be in one stage. The aspects that are lagging will be stressful.
- The roadmap helps a leader know what to expect as the organization enters a revolution period.

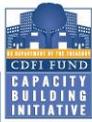
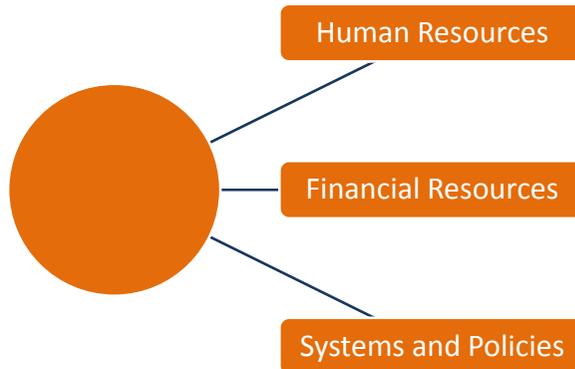


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In Any Stage . . .

- There are three legs to any organization's stool:



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Stages of Growth

- Four Stages:
 - Stage One: Creativity/Startup
 - Stage Two: Direction/Establishment
 - Stage Three: Delegation/Institution
 - Stage Four: Consolidation/Permanence
- Will look at key organizational opportunities & barriers affecting ability to grow



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Stage One: Creativity/Startup

- Leadership and Culture
 - Strengths and weaknesses of organization are the strengths and weaknesses of the top leader
 - Informal systems
- Market Analysis:
 - May be intuitive or one identified need
 - Distinguish between need and demand
- Program and Product
 - One product approach



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Stage One: Red Flags



- Inability to distinguish between need and demand
- Picking too narrow a niche
- Lack of entrepreneurial approach
- Entitlement Approach: Inability to say “no”
- Executive Director needs a huge variety of skills
- Need operating support and capital at same time



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Stage One: Red Flags



- If part of a larger organization:
 - Board composition – different skills than “regular” nonprofit
 - Organizational culture: potential clashes over
 - Compensation
 - Personnel Evaluation systems
 - Balancing mission and deal feasibility, saying no
 - Picking a person to be the Executive Director
 - Accounting for loans



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Stage Two: Direction/Establishment

- Leadership and Culture
 - Opportunistic, growth in many directions
 - Basic systems in place
- Market Analysis
 - Based on experience and constant scanning the market
- Program and Product
 - Expands based on experience
 - Requests and opportunities based on success



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Stage Two: Direction/Establishment

- Financial Resources
 - Add new capital sources
 - Increased earned income; however increase expenses means still need for operating support
- Systems and Policies
 - More formal budgeting
 - Personnel Policies



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Stage Two: Red Flags



- Managing growth:
 - Operating Losses
 - Inability to manage problem loans
 - Is the CDFI chasing grants?
 - Inability to resolve a bad/wrong hire
- Board that fails to continue to learn and understand the program beyond the founder's vision
- Lack of term limits on Board



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Stage Three: Delegation/Institution

- Leadership and Culture
 - Delegation now key to success and growth
 - Team-based identity
- Market Analysis
 - First “real” strategic plan may include a formal look at the market, including competitors
- Program and Product
 - May eliminate programs/products that were not a good fit from stage 2’s growth
 - Products are formalized: Performance standards, trend analysis may influence product design



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Stage Three: Delegation/Institution

- Financial Resources
 - More sophisticated approach to subsidy as lending program nears or is self-sufficient
 - May consider selling loans, off balance sheet relationships
- Systems and Policies
 - More formal capital projections
 - Investment in accounting, loan management systems



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Stage Three: Red Flags



- Staying the same and not reacting to market changes in terms of products, pricing
- No term limits means lack of fresh ideas and perspectives on the Board
- Unwillingness to hire expertise and deal with work style diversity challenges
- Not instituting formal supervision and evaluation systems (the “read my mind” approach)
- May need a new accountant due to greater complexity



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Stage Four: Consolidation/Permanence

- Leadership and Culture
 - Alignment is the key
 - Top leader must be an effective internal and external communicator
- Market Analysis:
 - Ongoing collection and analysis of data
- Program and Product
 - By now organization has approach to measuring outputs and outcomes and adjusts products and programs accordingly



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Stage Four: Consolidation/Permanence

- Financial Resources
 - More sophisticated capital structure
 - Approaching self sufficiency
- Systems and Policies
 - Scenario planning



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Stage Four: Red Flags



- Loss of connection to mission
- Lack of succession planning
- Founders syndrome
- Lack of investment in communication, internally and externally
- Remaining relevant to funders



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Changing Leadership and Culture

- CEO/Executive Director
 - Hardest thing for the CEO is constant reinvention
 - Being stuck is a sure way *not* to grow or manage growth
 - Founder's trap is common but not inevitable
 - Growth in *both* evolution & revolution
- Board of Directors
 - Board should be strategic and not micro-manage
 - Structure of Board should mirror strategic priorities

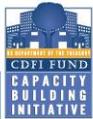


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Human Resources through the Stages

- Stage 1:
 - Board:
 - Founders;
 - Hands on, may perform some staff functions
 - Staff:
 - ED and 1-2 more
- Stage 2:
 - Board
 - Add new expertise and committees
 - Issues of program expansion
 - Staff
 - Greater specialization
 - Executive Director must let go of technical, learn to supervise



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Human Resources through the Stages

- Stage 3
 - Board
 - Focus on market, strategy
 - Recruit market leaders
 - Staff
 - Management more formal, may not suit some founding staff
 - Executive Director begins to focus on leadership
 - Succession planning
- Stage 4
 - Board
 - Committee structure is streamlined
 - Staff
 - CEO almost entirely external
 - Formal marketing / communication staff in place



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Reflection and Action

- Organizational Development Framework
 - Red flags
- Stages of Organizational Development
 - Discussion: Where is your CDFI? What are your challenges?
- Leadership and Staffing Models
 - Discussion: What changes in leadership and staff structure will help your CDFI to grow to the next level?



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Questions?



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