

# Strengthening Small & Emerging CDFIs

## The Four Stages of Organizational Growth

Adina Abramowitz, Consulting for Change

January 8, 2014



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## CDFI Fund's Capacity Building Initiative

- The Capacity Building Initiative will greatly expand technical assistance and training opportunities for Community Development Financial Institutions (CDFIs) nationwide and significantly boost the ability of CDFIs to deliver financial products and services to underserved communities.
- Industry-wide training will target key issues currently affecting CDFIs and the communities they serve.



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## Strengthening Small and Emerging CDFIs Task Order

- **Goal:** Increase capacity of more than 70 CDFIs to strengthen financial sustainability and increase community impact.
- **Focus:** Business models that work to support sustainability and impact, understanding stages of organizational growth, and change management.
- **Approach:** Five trainings, five mentored cohorts, one-to-one technical assistance, virtual resource bank.
- **Results:** Each CDFI developed an Action Plan with implementation supported by mentored cohorts.

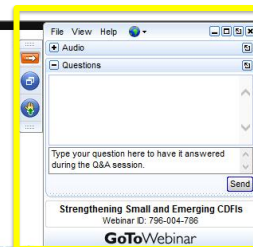


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## GoToWebinar

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## Presenter



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## Strengthening Small & Emerging CDFIs

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# Agenda

- 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?
- Action Plan



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# What type of CDFI are you?



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# Organizational Development Framework

- Four stages of Organizational Development (OD)
  - 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.*
  - CDFIs' focus on market is critical, but we must tend to the organization itself if we are to accomplish our goals



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# OD Framework

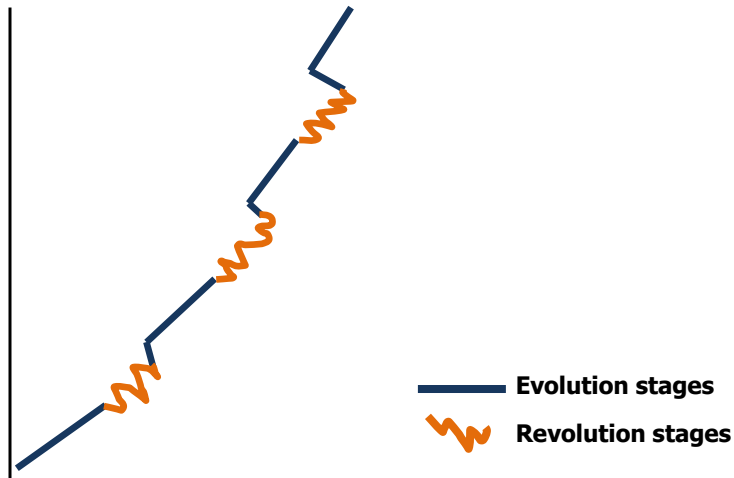
- Periods of *evolution* and *revolution*
  - *Evolution*: no major changes in organizational practice or structure
  - *Revolution*: change the way you do business
  - Growth occurs in both phases
  - Each phase builds on the prior one; yet the solutions for one phase will not work in the next one.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



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## Organization Development Company in Medium-Growth Industry



## 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 four; 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.



## In Any Stage . . .

- There are three legs to any organization's stool:
  - Human Resources (Staff and Board)
  - Financial Resources
  - Systems and Policies
- And for a CDFI: market analysis leading to a product / program that sells



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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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Organizational Area	Stage 1 Creativity/Startup	Stage 2 Direction/Establishment	Stage 3 Delegation/Institution	Stage 4 Consolidation/Permanence
Organizational Growth Issues	Survival/become known	Expand range of services Build infrastructure	Develop strategic approach Examine lines of business	Retain mission focus Continue to reinvent organization
Culture Characterized by	FAMILY OR MOVEMENT	Growth in many directions leads to "dysfunctional family"	Formalized relationships, team identity, competence	Aligned culture through organization, desire for performance, shared leadership
Top Leadership Characterized by	Individualistic	Directive	Delegative	Communicative
Organizational Structure	Informal	Centralized, functional divisions	Decentralized, cross functional teams	Streamlined for Effectiveness
Organizational Systems	Few systems	Basic systems	More sophisticated systems	Major investment in systems/technology
Resources	Few sources of operating revenue Limited capital	More diverse revenue/capital sources Beginnings of earned income	Repeat/multi-year funding/capital sources Access to larger sources	Approaching self-sufficiency More sophisticated capital
Product/Program	Single product Basic approach	Multiple products/programs Develop more sophisticated approach	Eliminate some products/programs Performance standards/trend analysis influence product design	Focus program on core competencies More sophisticated analysis of environment/trends
External Relations	Activist	Reactive	Recognized	Proactive
Growth Issues	Crisis of multiple roles	Crisis of Direction	Crisis of Control	Crisis of Meaning
Transition Characterized by	Mourning over loss of activism	Mourning over loss of family	Mourning over loss of access to director	Fear of loss of focus on principles and creativity



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## Stage 1: Creativity/Startup

- Leadership & 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 1: 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 1: 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 2: Direction/Establishment

- Leadership & 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
  - Leads to “go-go growth”



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## Stage 2: Direction/Establishment

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



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## Stage 2: Red Flags

- Managing go-go 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 3: Delegation/Institution

- Leadership & 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 3: 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 3: 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 4: 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 4: Consolidation/Permanence

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



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## Stage 4: Red Flags

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



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## What stage best represents your organization?



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# Discussion

Any questions about the stages?

What are some of your organization's internal challenges?

Does the stages framework help you identify solutions?



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Organizational Growth Issues	Survival/become known	Expand range of services Build infrastructure	Develop strategic approach Examine lines of business	Retain mission focus Continue to reinvent organization
Top Leadership Characterized by	Individualistic	Directive	Delegative	Communicative
Management Focus	The Cause Raising Funds/Interest	Growth	Operational Efficiency	Consolidation
Executive Director's Focus	DO EVERYTHING	BE OPPORTUNISTIC Let go of technical pieces	DIFFERENTIATE between leadership and management	EXTERNAL FOCUS
Board's Focus	Issues of formation, Operational details	Issues of program, structure	Issues of market, relationships	Issues of strategy, long-term value
Board Membership & Structure	Founders Board & Loan Committee Function as staff	Recruit expertise & relationships Add Committees: Executive, Personnel, Fundraising, etc. Sounding board for ED	Recruit Leaders Add Finance Committee Strategic Planning	Recruitment as ongoing function Streamline and reorganize committee structure Long term vision and performance
Communication Style	Face to Face Persuasive; Leader's Personal Style Executive Director and Board Leadership	Staff Meetings; limited written materials Beginnings of organizational positioning and image Executive Director and Fund-Raiser	Team Meetings; more written memos and e-mail Professionally produced communication materials Dedicated communications staff person	Use technology for internal communications; publications for external purposes Communications Plan & Network in place; Clear leadership position on key mission issues In-house communication staff with Executive Director
Culture characterized by	Family or Movement	Growth in Many Directions leads to "dysfunctional family"	Formalized relationships, team identity, competence	Aligned culture through organization, desire for performance, shared leadership
Diversity	"Everybody looks alike"	Work differentiation: Diversity of skills, experience	Diversity in work styles/goals issues emerge	Diversity in management issues emerge



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## Changing Leadership & 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

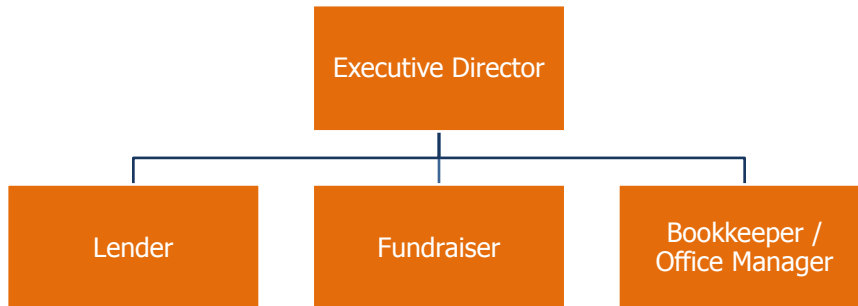


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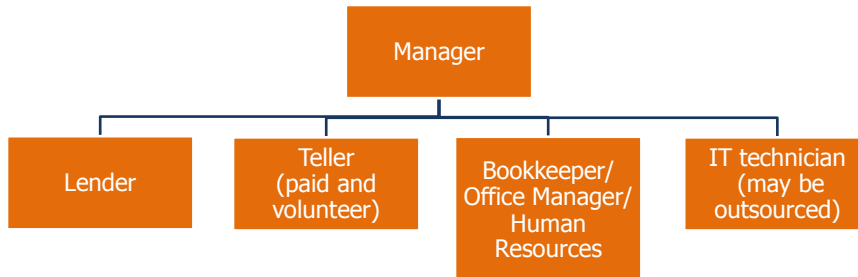
## Stage 1 – Loan Fund



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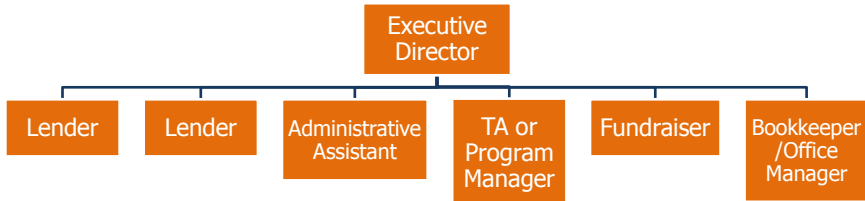
## Stage 1 – Credit Union



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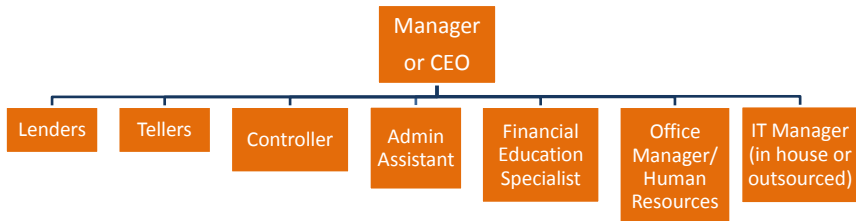
## Stage 2 – Loan Fund



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## Stage 2 – Credit Union



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## Human Resources, continued

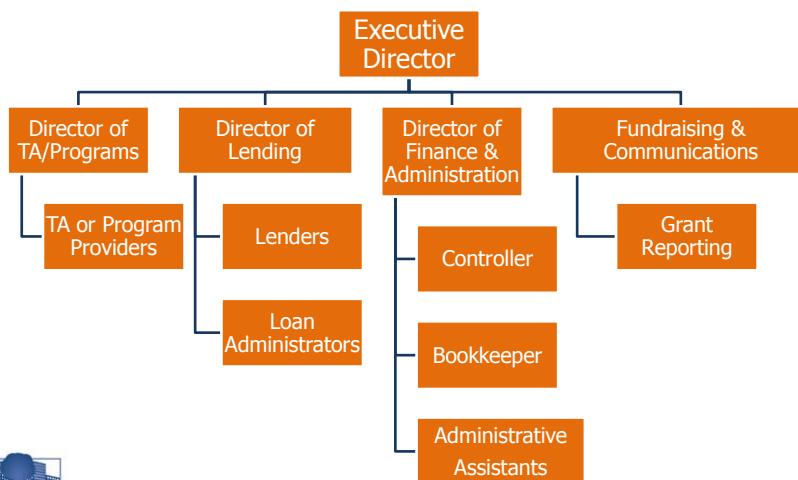
- Stage 3
  - Board
    - Focus on market, strategy
    - Recruit market leaders
  - Staff
    - Management more formal, may not suit some founding staff
    - Executive Director begins to focus on leadership
    - Succession planning
- Stage 4
  - Board
    - Committee structure is streamlined
  - Staff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



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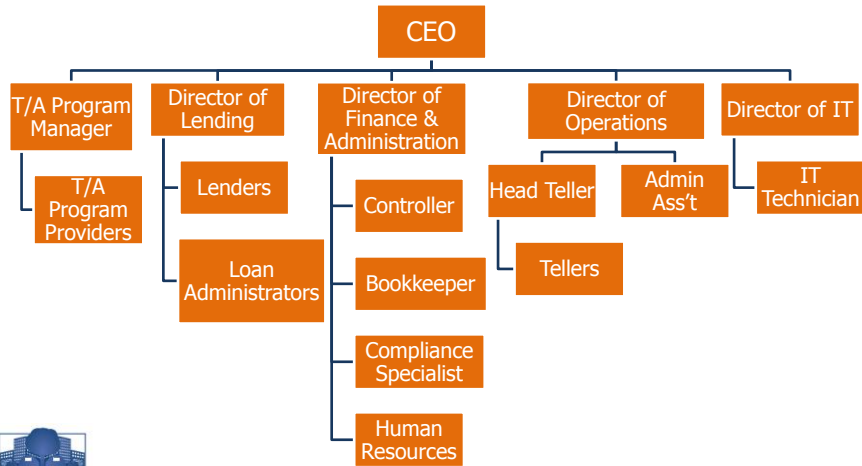
## Stage 3 – Loan Fund



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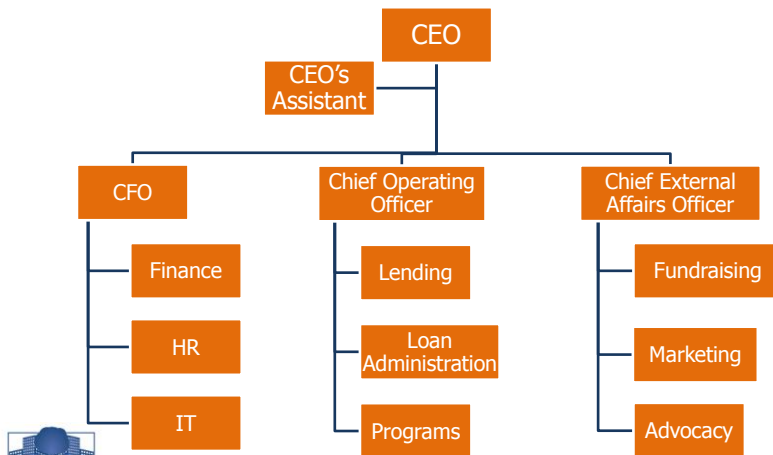
## Stage 3 – Credit Union



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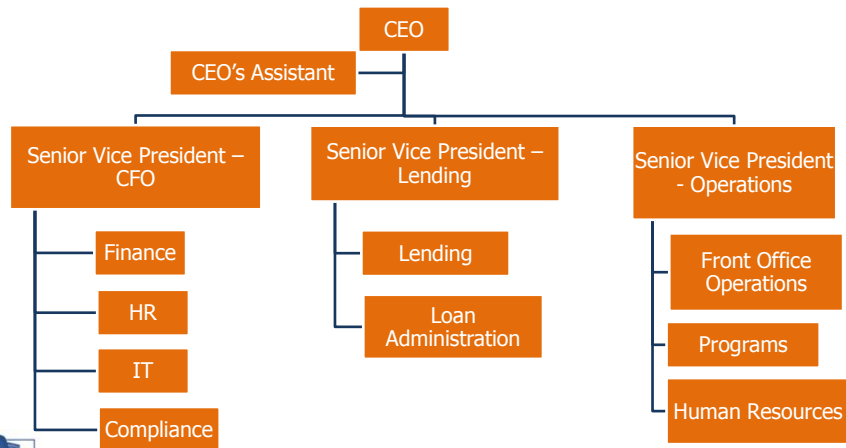
## Stage 4 – Loan Fund



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## Stage 4 – Credit Union



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## Discussion

- Questions about Leadership and culture through the stages?
- In what ways does your organization's leader's role need to change in your current or next stage of growth?
- How can the Board support that change? In what ways does governance need to change in your current or next stage?



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# Action Plan

- You can approach organizational change in 3 ways:
  - Let it happen (passive)
  - React to it (reactive)
  - Lead it (proactive)
- Action plan lets you lead change
- Key criteria for action planning:
  - Specific and detailed
  - Ambitious but achievable
  - Based on understanding of environment, stakeholders



# Action Plan

Action	Lead	Timeline	Resources
1.			
2.			
3.			
4.			
5.			



## Final Conversation

- What insights do you have based on the stages of growth about your organization's ability to pursue its best opportunities?
- What are some of the key barriers under your control that need to be cleared away?
- What are the key next steps? *Please take a few minutes to fill in an Action Plan, and set a time to get started on the first step.*



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## QUESTIONS?



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# Strengthening Small and Emerging CDFIs Winter Webinar Series

- **Innovative Business Models to Strengthen Sustainability and Impact**  
– *Ginger McNally, Opportunity Finance Network*
- **Models for Growth – the CDFI of the 21st Century**  
– *Michael Swack, The Carsey Institute*
- **The Four Stages of CDFI Growth**  
– *Adina Abramowitz, Consulting for Change*
- **Capitalization: Raising Debt and Equity for CDFIs**  
– *Michael Swack, The Carsey Institute*
- **Leading Organizational Change**  
– *Pam Porter, Opportunity Finance Network*

Dec  
5

Dec  
16

Jan  
8

Jan  
21

Feb  
5



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## CDFI Fund's Virtual Resource Bank

www.cdfifund.gov/what\_we\_do/Strengthening\_Small\_and\_Emerging\_CDFIs\_Resource\_Bank.asp

- WHO WE ARE
- WHAT WE DO
- IMPACT WE MAKE
- NEWS & EVENTS
- HOW TO APPLY

### COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

UNITED STATES DEPARTMENT OF THE TREASURY

#### Strengthening Small and Emerging CDFIs Resource Bank

The resources for this topic can be found below. To view all of our available Resource Banks, click [here](#).

**I. Training Curriculum:**

- Models for Growth – What Works
- The Logic Model as an Outcome-Based Project Management Framework
- The Four Stages of Organizational Growth
- Business Model: External Environment
- Managing and Negotiating Change
- CDFI Action Plan
- Leading Organizational Change

**II. Training Webinars:**

- Coming Soon

**III. Additional Resources:**

- Analysis of the CDFI Industry Landscape
- CDFI Operations
- Tools for Greater Community Development Impact



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