

# Strengthening Small & Emerging CDFIs

## The Four Stages of Organizational Growth

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## Welcome

Please sit at the table close  
to the organizational chart  
that most resembles your organization.



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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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# 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.*
  - 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

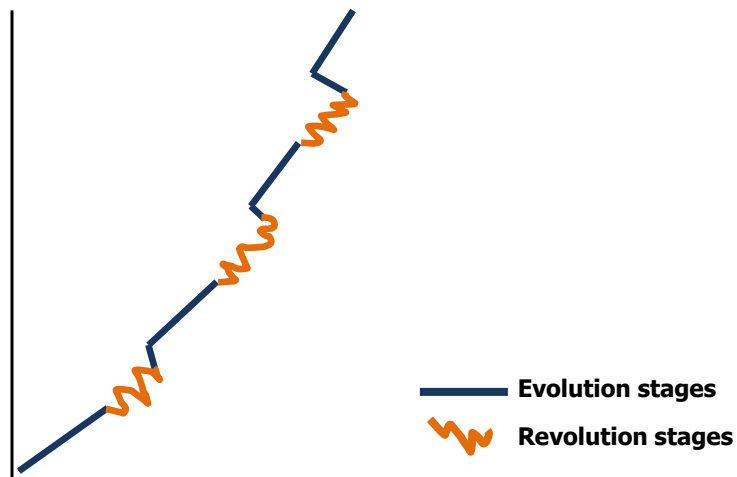
- Periods of *evolution* and *revolution*
  - *Evolution*: no major changes in organizational practice or structure
  - *Revolution*: change the way you do business
  - Growth occurs in both phases
  - Each phase builds on the prior one; yet the solutions for one phase will not work in the next one.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



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## Organization Development Company in Medium-Growth Industry



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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:
  - 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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## 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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## Discussion

Where does your organization fit in the framework? Where do you see your organization lagging?

What are some of your organization's biggest internal challenges?



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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

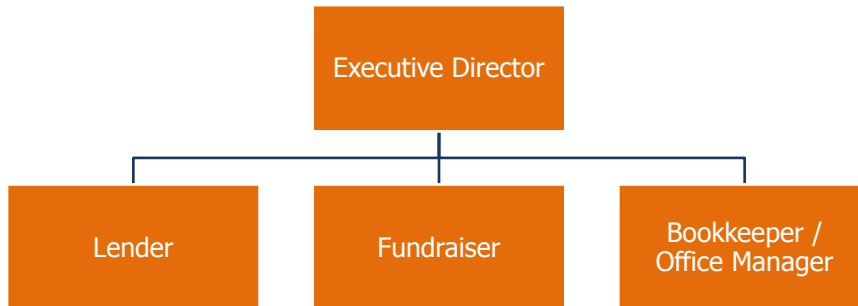
- Stage 1
  - Board
    - Founders;
    - Hands on, may perform some staff functions
  - Staff
    - ED and 1-2 more
- Stage 2
  - Board
    - Add new expertise and committees
    - Issues of program expansion
  - Staff
    - Greater specialization
    - Executive Director must let go of technical, learn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



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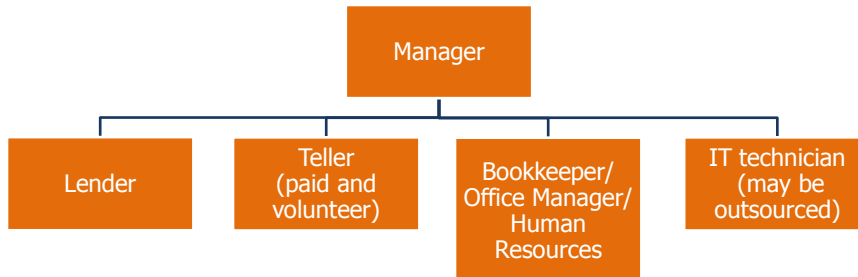
## Stage 1 – Loan Fund



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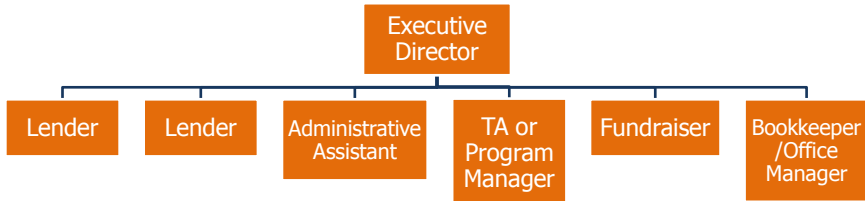
## Stage 1 – Credit Union



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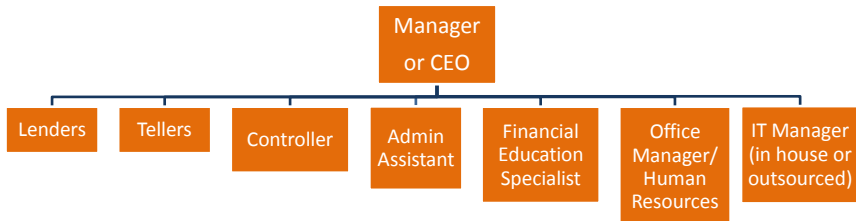
## Stage 2 – Loan Fund



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## Stage 2 – Credit Union



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## Human Resources, continued

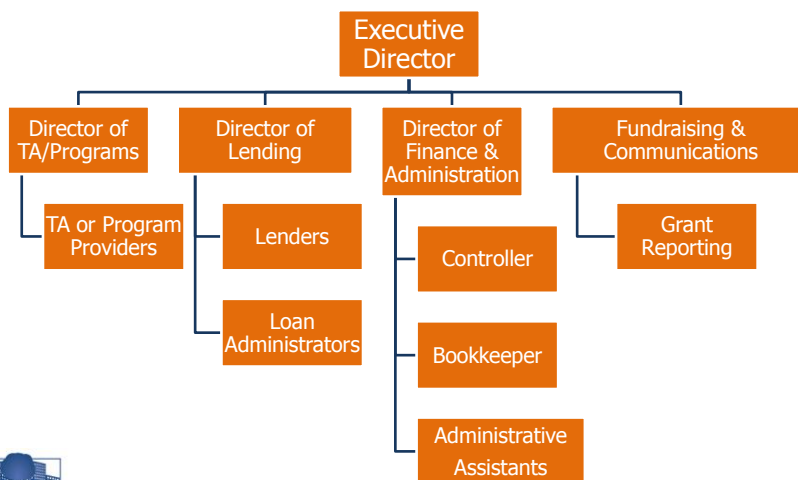
- Stage 3
  - Board
    - Focus on market, strategy
    - Recruit market leaders
  - Staff
    - Management more formal, may not suit some founding staff
    - Executive Director begins to focus on leadership
    - Succession planning
- Stage 4
  - Board
    - Committee structure is streamlined
  - Staff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



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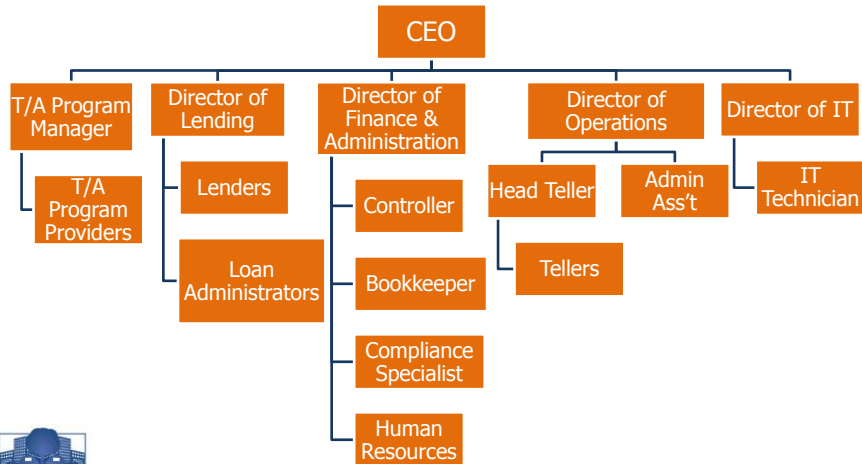
## Stage 3 – Loan Fund



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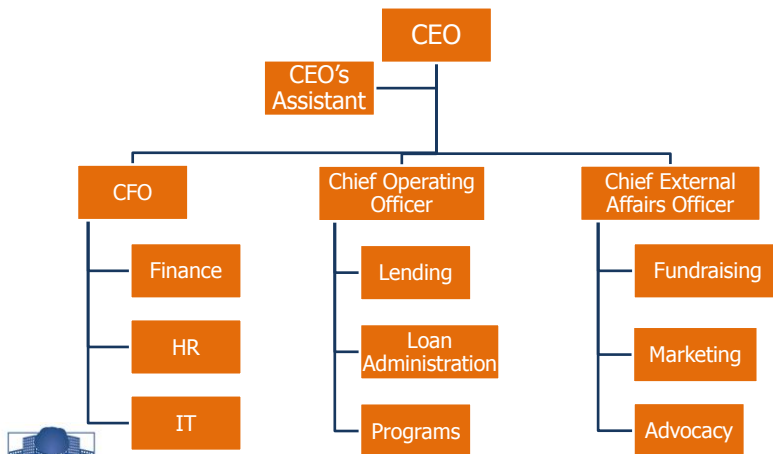
## Stage 3 – Credit Union



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## Stage 4 – Loan Fund

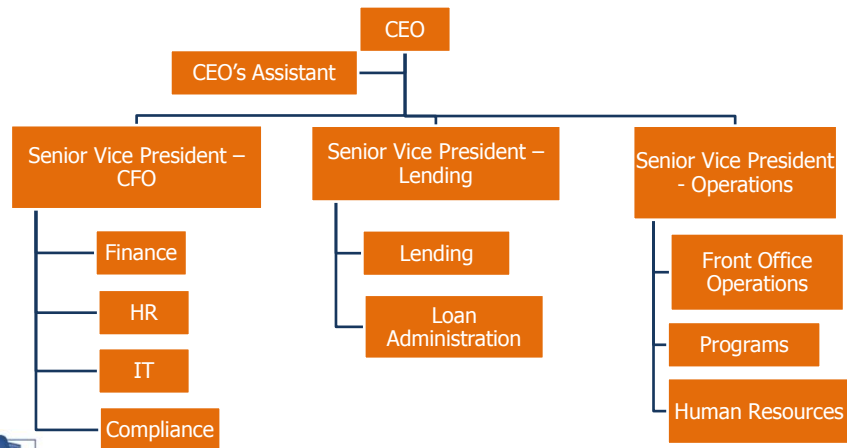


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## Stage 4 – Credit Union



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## Discussion

- 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



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# Action Plan

Action   Lead   Timeline   Resources



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## 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?

