

PAUL M. CONNOLLY

# NAVIGATING

## THE ORGANIZATIONAL LIFECYCLE

A CAPACITY BUILDING GUIDE  
FOR NONPROFIT LEADERS

BoardSource

*Library of Congress Cataloging-in-Publication Data*

Connolly, Paul, 1962-

Navigating the organizational lifecycle : a capacity-building guide for nonprofit leaders /  
by Paul M. Connolly.

p. cm.

Includes bibliographical references.

ISBN 1-58686-087-9 (pbk.)

1. Nonprofit organizations--Management. 2. Organizational change. 3. Organizational effectiveness. I. Title.

HD62.6.C6637 2006  
658'.048--dc22

2005024946

© 2006 BoardSource.

First printing, October 2005.

ISBN 1-58686-087-9

Published by BoardSource  
1828 L Street, NW, Suite 900  
Washington, DC 20036

This publication may not be reproduced without permission. Permission can be obtained by completing a request for permission form located at [www.boardsource.org](http://www.boardsource.org). Revenue from publications sales ensures the capacity of BoardSource to produce resources and provide services to strengthen the governing boards of nonprofit organizations. Copies of this book and all other BoardSource publications can be ordered by calling 800-883-6262. Discounts are available for bulk purchases.

The views in each BoardSource publication are those of its author, and do not represent official positions of BoardSource or its sponsoring organizations.

# BoardSource®

Empowering Boards. Inspiring Leadership.

BoardSource envisions a world where every social sector organization has the leadership it needs to fulfill its mission and advance the public good. Our mission is to inspire and support excellence in nonprofit governance and board and staff leadership.

Established in 1988, BoardSource's work is grounded in the fundamental belief that boards are critical to organizational success. With decades of hands-on experience working with and supporting nonprofit boards, BoardSource is the recognized leader in nonprofit governance and leadership, and a go-to resource for nonprofit board and executive leaders. BoardSource supports a broad and diverse cross-section of social sector organizations with

- leadership initiatives addressing key opportunities and issues within the nonprofit sector
- research and benchmarking of board composition, practices, and performance
- membership and board support programs
- customized diagnostics and performance assessment tools
- a comprehensive library of topic papers, publications, and downloadable infographics, tools, templates and more
- live and virtual education and training
- governance consultants who work directly with nonprofit leaders to design specialized solutions to meet an organization's needs
- a biennial conference that brings together approximately 800 board leaders for two days of learning and sharing

A note to our global readers:

The need for effective board leadership and governance knows no geographic boundaries, and BoardSource is committed to strong social sector board leadership and governance around the globe. While BoardSource uses United States laws and policies as the legal framework for our resources and recommendations, most of our resources do not focus on legal matters but rather on good governance practices, making them relevant to organizations working outside of the United States. We do suggest, however, that you refer to applicable laws in your country regarding financial reporting and other legal and transparency issues.

BoardSource is a 501(c)(3) organization.

For more information, please visit our website at [boardsource.org](http://boardsource.org), e-mail us at [mail@boardsource.org](mailto:mail@boardsource.org), or call us at 800-883-6262.

# Contents

<b>Acknowledgements</b> .....	<b>ix</b>
<b>Introduction</b> .....	<b>x</b>
<b>Chapter 1: What Are Nonprofit Lifecycles and Capacities?</b> .....	<b>1</b>
Lifecycle Model .....	1
Capacity Model .....	4
Interrelationship of the Four Core Capacities .....	7
Organizational Culture .....	10
Resources .....	10
External Environment .....	11
<b>Chapter 2: Organizational Capacity and Lifecycles: How and When Do They Interrelate?</b> .....	<b>12</b>
Start-Up .....	13
Role of the Board: An All-Encompassing Task.....	14
Building Capacity: Only the Beginning .....	15
Striving for Adolescence .....	17
<i>Case Study: Beginning Leeway</i> .....	19
Adolescent .....	20
Role of the Board: Moving from Hands-On to Oversight .....	20
Strengthening Capacity: Taking It a Step Further .....	21
Climbing Towards the Top .....	23
<i>Case Study: Growing the Maryland Foodbank</i> .....	27
Mature .....	28
Role of the Board: A Governing Body .....	28
Assessing and Fine-Tuning Capacity: Maintaining Relevance and Adapting to Change.....	29
Sustaining the Organization in Maturity .....	30
<i>Case Study: Sustaining the Foundation Center</i> .....	32
Stagnant .....	34
Identifying Stagnancy .....	34
<i>Case Study: The Dance Theater of Harlem: Is There Hope?</i> .....	36
Reversing Stagnation .....	37
Role of the Board: Initiating a Turnaround .....	37
Rebuilding Capacity .....	38
Moving Forward .....	41
<i>Case Study: Renewing the New-York Historical Society</i> .....	41
Defunct.....	42

Role of the Board: Taking Care of Business before Saying Good-Bye .....	42
Using Capacity for a Smooth Ending .....	43
Acknowledging the End .....	44
<i>Case Study: Dissolving the YWCA of Waukesha County</i> .....	45
<b>Chapter 3: Building Organizational Capacity .....</b>	<b>47</b>
Essential Components of Adaptive Capacity .....	47
Needs Assessment.....	48
Organizational Assessment.....	48
Program Evaluation .....	49
Knowledge Management .....	49
Strategic Planning.....	50
Collaborations and Partnerships .....	51
Leadership Capacity: Guiding the Organization to Its Fullest ...	52
Board Development .....	52
Executive Leadership Development.....	54
Leadership Transitions .....	54
Management Capacity: Directing and Securing Organizational Resources .....	57
Human-Resource Development and Management .....	57
Internal Communications.....	57
Financial Management .....	58
Technical Capacity: Operational Functions of a Nonprofit.....	58
Service Delivery .....	59
Evaluation.....	59
Outreach and Advocacy .....	60
Marketing and Communications .....	60
Earned-Income Generation .....	60
Fundraising.....	60
Accounting .....	61
Legal .....	62
Facilities Management .....	62
Technology .....	62
<b>Chapter 4: Taking Capacity Building One Step Further: Obtaining Outside Support .....</b>	<b>64</b>
What Kind of Help Can External Providers Offer? .....	64
Training.....	64
Peer Exchange .....	65
Convening .....	65
Consulting .....	65

Communicating with Funders.....	65
Knowing What To Ask For.....	66
Management Assistance .....	66
Grants .....	66
Capital Financing .....	67
<b>Conclusion .....</b>	<b>68</b>
<b>Appendix 1: Indicators for High-Performing Nonprofit Organizations .....</b>	<b>69</b>
Adaptive Capacity .....	69
Leadership Capacity.....	70
Management Capacity .....	70
Technical Capacity .....	71
<b>Appendix 2: Nonprofit Organizational Lifecycle Assessment Tool .....</b>	<b>72</b>
Part 1: Nonprofit Organizational Lifecycle Assessment Grid .....	73
Part 2: Questions about Your Organizational Lifecycle Assessment .....	86
<b>Appendix 3: Types of Capacity-Building Support To Seek from Grantmakers at Each Stage of the Nonprofit Lifecycle.....</b>	<b>88</b>
Start-Up Organizations .....	88
Adolescent Organizations .....	89
Mature Organizations .....	90
Stagnant Organizations .....	91
Defunct Organizations .....	92
<b>Suggested Resources .....</b>	<b>93</b>
General Resources.....	93
Lifecycles.....	93
Capacity Building .....	94
Governance Practices .....	97
Start-Up.....	97
Adolescent.....	98
Mature .....	99
Stagnant.....	100
<b>About the Author .....</b>	<b>101</b>

## SIDEBARS

All-Volunteer Organizations.....	14
Board Members of a Start-Up Nonprofit .....	15
Legal Steps for the Start-Up Nonprofit .....	17
How To Structure a Needs Assessment .....	21

To Grow or Not To Grow? .....	23
Visionary vs. Manager .....	26
Closing the Doors .....	44
Data → Information → Knowledge → Action.....	50
Who Participates in Strategic Planning? .....	51
Should a Merger Be Considered? .....	52
Finding the Right Board Member .....	53
Founder's Syndrome.....	55
Components of a Business Plan.....	61

**EXHIBITS**

Exhibit 1: The Nonprofit Organizational Lifecycle Model .....	2
Exhibit 2: The Nonprofit Organizational Capacity Model .....	5
Exhibit 3: Alignment of Core Capacities .....	8
Exhibit 4: Building Capacities To Effectively Deliver Programs .....	9
Exhibit 5: Sample Self-Assessment Summary for a Growing Organization.....	12
Exhibit 6: Start-Up Phase: Building Capacities To Effectively Deliver Programs .....	18
Exhibit 7: Adolescent Phase: Building Capacities To Effectively Deliver Programs .....	24
Exhibit 8: Mature Phase: Building Capacities To Effectively Deliver Programs .....	31
Exhibit 9: Reversing Stagnation by Rebuilding Capacities To Effectively Deliver Programs.....	40
Exhibit 10: Assessing the Context of Executive Transitions .....	56

**CD-ROM**

The CD-ROM attached to the back of the book provides an electronic version of Appendix 2 for customization and distribution purposes.

# Acknowledgements

My thinking about nonprofit organizational capacity and lifecycles had a long gestation period before this book was born. It is based primarily on my consulting experience with a wide range of nonprofit organizations — small and large, young and mature, across all subsectors — over the past 15 years. While working with this array of clients, I began to see patterns and typical phases and characteristics of nonprofits at each stage of their evolution.

My conceptual framework for thinking about nonprofit organizational lifecycles was inspired about 10 years ago by Sue Stevens' seminal essay, "Growing Up Nonprofit," as well as the writing on the topic by Karl Mathiasen and the Management Assistance Group (Mathiasen wrote *Board Passages: Three Key Stages in a Nonprofit Board's Lifecycle*, published by BoardSource in 1999). My framework also incorporates concepts based on the types of capacity that Christine Letts, William Ryan, and Allen Grossman described in their book, *High Performance Nonprofits: Managing Upstream for Impact*. Judith Sharken Simon's book on nonprofit lifecycles and Carl Sussman's writing on adaptive capacity also contributed greatly to my knowledge. I thank them and all those whose works I cite.

My thinking on the role of funders in supporting capacity building has been informed by my close collaboration with Carol Lukas of the Amherst Wilder Foundation, with whom I co-authored *Strengthening Nonprofit Performance: A Funder's Guide to Capacity Building*. A few parts of this book were adapted from that publication.

Recently, Gayle Williams and Sandra Mikush of the Mary Reynolds Babcock Foundation asked me to apply the organizational capacity model to each of the lifecycle stages and articulate stage-based investment strategies for funders. They also arranged a dynamic brainstorming session that included themselves, Gladys Washington, William Buster, Kathie deNobriga, and Kenneth Jones. This group's thoughts are reflected throughout this book.

I am especially appreciative of my colleagues at TCC Group who contributed to the creation of this book. John Riggan and Richard Mittenthal provided generous encouragement and support. Peter York is a true thought partner and made major contributions to the ideas in this book, especially related to the model for organizational capacity. (Peter and I developed the capacity model years ago for the David and Lucile Packard Foundation, under the very helpful direction of Barbara Kibbe and Stephanie McAuliffe.) Laura Colin Klein worked closely with me to identify traits associated with the lifecycles stages and transitions. Anne Sherman helped develop the views expressed in this book related to adaptive and leadership capacity. And Cara Cipollone, Evan Kultang-watana, Laura Meislin, Aracely Ruiz, and Andrew Smith assisted with the research for and development of this book.

I also want to acknowledge Marla Bobowick of BoardSource for encouraging me to write this book in the first place. Thanks also to George Gates and especially Claire Perella at BoardSource for their guidance during the book development process, and to Dennis Bass for editing the manuscript.

Finally, I thank my family and friends for all of their support, especially my parents, Joe and Ann Connolly.

# Introduction

Of what use is a book about the life patterns of nonprofit organizations to a board of directors or a chief executive?

If there are common events and stages that all or most nonprofits experience, then the leaders of the organization who understand those patterns can benefit immensely — by helping their nonprofit anticipate, prepare for, and navigate those predictable passages and changes. In short, they will be able to do a better job of discharging their public trust as the leaders responsible for ensuring that the organization successfully achieves its nonprofit mission. Especially in the current environment of increasing scrutiny of governance performance, it is essential to be aware of an organization's place in development and to be strategic in planning for the future. Nonprofits must adapt and grow, not only with their own inevitable changes, but also with those of the sector as a whole.

This book elucidates, for both senior executives and board members, a theory of the evolutionary development of nonprofit organizations, giving those leaders a rational and useful road map to guide them through what must often seem like a murky and unexplored nonprofit landscape. And, although styled as theory, it has some very practical and concrete applications.

This theory merges two concepts of the evolution of nonprofits: the lifecycle model and the capacity model. Specifically, the book explains

- The nonprofit organizational lifecycle model — and why it matters.
- The core components of organizational capacity and how they change during each lifecycle stage.
- How a board's composition and responsibilities may change at each stage of the lifecycle.
- How to assess a nonprofit organization's stage of development.
- How to anticipate future challenges, align capacities and lifecycle stages, manage organizational transitions, and strengthen capacities.
- How to obtain funder support for nonprofit organizational development.

Funders themselves will benefit from understanding the lifecycle model, how it is relevant to grant recipients, and how they can strengthen grantees through capacity-building investments. Consultants, trainers, and others who provide management and governance assistance to nonprofit organizations can learn how to apply the lifecycle and capacity models to their clients and design tailored approaches to help them strengthen their performance and navigate passages.

Chapter 1 explains the two main frameworks used to understand the life of a nonprofit: the organizational lifecycle model and the organizational capacity model. This chapter defines the developmental stages and capacities that are referred to throughout the rest of the book.

Chapter 2 integrates the two models and describes the optimal and shifting capacities necessary to move successfully through each phase of the lifecycle. The chapter includes descriptions of each lifecycle stage with normative capacities during each of those stages, enabling the reader to identify where his or her organization is in the lifecycle and the strengths and weaknesses that may need to be addressed. The chapter also discusses the transitions between stages and includes brief case studies to illustrate how specific nonprofits navigated transitions for those stages.

Chapter 3 focuses on how a nonprofit can enhance the four main types of organizational capacity and provides guidance about an array of capacity-building activities. In particular, this chapter delves into more detail about the individual components of the four core capacities, and includes tips for strengthening them in different stages of the organization's lifecycle.

If they are to implement the capacity-building recommendations made in earlier chapters, nonprofits often need help from outsiders in order to successfully make those improvements, including special funding. Chapter 4 briefly lists types of external service providers and explains how to make the case to funders for capacity-building support.

Appendix 1 of this book outlines proficiencies that were found to be common among high-performing nonprofits. It can be used as markers for each organization to strive towards. The lifecycle assessment tool in Appendix 2 can help a nonprofit's leaders assess the organization's stage of development and make a detailed diagnosis of strengths and weaknesses at that current stage. This will initiate discussion and action by organizational leaders to further capacity building and alignment. Appendix 3 provides a detailed outline for how to customize a proposal for funding to a nonprofit's current stage of development, as briefly discussed in Chapter 4.

Finally, a list of suggested resources for the reader is included in the back of the text. These resources are broken down into specific categories of capacity and stages in the lifecycle, attempting to provide more specific and applicable guidance and information that goes beyond the scope of this book.

When reading the text that follows, one may be misled into believing that every nonprofit fits neatly into the stages and the capacities that support them, or that the capacities described as desirable for a given stage in the lifecycle are ideal for every nonprofit. But, like life for humans, life for nonprofits is often messy and unpredictable. And, as for humans, diagnosing and prescribing remedies for nonprofits doesn't always follow a textbook. This book intends to help nonprofit leaders recognize their organization's situation using the tools and concepts offered here, and to take action accordingly. It is important to remember that nonprofits often find themselves in a new life stage by surprise rather than through planning or with any foresight. The following chapters encourage leadership be more proactive and informed about growth and change.