GETTING IN SHAPE:
Fitness Tips for Established Nonprofits

Even mature organizations have growing pains. Is your organization at risk?

BY LAURA COLIN KLEIN AND PAUL CONNOLLY

In the nonprofit universe, longevity and relevance aren't mutually exclusive. Even after 50 years or more, many organizations are more dynamic and effective than ever. Yet there's no simple formula for maintaining institutional health. Nonprofits face continual change, and new challenges materialize at every turn. Sooner or later, leaders of many once-thriving organizations realize that things aren't going as well as they once were: Funding support and demand for services are waning. The volunteer base is shrinking. Staff morale is low. Unless it confronts its problems, the organization may stagnate or plummet into a downward spiral. In this article, two management consultants explain how nonprofits can reverse decline or, even better, prevent it.

What Do Nonprofits Look Like as They Mature and Decline?

Most organizations follow a well-defined life cycle, from start-up through adolescence and into maturity. At any stage, the best measure of health is how well the organization's components—including programs, management, governance, and systems—balance one another and advance the mission. Although effectiveness doesn't depend on age, younger groups usually go through "growing pains" as they evolve. Maturity implies self-knowledge, a track record, and at least the beginnings of stable finances. Successful, mature nonprofits share common characteristics:

- a vital mission
- high-quality, well-regarded, relevant programs
- capable, motivated management and staff
- clear communications and accountability
- a well-organized board with able, involved members
- efficient management support systems
- solid finances, including reliable and diverse revenue streams.

Yet mature organizations can have their own growing pains. In fact, the very attributes that drive growth can hasten organizational dysfunction later on. For example, the formal hierarchy that allows for extensive programming can harden into an organizational straitjacket—a rigid structure that blocks effective operations.

As long as clients and funders provide minimum levels of support, organizations can languish for some time. Such stagnant organizations can be identified by these characteristics:

- a fixed menu of long-standing and, perhaps, obsolescent programs
- entrenched board and staff leadership
- fragmentation of staff into "fiefdoms" focused on individual program goals rather than overall mission

By sharpening its focus, Voices for Illinois Children has become an even better advocate for children.

Stagnation Checklist: Warning Signs of Organizational Atrophy

Program

- Demand for long-standing programs has declined.
- Few new programs are developed.
- Services become increasingly difficult to deliver.
- Focus is on operations rather than outcomes; objectives are unmet.

Management and Staffing

- Morale is poor; top performers consider leaving while poor performers are entrenched.
- Communications among staff members and with the board are poor.
- "Turf battles" crop up.

Board

- Decision-making is stalled by excessive process.
- Board members are unenthusiastic and minimally involved.
- Board giving is low.

Systems

- Well-developed systems deteriorate into "red tape."
- The organization is slow to modify systems and adapt new technologies.

Finances

- Long-term supporters are cutting back or pulling out.
- The organization is falling behind on its financial obligations.
- Cash reserves are insufficient.

- few or no new revenue sources
- outdated systems and procedures
- inadequate planning.

All it takes is one significant change, internal or external, to send a stagnating operation into a downward spiral. Market needs stop being met; programs lose credibility. Key staff and board members start to leave—one by one at first and then in droves; turf battles drain the energy of those who remain. As long-time funders pull out, cash flow dries up. By the end, all hope of achieving the organization's mission is lost. (See "Stagnation Checklist" above.)

When Is an Organization at Risk?

Stagnating nonprofits typically are in denial that they are becoming less effective. Therefore, leaders must be continually on the lookout for internal and external "risk factors" that can undermine operations and thwart the fulfillment of a worthwhile mission. These include:

1. Decreased Client Demand. Established programs can outlive their relevance and usefulness. Consider the recent history of Outward Bound, Inc. For three decades, culminating in the 1980s, it was the dominant player in what could be called the "self-actualization-through-roughing-it" market. At its peak, in 1986, more than 13,000 people a year were testing their mettle, grit, and survival skills through Outward Bound wilderness outings. Funding growth—a mix of foundation, corporate, and government dollars—was robust. Since then, however, enrollment has dropped by a third and revenues have leveled.

Although the group faces what appear to be serious problems, the root causes are relatively straightforward. For one thing, it lost touch with its markets—the 16-21 set, for whom the personal growth message has lost its luster, and the booming corporate market, which demands shorter sessions and a more behavioral orientation than Outward Bound provides. Meanwhile, competitors like the National Outdoor Leadership School and Project Adventures, Inc., began offering attractive new programs that have eroded Outward Bound's client base.[1]

Trend is not destiny.

2. Increased Costs. As a result of inflation or supply shortages, an effective program sometimes becomes too expensive to continue. Consider an after-school program that relies on volunteers from a local private college. As their tuition costs have soared in recent years, some volunteers have had to withdraw from the program to take paid jobs. The program will need to address this change or cut back its services.

3. Loss of Income. The pressure to constantly prospect for new funding sources and generate earned income is a fact of life. The loss of a large grant can hamstring a major program. But a healthy nonprofit can find ways to make up the difference, do more with less, or make changes that don't weaken core programs.

For example, the Atwater-Kent History Museum, faced with the loss of public funding, moved quickly to reassess its role in the community. It launched an aggressive membership campaign, set up a school outreach program, and transformed itself from a repository of artifacts into a true cultural resource. Its efforts resulted in attracting new donors. A less-flexible institution might have been forced to close its doors.

4. Heightened Competition. Today, competition is a reality for nonprofits, which vie with each other for funding, volunteers, fee-paying customers, and "market share."

Consider WQED, a public TV station in Pittsburgh. In the early 1990s, WQED was blindsided by the cable

Stagnation and Decline: Symptoms and Treatments

The signs of organizational distress aren't difficult to identify. Here are the most typical symptoms of decline and some practical responses:

Program

Symptom: Demand has declined, and capacity to deliver services is under-utilized.

Treatment: Reassess the needs of target audiences, and revise programs to meet current needs. Or, add new offerings to the program mix, and eliminate outmoded ones. Restaffing or retraining may be required to deliver new or revised services.

Management

Symptom: Management is unable to think creatively about the organization's mission or approach.

Treatment: Enlist help from external advisors to generate fresh alternatives and provide objective perspectives. A change in leadership may be appropriate.

Staffing

Symptom: The staff is torn by infighting and turf wars.

Treatment: Consider reorganizing staffing structure, including reallocating responsibility and retraining people. Retain consultants to help clarify disputed issues and assess staff members' capabilities.

Board

Symptom: The same few board members show up at every meeting to rehash familiar issues.

Treatment: Contact all board members and discuss their commitment to the organization. Revise the board's structure to reflect present-day needs. As part of this process, some board members may resign voluntarily and new members with critical skills can be recruited.

Systems

Symptom: Administrative systems are needlessly complex, confusing, and outmoded.

Treatment: Review your systems requirements in light of changing programs and technologies. This may require the expertise of outside management and information technology consultants.

Fundraising

Symptom: The organization is "chasing dollars" by inventing new initiatives primarily to attract available funding, contorting existing programs to match funders' special interests, or responding to Requests for Proposals indiscriminately.

Treatment: Clarify the mission, and revise programs to make them more relevant. Concentrate on funding opportunities that clearly fit this new direction. Adopt a more proactive approach to funders.

Financial Management

Symptom: Cash flow problems and projected budget deficits are chronic.

Treatment: Pare expenses by dropping or curtailing non-essential services. Develop new sources of income based on revised programs.

Internal Communications

Symptom: Staff members don't willingly speak out on critical problems and feel disconnected from important decision-making.

Treatment: Create an operational policy that outlines procedures for involving staff. Give senior staff opportunities to work with the board.

External Relations

Symptom: The organization's reputation has diminished; there is confusion among outsiders about its mission and programs.

Treatment: Inform funders and other constituents of your progress as you revise goals and programs. Be sure that messages about newsworthy accomplishments are conveyed to key audiences.

industry, which provided seemingly similar services at a lower cost to sponsors. "Many viewers can tune in to cable networks like the Discovery Channel to see the kind of programming once exclusive to public television," *The Wall Street Journal* reported. While WQED's problems were complex, its failure to recognize and address competition certainly contributed to its difficulties.[2]

5. Stale Leadership. A nonprofit may lose its way when its chief executive stays on past the point of providing fresh insights and approaches. This situation can prove disastrous when the leader is unaware of the need to chart—or is incapable of charting—a plan to address a compelling crisis, such as new competition or a loss of funding. The problems arising from leadership burnout can become even worse in the absence of a succession plan.

For example, a well-established educational organization was beset by a number of ongoing problems. Its situation deteriorated when the frustrated executive director resigned without a suitable successor in the wings. Board and funders had had little interaction with staff members and saw no basis for promoting from within. That the organization exists today can be attributed to the quick recruitment of a dynamic new executive who, by sharing control with staff and board and restoring confidence, was able to revive the operation.

Strategic Planning: Rx for Organizational Health

Some nonprofits become so focused on daily operations—program participation rates, accounts payable, hours of operation—that they give short shrift to long-range planning. Provided revenue streams continue to flow and some viable purpose continues to be served, these organizations can idle in neutral almost indefinitely. However, by occupying themselves exclusively

Each year, the ground shifts a little.

with current activities and the minutia of internal operations, such nonprofits lose sight of their missions and forfeit opportunities to serve clients better.

Other organizations do attend to planning but base future projections on past revenue and service levels. To an extent, this approach makes sense; we can learn much from history. But trend is not destiny, and managers who take their cues mainly from the past can undermine their organization's effectiveness.

The truth is that the most successful nonprofits look to the past *and* the future, all the while keeping watch on what's happening *now*. They understand that no enterprise can afford to follow the same course in perpetuity, no matter how sound its original mission. Each year, the ground shifts a little, the marketplace imposes new demands, new players emerge in the field, and staffing and systems need to change. To stay relevant, an organization must continually monitor itself and the outside world for developments that could affect its operations, viability, and effectiveness, readjusting programs and priorities accordingly.

Strategic planning gives a nonprofit the chance to take stock of its environment and activities and create a realistic blueprint for the future. Ideally, the process should include key staff and board members, giving them a better fix on their operating environment, impending challenges, and unexplored opportunities. It should shed light on the organization's unique strengths and relevant weaknesses, helping it identify causes of current or potential problems related to mission, program, board, staff, systems, finances, and so on. The process should also provide a structure for defining goals and making the best use of resources. A good plan includes clear objectives, strategies, action steps, time frames, and designated responsibilities.

The planning process itself often has a galvanizing effect on teamwork, staff commitment, morale, and overall momentum—particularly when it includes a well-designed retreat away from the workplace. An effective way to heighten involvement is by creating staff and board teams to address specific problems.

Well-managed organizations often conduct strategic planning on an ongoing basis to prepare to manage the future. Such a "maintenance" approach keeps them from ever getting too out-of-touch.

Reversing Stagnation & Decline: Other Remedies

An organization in crisis may need to resolve its most pressing problems before creating a strategic plan. Organizations in decline often suffer from outdated programs, poor morale, and funding shortfalls. Addressing these symptoms may be a necessary precursor to stabilization and long-range planning. (See "Stagnation and Decline" on page 27.) The following techniques can help renew an ailing organization:

1. Executive Search. Getting things back on track often requires new leadership at the executive director and senior staff levels. Successful searches proceed from a clear and carefully drafted job description, which is then widely circulated. To streamline decision-making, search committees—generally composed of board members—often create a profile of the ideal candidate against which to evaluate prospects.

2. Program Assessment & Development. The organization may need to develop new programs, eliminate old ones, or revise existing efforts. This process might begin by evaluating programs in terms of market need. What are the outcomes of each program? Do they meet constituents' needs? Which elements contribute to the program's success—or failure? Findings can help you reshape programs to meet market needs and fulfill your mission.

3. Organizational Development. Program changes will require shifts in staffing, organizational structure, and administrative systems. You may need to retrain

When Is It Better to Pull the Plug?

Thousands of nonprofits close their doors each year. In a few rare situations, a group disbands because it has fulfilled its mission: For example, an organization whose sole purpose is to eradicate a disease may become defunct after a cure is discovered. More commonly, however, groups shut down for less positive reasons, such as an inability to operate effectively or advance toward their goals.

Not every drifting organization can get itself back on course. If any of the following problems are chronic and irreversible, the wisest course may be to shut down:

Image: The organization's reputation is very low and beyond rehabilitation.

Programs: Programs are widely considered to be ineffective and substandard in quality.

Management: Crisis management prevails.

Human Resources: Valuable staff and board members have "jumped ship"; of those who remain, many are not highly regarded.

Systems: Systems don't properly support, reflect, or track the organization's work; internal controls are poor.

Finances: Bankruptcy is imminent.

Hard as it may be to face dissolution, it's important to manage the process strategically and conscientiously. If you do have to shut down, be sure to do the following:

- Inform funders, clients, and staff.
- Settle contractual and financial obligations.
- Fulfill all legal requirements.

existing personnel. Or it may make sense to start from scratch in some areas. You may have to recruit new staff and develop new procedures.

4. Fundraising. Most ailing organizations suffer from financial problems and need a strong fundraising plan. Such a plan should focus on long-term supporters. The best time to scout new funders is after the worst is over. Reason: Prospective funders may look favorably on an applicant that has moved decisively to pull things together.

5. Earned Income. Fee-based services or business ventures can also be an effective source of revenue. However, a financially troubled organization should proceed cautiously and avoid viewing this strategy as a panacea. Generally, it's best to wait until you've "turned the corner" and stabilized before pursuing new earned-income activities.

6. Board Development. In times of trouble, governance might not seem an urgent issue. But formal board development can be of immeasurable benefit in the long run. "If we can improve the level of fiduciary responsibility practiced by nonprofit boards…we can comfortably handle many of the problems we will face in the future," says Russell A. Cargo of George Mason University's Nonprofit Management Program.[3] A committed board can generate new energy by helping identify new program strategies, raise the organization's profile, improve financial management, and raise funds.

Back from the Brink: Leading a Turnaround

An organization in an acute state of crisis may require a full-scale turnaround, which combines the techniques described in this article. A turnaround is best led by an energetic new CEO with fresh ideas and skills in crisis management. In the most successful turnarounds, staff and board candidly assess the mission and plans for achieving their goals. Programs are overhauled, staffing and board revamped, administrative systems upgraded, and new funding secured. In some cases, joint ventures or mergers are considered.

In 1993, the 188-year-old New York Historical Society closed its doors, canceling all public programs and dismissing more than half its 41-person staff. The Society's vast collection of books, manuscripts, maps, photographs, and documents had been a key resource for pre-Civil-War history. Yet its physical plant was dilapidated, library items were inadequately catalogued, and works of art and artifacts were neglected. Funding to maintain operations couldn't be found. The only option was to close the museum to the public, severely restrict library hours, and continue other operations with bare bones staffing.

It seemed like the end of the line for this venerable—but notoriously cash poor and inadequately governed—institution, which encompassed a library, museum collections, and a historical archive. The Society's salvation came in the form of capable new administrative leadership and a series of major changes—some of them controversial. In particular, the Society raised $16 million by deaccessioning duplicate materials and pieces unrelated to its more focused mission in order to build an endowment that would support ongoing operations. Betsy Gotbaum, the Society's new chief executive, cut the annual operating budget while acquiring capital development funds. With $12.6 million from the city and state, she initiated structural improvements on the Society's landmark building. A $7.5 million grant from the Henry Luce Foundation will finance display of the now warehoused museum collection. In addition, the Andrew W. Mellon Foundation is funding a collaborative effort between the Society's library and that of New York University to expand on-line cataloguing. The Mellon grant has permitted the library to restore its public hours to 30 per week.

The New York Historical Society was able to begin its turnaround by bringing in a talented new executive director, honestly evaluating its problems, refocusing its mission, revising programs to meet market needs, mobilizing resources, and restoring funders' confidence. While much work remains to be done, the Society's future is the brightest it has been in years.[4]

Increasing the Prospects for Renewal

Is it possible for conditions to deteriorate so much that there's no choice but to shut down? Certainly. (See "When Is It Better to Pull the Plug?" on page 30.) But with expertise, hard work, and imagination, even seriously ailing organizations can renew themselves. Consider these guidelines:

Use Resources. Books and courses can help. Consultants can relieve workers from the effort of gathering data, diagnosing the problem, and developing an action plan. Their candor often provides the impetus for positive change, even if staff and board don't like what they hear.

Encourage Funder Participation. Organizations sometimes try to conceal problems from funders who might be truly interested in helping. Rather than act as "beat cop," a funder, especially one with a long-term commitment, can be an effective ally, offering advice drawn from experience with other grantees, referrals to technical assistance providers, and grants for consulting or planning services. An especially supportive funder can champion an organization's plan for rejuvenation and encourage other funders to give support.

Be Patient. Once a plan for renewal is in place, it's important to develop a realistic schedule. Remember, the decline of most organizations takes place over a long period. There's no reason to expect that reversing the process should happen overnight.

A Final Word

Organizations most often lose their way through neglect and denial. They tune out external changes or internal difficulties, ignoring problems in the hope they'll go away. Staying on the cutting edge of relevance takes constant vigilance: Leaders of successful nonprofits make a practice of continually scanning the horizon for change, responding quickly to new challenges, and addressing internal problems. They know that organizations can evolve and thrive only when they adapt to change—not when they shrink from it. ■

Laura Colin Klein and Paul Connolly are consultants with The Conservation Company (50 East 42nd Street, 19th Floor, New York, NY 10017, 212-949-0990, toll-free 800-222-2283), a management consulting firm with offices in New York and Philadelphia that provides management and planning services to nonprofit organizations and foundations.

Footnotes

[1]Joseph Pereira, "Leader of the Pack in Wilderness Training Is Pushed to the Wall," *The Wall Street Journal*, July 7, 1997.

[2]Valerie Reitman, "Missed Signal: Pittsburgh's WQED Failed to See Change in Public-TV Industry," *The Wall Street Journal*, January 17, 1994.

[3]Ted Hughes, "Creativity, New Features Watchwords for Nonprofits," *Village Life*, November 4, 1996.

[4]David Dunlap, "A Historical Society Shuts Its Doors but Still Hopes," *The New York Times*, February 20, 1993, and Paul Goldberger, "To the Rescue of a Grande Dame of Museums," *The New York Times*, June 12, 1997, C9-10.

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