Board Members Beware! Warning Signs of a Dysfunctional Organization

Why do nonprofit organizations die? What danger signs should you watch for? And what should you do if such warnings appear?

BY LILYA WAGNER & MARK HAGER

Nonprofit organizations die for many reasons. Sometimes they complete their mission. Sometimes community resources are allocated to other organizations. Most often, however, nonprofits close because they are victims of mismanagement, board neglect, lack of oversight, or negative media attention. Such problems can occur in any organization—even yours, if you don't notice the warning signs. Let's look at a case study that shows how such problems can multiply, squeezing the life out of a perfectly healthy nonprofit.

A Case in Point

The International Society for Reality in Education (ISRE) is a composite of several actual organizations (masked to preserve anonymity). Founded 10 years ago, ISRE has 105 members. Its mission is to promote education through seminars and publications. During its first five years, ISRE functioned with a three-person staff. Members reported that the staff provided services effectively and courteously. They were so pleased with their memberships that ISRE probably could have continued indefinitely at the same small scale.

However, several board members saw possibilities that they convinced others to explore. "Bigger is better," they argued. When a major foundation invited proposals, the board urged Bill Jones, ISRE executive director, to submit a request to fund new programs. Bill was reluctant. It hadn't been easy getting a new organization off the ground, and he wanted to enjoy the fruits of his labors. Besides, he didn't see the need for expansion. No one was complaining—at least not very loudly. Why fix what wasn't broken?

Despite his skepticism, Bill spent the next month producing a grant application. After investing so much time in the proposal, Bill found himself hoping it would be successful. Another month passed, and he no longer remembered why he hadn't wanted ISRE to expand. When the request was funded, staff and board celebrated. They announced to members that a new day of service was dawning.

Before another month had passed, Bill learned anew why he hadn't wanted the project to be funded. Funding meant growth, growth meant change, and change meant disruption. Bill had effectively managed his small staff, but he had no experience with a larger number of employees. Nonetheless, he had no choice but to fulfill the conditions of the proposal. What looked good on paper became a series of difficult choices and long days.

Despite his own unease, however, Bill gave glowing reports to the board. The board expected great results, and Bill felt he had to impress them in order to hang on to his job.

Both Bill and the board interpreted the proposal as a strategic plan because its details would drive ISRE's activities. They ignored the strategic plan itself, now about five years old. Instead of revising it, they focused their attention on what could happen because of the grant funds.

After expanding into adjacent office space, Bill hired new staff. The media attention generated by the funding allowed him to secure first-rate professionals who wanted to get busy right away. Before long ISRE had 15 new staff members. The once-tranquil atmosphere became lively. At the same time, interaction between staff members grew more complicated.

Bill was used to managing a small office, and now he was out of his league. He couldn't delegate or release the control he had exercised when the staff was much smaller. Because most of the new staff members were used to working in large, efficiently run organizations, they were frustrated by Bill's inability to cope. Although experienced in their areas of responsibility, they couldn't move toward their goals because of the slow pace of decision-making. They felt insulted and ignored when Bill made unilateral decisions. Office procedures that had worked fine for a three-person operation no longer served the rapidly expanding organization. Work suffered. Yet Bill continued to report to the board that all was going according to plan.

Insist that all board members help raise funds.

Hardly a year passed before the organization reached a critical point. Staff members were concerned but had no place to turn. They didn't feel free to warn board members because they didn't want to go over Bill's head. Yet they didn't trust Bill sufficiently to speak out—their jobs would be jeopardized, they believed. Board members, who rarely came to the home office, remained unaware of any problems. They continued to rely on Bill as their source of information for what happened in ISRE's daily operations. Since all was well, why would they do otherwise?

Professional staff began to leave, discouraged by the situation. As they resigned, they weren't replaced because grant funds were running out. Funding became a serious problem, but neither Bill nor the board seemed able to mobilize themselves to become fundraisers. Bill was burned out, and the board was uninterested. The board chair was overheard to say, "I'll be damned if I'll go to a development committee meeting!"

In response to worsening finances, the board voted to raise membership fees. After all, they argued, ISRE had been providing additional services for years without raising fees. However, the rate increase came at a time of decreasing services. Members asked themselves, "Just what am I receiving for the high dues I'm paying?" Membership began to drop.

Today, six years after ISRE received its grant, it is a shadow of its former self. The staff is down to its original size, with Bill the only original member who remains. All the new programs funded by the grant have been eliminated, and the organization provides only the same few services it did before the expansion began. Some board members have resigned amid much media attention. Public reaction to references about ISRE is, "Oh, are they still around?" Observers question whether the organization will survive another year.

WHAT WENT WRONG?

What went wrong at ISRE? Despite the organization's strengths, a combination of fatal weaknesses interacted to spark a decline and subsequent "mean mood" at the organization. Three weaknesses are particularly important in this case:

Three Fatal Weaknesses

1. Inflexibility. The organization lacked the ability to adapt. An organization cannot grow while keeping its original form. As staff members increase in number, their ability to connect face-to-face declines. The organization's structure becomes more formal and impersonal. Bill wasn't prepared to manage in this new environment. He responded to threats to his management style by becoming more rigid. Unable to grow, the organization began to die.

2. No Guideposts to Follow. Board members interpreted the grant proposal as a strategic plan—a bad idea for several reasons. First, it was limited in scope and outlook. Second, it had been written almost entirely by Bill rather than with input from staff, board, and constituents as a strategic plan should be. Because there was no up-to-date organizational plan, there was no entrepreneurial or strategic positioning. Events and programs just sort of "happened," and the organization lost its way.

3. An Apathetic Board. ISRE's most crucial weakness was its board. Board members didn't take time to visit the organization or to look beyond the executive director's monthly report. They relied on the director for all their information. In essence, the board abdicated its responsibility by ignoring symptoms that would have been obvious to a watchful eye.

WHAT CAN YOU DO?

As a board member, can you keep the same thing from happening to your organization? Yes, you can, if you keep a lookout for signs of dysfunction. Here are key symptoms to watch out for:

Ten Symptoms of a Dysfunctional Organization

1. **Lack of a Strategic Plan.** There is no strategic plan and therefore no way for the board to monitor the organization. Plans generated by staff are rubber-stamped by board members, with little meaningful input.
2. **A Narrow Fundraising Base.** The organization has not established a diverse funding base. Most of its funding comes from one or two sources. Board members aren't involved in fundraising. Some board members

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don't even donate their own money to the organization—a disastrous sign of apathy.

3. **Productivity Slowdown.** Goals are not being met. Little is accomplished on projects. Reports are too optimistic, lack supporting data, and show the same results time after time.

4. **Staff-Board Breakdown.** Staff members no longer ask board committees to meet with them. There is little communication between members of a board committee and the staff member(s) assigned to it.

5. **Fear of Change.** Change is accepted reluctantly. Risks are not taken.

6. **Poor Communications.** Staff members feel they can't speak out in meetings and therefore congregate in small groups afterward. They don't understand how and why decisions are made. They feel left out and unable to answer board, constituent, or media questions.

7. **Declining Morale.** There are apparent favorites among the staff. Consequently, staff members distrust each other. Conflict and hostility flourish, complaints become common, and people jump to unwarranted conclusions.

8. **Financial Instability.** Budget problems become more frequent and explanations more vague. The organization falls behind in its financial obligations.

9. **Unhappy Customers.** Constituents begin to complain about rude staff, unanswered mail, unreturned phone calls, and unfulfilled promises.

10. **Loss of Key People.** Board and staff members depart.

Ten Ways to Halt Organizational Decline

If you see signs of dysfunction, what should you do? Strike quickly before the problem spirals out of control. Here are steps to put a stop to organizational decline:

1. **Create a Strategic Plan.** Gather key staff, board members, and constituents for a day-long retreat. Together, fashion a strategic plan with action steps.

   Have the board see to it that the steps are carried out. Be sure the plan includes criteria the board can use to evaluate the executive director.

2. **Get Involved with Fundraising.** Insist that all board members help raise funds and donate their own money to the organization. Encourage the organization to diversify its funding sources. One income source shouldn't make up more than 40% of the organization's budget. (See Muehrcke's *Are You Sitting on a Gold Mine?* in "References" for steps to creating a solid, diverse fundraising base.)

3. **Empower People.** Nothing recharges a sluggish organization as quickly as turning people into decision-makers. Be sure the CEO and other top managers are well educated on shared-leadership techniques. If they are locked into hierarchical leadership styles, they may need to be replaced. (For more on shared leadership, see Henderson-Loney in "References." For advice on firing the CEO, see Fram & Pearse in "References.")

Don't take the CEO's word for everything; check it out yourself.

4. **Open Lines of Communication.** Encourage get-togethers, meetings, and group activities that include both board and staff members. As a board member, meet frequently with the CEO and other top managers. Be sure they're not just saying what they think you want to hear. Don't take their word for everything; check it out yourself. Visit the site to verify information you're given. Also, be sure all board members serve on board committees. Interacting with staff on committees is a good way to sense if there are morale problems. It's also a good way to learn how the organization's activities relate to its mission.

5. **Commit to Change.** If you want to lead a healthy organization, you must overcome people's fear of change. Help create an environment in which innovation is encouraged and rewarded. Make sure all staff and board members have opportunities to attend educational programs so that they are constantly learning together. (For more on creating a learning environment, see Gooding and Henderson-Loney in "References." For more on overcoming people's resistance to change, see Rosenberg in "References.")

6. **Prepare a Communications Policy.** Collaborate with staff to create a communications policy. Clarify expectations so that all board and staff members understand what's expected of

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them and feel they are using their talents constructively. Be sure everyone has input into decisions that affect them. (See Lauer in "References" for more on the board's communications responsibilities.)

7. **Promote Teams.** Team-building is one of the best ways to improve morale, commitment, and the sense that everyone is working together for the same cause. Team-building skills will help board and staff confront conflict and discuss problems openly. Once people realize that they are important to the team, they will be far more confident, motivated, and productive.

8. **Review Finances.** Review the organization's budget, financial policies, and cash flow position. Call for an audit of the organization's finances. Find experts to help you chart a solid financial course for the organization. (For steps to financial empowerment, see Brinckerhoff in "References.")

9. **Survey Your Customers.** Take a careful look at the organization from the point of view of its customers—the people it serves. Request a survey to determine customers' satisfaction with the organization. Working with staff, develop a marketing plan to meet the customer needs identified by your survey.

10. **Take a Flexible Approach to Staffing.** Encourage creative personnel ideas, such as part-time, flex-time, and teleworking arrangements. Consider using consulting firms and outsourcing options to maximize resource and recover from unexpected staff losses. (For more on consultants and outsourcing, see Vaughn in "References.") Work toward breaking down old, rigid barriers between positions. Remember, the more flexibility, autonomy, and feeling of accomplishment people have in their jobs, the more likely they are to stay—and to work hard for the organization.

As a board member, you must rely on the organization's CEO and staff for much of your information. But you must also take the time to know the organization, watch it carefully, and be alert for danger signs. Remember, your vigilance is vital to the organization. It may be the difference between life and death. ■

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