Organizational Healing: New Hope for Nonprofits in Crisis

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If fifty percent of the thirty thousand new nonprofits created each year in the U.S. fail, and large numbers of well-established nonprofits fail or are at-risk for failure, what does that say about the state of nonprofits in general? Is the industry somehow fatally predestined for this failure rate? These facts tell us at least one thing: as a group, nonprofit organizations are in a serious state of crisis.

What can be done to lessen this failure rate? After all, nonprofits are supposed to always teeter on the brink of collapse? That is the way the industry works. This myth is slowly being dispelled as nonprofits begin to claim their right to fiscal solvency and embody a growing movement of social enterprise ventures which create net income to support mission activity growth. However, there is another myth at play in the industry that is often unaddressed and that is the most likely root cause of organizational failure.

FISCAL HEALTH: A SYMPTOM OF AN ORGANIZATIONAL CONDITION

Most of us would suspect that the reason for the high level of crisis among nonprofits would be due to inadequate funding. Surprisingly, at least one recent study reveals that this is not the case. According to a study (De Vita and Twombly, 1997) of the finances of a panel of human service nonprofits in 13 states, the majority of these organizations actually had revenues that exceeded expenditures in the years prior to their failure. Indeed, financial indicators eventually can show the result of long-term mismanagement – and they do so rapidly in the end – but fiscal issues alone are not the cause.

So what is the reason for such high failure rates? The same study found that the primary reason for nonprofit failure was due to organizational and management factors, not economic ones. Management factors typically include lack of management skills, incompetence, and sometimes abusive practices and behavior of executives and board members. These factors put the organization at risk because those responsible for the negative behaviors and practices lack the knowledge or insight required to correct the problem. In other words, nonprofits can fail because they do not recognize, through the eyes of their leaders, that their organization is at-risk and in need of outside intervention.

The finding in the De Vita and Twombly study is supported by a report published jointly by Venture Philanthropy Partners and Community Wealth Ventures in June 2004 in which it was determined that high-end corporate and private donors ranked the importance of leadership as high as program excellence. According to the report, "The real test for many investors is if there really is strong, compelling leadership to take the organization to another level of impact and

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performance." For many nonprofits at-risk for failure, this level of leadership excellence is unreachable without outside intervention.

THE ANATOMY OF DYSFUNCTIONAL MANAGEMENT

The above study points to the fact that for nonprofits to attract money and to insure survival, the onus falls not primarily on program quality and fiscal health as commonly suspected, but on the principles and practices used to manage that money and those programs and more specifically, on the talents and skills of the leadership responsible for executing them. Leadership, in this case, means not only the President/CEO, but also the board of directors who oversee the operations of the organization. In addition, depending on the size of the nonprofit, this may include some levels of upper and middle management.

So in effect, leadership is a team effort, but it is precisely within the context of this team effort where things can get muddy and the system can break down. A dysfunctional leader or an ineffective board (or even worse, both) can spell disaster for even the most well-established and well-funded nonprofit, often due to myopic and limited vision as they continue to operate under the false assumption that organizational problems are financial and can be solved by focusing exclusively on finances. Instead, the real problems – which are far more complex and lie with the unwieldy way decisions are made, actions are executed, conflicts are resolved, fiscal problems are handled, and planning is done – are not seen or even addressed until it's too late. The result: *an organization in crisis*.

CASE STUDY: EXECUTIVE INCOMPETENCE

After several years of enjoying the fruits of high-level fundraising revenues by a well-connected founder board, a human services organization suddenly experienced an exodus of several high-producing board members as well as the founding executive. With a high-level of program excellence in place and reasonable cash reserve, the remaining board members, now severely compromised, became entangled in a series of increasingly disastrous executive replacements with little attention given to performance, or even what would constitute performance excellence.

With board resources weakened, these executives burned through cash. Overspending became the norm as fundraising revenues sagged and costs escalated from decisions to throw money at the symptoms of organizational crisis.

The whirlwind of executive replacements resulted in a traumatized staff as they were mismanaged by over-authoritarian leaders put in place by the weakened board. These bullying executives focused primarily on blaming individual employees for lack of proper overall organizational management strategy and systems, and staff turnover rose to an all-time high of more than 100 percent in a single year.

Numerous consultants were hired to reorganize finances and to raise more money but no global assessment of organizational health is done. The focus on larger organizational management issues remained unaddressed and emotionally abused staff became as fragmented and as ineffective as its leaders.

Over the course of three years, this organization went from healthy and thriving to the brink of total failure. In this case, the problems for the organization were not initially financial, but were related to the singular challenge of executive replacement at a time of board weakness. Problems began to compound with the revolving door of executives, resulting in uncontrolled overspending, revenue deterioration, staff emotional abuse, and no global strategic plan.

THE SOLUTION IS HEALING THE SYSTEM

What is the answer? *Organizational healing* – an innovative solution that involves identifying and addressing the symptoms or indicators of an unhealthy or at-risk organization ***and*** addressing the core issues that created those symptoms in the first place.

For the organization in the case study, organizational healing was able to stop the continuing emotional abuse of the staff and the perpetual installment of incompetent and over-authoritative executives. As a result, the following outcomes were achieved in short order:

- Staff turnover came to a halt
- Staff ideas which had been previously untapped were collected, integrated, and implemented, increasing productivity and efficiency
- Overspending came to a halt
- Aging payables equivalent to more than 10 percent of the organization's budget were steadily paid off in full
- New ways of earning revenue were developed and implemented, diversifying funding for the organization
- The cycle of inappropriate executive hiring was halted and the board was instructed on effective hiring practices, resulting in the development of a new management model for the organization
- The workplace was transformed into a more playful, creative, and fun place to work, and the renewed commitment and enthusiasm shown by staff members was evident to all the stakeholders of the organization, resulting in serving more satisfied clients, attracting new funders, and presenting a more positive public image

So how does organizational healing work? The four steps below illustrate the typical process. It should be kept in mind that these steps are not performed hands off, but occur through the organization healer's integration into the workplace as a temporary team member.

Step One*: Admit that the organization is in global crisis without blaming anyone for the situation*. In the case study above, and for most organizations, this was by far the hardest step. We often feel that if we can assess blame, then we can solve the problem. Blaming ties up the focus of the team in an unproductive activity that detracts from the job at hand – correction of problems. Board attitudes and openness are key to a successful step-one process. Since the last executive in the case study had already been removed, an interim executive was installed until the board could learn effective hiring practices.

Step Two*: Conduct an independent comprehensive organizational assessment*. Unlike a traditional nonprofit consultant, an organizational healer assesses an organization by not only looking at its symptoms, somewhat like the way a physician looks at the human body, but also by looking at the overall hidden functional (or dysfunctional) relationships between employees, board members, stakeholders, and the management and operational systems in place. The solutions are arrived at not by recommending a pre-packaged consulting product, but rather by working closely with the key members of the organization and co-creating solutions from within.

Step Three*: Create a quick plan to heal the organization.* This action plan differs from a traditional strategic plan in that it focuses on short range actions which support long range goals, the least of which is survival of the organization. The organizational healer diagnoses the organization's symptoms and constructs systemic healing interventions to be applied throughout the organization. For example, the organization in the case study had installed executives who infused overly-authoritarian policies and practices throughout most of the operational systems of the organization. A systems overhaul was part of the plan to eradicate unnecessarily restrictive human resource practices which undermined staff performance and created tension throughout the organization. In effect, support, trust, and flexibility were institutionalized in revised, humanistic human resource policies and practices.

Step Four*: Work the plan and be willing to change it fluidly over time.* No plan can anticipate all possible futures accurately. In many respects, success in the nonprofit industry is related to an organization's ability to be opportunistically entrepreneurial while staying true to one's core mission. Shifting plans not only makes possible the capture of new opportunities, but instills creativity, flexibility, excitement, and passion into the organization and the people running it.

INDICATORS OF AT-RISK ORGANIZATIONS

What kinds of indicators describe an organization is at-risk? Typically, the most at-risk nonprofits are those that have experienced some degree of overall organizational trauma in which a number of key areas of the organization have been affected over time by loss or ongoing unresolved problems. This could include having a dysfunctional leader and/or an ineffective board, along with a myriad of other problems resulting in low staff morale and high turnover, interpersonal conflicts, systems breakdowns, poor strategic planning, fiscal mismanagement and/or a lack of revenue diversification.

The vast majority of nonprofits have problems in at least one of these areas. If left unaddressed, this usually leads to problems in other areas of the organization, resulting in organizational trauma, and requiring desperate measures to bail the organization out of crisis.

Because personality issues and the human element silently, but dramatically, affect how management systems are developed and operated, the leaders of most organizations are, at best, only marginally aware of the workplace cultural issues that are crippling the organization as they are most often part of the problem. This factor makes it difficult for nonprofit organizations to position themselves to be receptive to outside intervention and take advantage of organizational healing opportunities.

ORGANIZATIONAL HEALING VERSUS TRADITIONAL CONSULTING

One key difference between traditional consulting and organizational healing is in the nature of the upfront relationship – because the organization's decision makers agree from the beginning to focus on correcting management behavior and practices, the organizational healer can ask tough questions, point out difficult behaviors, and suggest solutions that ordinarily might be summarily dismissed.

There are no quick fixes. An organizational healer typically works in-depth with an organization using a combination of training, consulting, and coaching services to achieve deep-rooted, long-lasting solutions. Unlike the services offered by most nonprofit consultants, the services of an organizational healer are experientially content-driven and never pre-packaged, but always designed with input from an organization's key personnel with the specific needs of that organization in mind.

From the perspective of prevention, one way to prevent an organization from becoming at-risk for organizational trauma is to have a periodic assessment of the organization's health performed by an outside and objective observer, who can give the executive and board feedback on the current state of health of the organization, and offer solutions to treat the symptoms at the source and prevent them from happening again.

Hiring an organizational healer may be the furthest thing from the mind and budgets of most nonprofit executives. But in these rocky times, with high percentages of nonprofits failing or in crisis, it may be the one action that can make a significant difference to survival of traumatized organizations.

REFERENCES

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