

Egalitarian Risk Leadership: Flatten or Fatten?



By Melanie Lockwood Herman

Executive Director

Resource Type: Risk eNews

Topic: Enterprise Risk Management

In our capacity as advisors and coaches, the NRMC team develops and adapts risk management frameworks, strategies and tools for the complex nonprofits we serve. No two consulting clients or Affiliate Members are the same. To make the consideration of risk a worthwhile endeavor, versus a rote ritual, it's crucial to spend time reflecting on the environment in which an organization operates, the current and desired workplace culture, and also how the organization is structured. As we delve into the topics of organizational structures and decision-making, we're increasingly hearing about teams working towards a decentralized structure.

According to BusinessDictionary.com, decentralization is the "Transfer of decision making power and assignment of accountability and responsibility for results. It is accompanied by delegation of commensurate authority to individuals or units at all levels of an organization even those far removed from headquarters or other centers of power."

Equip for Empowerment

We've heard a number of reasons to explore or pursue decentralization in a nonprofit, such as:

- Empowering site-based, frontline, and functional teams to make decisions on issues about which these teams are passionate and knowledgeable
- Equipping talented team members with accountability and responsibility
- Inspiring durable commitments and authentic engagement

With respect to *risk* leadership and capabilities, we're all aboard with the goal of flattening the organizational structure to ensure that perceptions about and experiences with risk on the frontlines of a nonprofit are shared, understood and reflected in risk programming. Team members whose views and ideas were solicited early on are far more likely to be champions of effective risk management compared to "voluntold" staffers who receive unexpected stern edicts from the risk higher-ups. And I also love one of the tenets expressed on www.holacracy.org: "Every individual acts as a "sensor" for the organization and has direct pathways for processing their challenges and opportunities into organizational change."

But the conversations we've been having recently point to a trend that is bigger and bolder than simply practicing "deference to expertise," a strategy we wrote about in two prior issues of RISK eNews: [Got Growth?](#) and [Person of Interest: Soliciting Insights from Staff in the Know](#). We're working with organizations that are intentionally reducing the size and authority of their headquarters teams, and investing money, decision-making and true authority in functional and site-based teams. As they drive more autonomy to teams and individuals, these organizations are creating more agile organizational structures.

The buzz about sucking the air out of bloated hierarchies contrasts with another trend we've been studying:

updating position titles and descriptions to match the C-suite labels found in Corporate America. Some skeptics might suggest that bigger than life titles and larger than customary management teams are signs of the unnecessary bloating of the management ranks in nonprofit America. Advocates of C-suite titles suggest that there is “something in a name,” including greater respect for the leaders of complex, community-serving nonprofits. (For a humorous look at the proliferation of C-suite titles in the for-profit sector, see [C Is For Silly: The New C-Suite Titles](#).)

Flatter, Quicker, Stronger: What’s the Risk?

Think of decentralization by its other name: *distributed leadership*. What are the risks of a flatter, egalitarian structure . . . dare I say “[holacracy](#)”? A few interesting risks and opportunities come to mind:

- **Mind the Gap:** In the NRMC team’s experience, employee engagement and satisfaction are highest when there’s a correlation between the expected and actual experience of service. Unhappy staff often cite a disconnect between what they expected or were promised and the actual experience of working in a nonprofit. Leaders who aim to flatten their structures and value staff at all levels and locations should exercise extra care when it comes to describing the changing structure. I recall a departing NRMC employee who noted in her exit interview that, “While Melanie always asks for our views and opinions, sometimes she does what she thinks is best.” The colleague who conducted the exit interview was at a loss to understand what part of “Executive Director and CEO” the interviewee didn’t get. For me, the interview was a reminder of the importance of explaining and clarifying that while every team member’s views are valued, there are times when a decision may be made that doesn’t reflect the consensus view.
- **Get comfortable being uncomfortable:** When teams are empowered to make decisions that suit their circumstances (think team culture, priorities, risk appetite), you’re bound to wind up with a range of results. If you’ve ever reviewed the goals of disparate teams in an organization, you’ve no doubt seen the wide variations in how people define “stretch goals.” For one team a stretch goal is meeting the budget, while for another it’s beating the budget by 100%. If inconsistent plans and results cause you to break into hives, you either need to learn to live with a persistent rash or look for soothing strategies to support your flatter decision-making structure and true distributed leadership model.
- **Surface Mistakes:** A distributed leadership model may be helpful in surfacing mistakes (in other words, the discovery of what may be obscured, unspoken or ignored) and “intelligent failures.” Amy C. Edmondson of the Harvard Business School refers to the latter type of failures as praiseworthy: reasonable actions in the face of uncertainty, or failure while experimenting in order to expand knowledge. Very few nonprofits have mastered the art of learning from mistakes and failures; decentralized, empowered teams arguably provide fertile ground for hastening both the identification of mistakes and learning from loss and failure.
- **Leverage Cultural Differences:** For our international clients, decentralization appeals in part because local teams are able to celebrate their cultures and still contribute to the greater good being advanced by the organization. This is a welcome contrast to the expectation that local and regional teams must conform to the social and cultural norms of a far-off headquarters office.
- **Build Resilience:** My long-time mentor, Felix Kloman, reminds us all: “The proper goal of risk management is to build and maintain the confidence of stakeholders. That combined confidence and trust is often translated into much-needed support, financial and otherwise, when surprise inevitably hits. It is the essence of resilience.” Nonprofits that practice intentional, distributed leadership are building strength and capabilities across and throughout their organizations. This approach contrasts with the risk profile of a nonprofit that positions its top performers at the top of the org chart. The latter structure is a potential “house of cards,” subject to toppling when key players depart.

It’s tempting to think of decentralization as just another term for delegation. To be clear, delegation is a top-down assignment of authority passed from a superior to a subordinate. Whereas, decentralization is a redistribution of top-level management powers, a systematic transfer of risk and decision making to individuals and teams throughout the organization. It may also help to think of delegation as a strategic tool of management, and decentralization as a philosophy of management aligned with your mission.

No organization can be fully decentralized. The goal is not the just the leveling of hierarchies for its own sake; rather, to increase the efficiency of decision-making that aligns with your broader vision, culture, size, and strategy. Whether your nonprofit is wedded to a beloved org chart with cascading departments and familiar command and control, or you’re tinkering with empowered teams across and throughout your organization, the transfer of more risk responsibility to management teams and individuals within the organization is a worthy engagement.

Melanie Lockwood Herman is executive director of the Nonprofit Risk Management Center. She invites your

questions about risk-taking and NRM resources at Melanie@nonprofitrisk.org or 703.777.3504.