Managing the Perils of Prosperity

By Melanie Lockwood Herman

Executive Director

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Organizational growth and perceptions about success go hand in hand. Like the subtitle of Tom Peters' book, *The Circle of Innovation: You Can't Shrink Your Way to Greatness*, many boards, donors and other stakeholders believe that year-over-year growth is an indicator of good organizational health.

The April 2016 edition of the *Harvard Business Review* features a fascinating interview with a veteran of the tech world who experienced rapid growth in several well-known companies. In his interview with Reid Hoffman, founder of PayPal and co-founder of LinkedIn, writer Tim Sullivan explores the challenges, risks and payoffs of blitzscaling, a term he uses to describe "the science and art of rapidly building out a company…" This growth model is a perfect fit for Hoffman's industry; as he puts it, "software has a natural affinity with blitzscaling, because the marginal costs of serving any size market are virtually zero."

According to Hoffman, there are three dimensions to scaling up, although leaders tend to focus on only two: growing revenues and growing the customer base. Hoffman observes, "…very few businesses can succeed on those fronts without also scaling the organization. An organization's size and its ability to execute determine whether it can capture customers and revenue."

Of course the same is true when a nonprofit is poised for growth: increasing revenues and reach aren't sustainable efforts unless the organization's framework–staffing, systems and structure–grow and morph as well.

Hoffman comments that "organizational scale is more about the character of the company than it is an exact employee head count–things don't change drastically at exactly 150 employees. And you're not necessarily scaling each element of the firm at the same time or rate." In our Risk Assessments and Enterprise Risk Management engagements, the NRMC team has observed something similar: structural growth and developments lag behind program and service scaling, and the evolution of support functions is often messy.

Hoffman also cautions against a too-narrow focus on revenue or customer service, noting that "…all along you really do need to be thinking about the company as a whole: How will you allocate your talent, and then how will you grow it? How will you hold on to your culture? How will you communicate? How will your competitive landscape shift?"

Risk Lessons for Scaling in a Nonprofit

Many nonprofits are in growth mode, while others aspire to be. Whether you're scaling up or scaling back, risk and uncertainty are your constant companions. To think a bit differently in a time of excitement, evolution, or extreme stress, consider the risk tips below.

- **To each his own** – The hierarchical structure of a nonprofit similar in size to yours might not be the best structure for your mission and scaling plans. Accept that there is no one-size-fits-all solution when it comes to reporting structures, relationships or staffing in general. The Center is sometimes asked how large a nonprofit should be before a full-time position is devoted to human resources. Our answer is, 'it depends.' For example, a rapidly growing nonprofit with 30 staff members working from three offices across the country might need a full-time HR manager, while a stable organization with 40 FTEs in one office may need only part-time HR help.
- **Don't stop thinkin' about tomorrow** – Designing positions, finalizing budgets and even thinking about risk is pretty easy if you're limiting your focus to the present day. But when you factor in what you hope and expect will happen in the year(s) ahead, those plans become more complex. Whether your nonprofit is scaling up, or scaling back, make certain that your structural plans reflect your vision for tomorrow.
- **Try multi-threading** – The concept of multi-threading refers to giving a highly qualified employee the tools to do the job, and the freedom to operate her project somewhat independently from the rest of the organization. Although many nonprofit workplaces are collaborative, when an organization is scaling up by adding new projects and functions, flexibility and freedom to experiment may provide the infusion of inspiration that those projects need to meet and surpass ambitious goals.
- **Take it easy** – Order and calm are not always attainable when a nonprofit is quickly scaling up or scaling back. When constant change is your daily reality, tomorrow probably looks a lot different from today, and employees might express concern for the chaotic nature of your business. Instead of trying to fix today's problem before COB, learn to pause and even relax. Hoffman notes that during growth phases, "the operation is always patched together and kind of ugly and held together with duct tape. So maybe you ignore the team's dysfunction for a while." When you're growing quickly, remember to focus attention on what's important, versus every little thing. Just help employees stay connected to your mission while you all enjoy the organic, unpredictable, and possibly chaotic ride to success and stability.

Find more inspiration by reviewing the recent history of growth across the nonprofit sector in a 2012 *Stanford Social Innovation Review* article, "Why More Nonprofits Are Getting Bigger."

Melanie Herman is executive director of the Nonprofit Risk Management Center. She welcomes your questions about the risks associated with growth, stagnation or the need to scale back, and your questions about the Center's consulting services and cloud applications. Melanie can be reached at 703.777.3504 or Melanie@nonprofitrisk.org.