

# Governance in Organizational Expansion

## Learning from community development organizations

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Community development organizations are dynamic nonprofits that adopt a range of proven strategies to revitalize neighborhoods so they are great places to live, work and play. These place-based nonprofits are positioned as organizations through which local community residents, partnering with civic and business leaders, can create vibrant and sustainable neighborhoods. Over a 30-year history, Chelsea Neighborhood Developers (CND) has developed its mission and vision in Chelsea, Massachusetts, viewing its role as a catalyst for building “great neighborhoods that empower people to grow and prosper.” So, when the mayor of Revere, Massachusetts, a neighboring city, approached us to expand our model to Revere, our board engaged in an exciting and challenging discussion about what this might mean to us.

As a member of the NeighborWorks® America network, CND was able to work closely with Hilary Marcus, a NeighborWorks® America New England District management consultant, to explore governance models of nonprofits that had similarly expanded. CND’s executive director, Ann Houston, and Marcus confirmed that numerous organizations were struggling with similar governance questions: Are we ready to ramp up the scale? Would we lose our identity and focus? Or, would we actually grow and diversify our funding base? How do we maintain a model of resident-directed neighborhood building when working in multiple communities? As we worked through these challenges and potential new gains, we realized that chronicling our efforts could be useful for others confronting a similar challenge and might prompt greater discussion within the nonprofit community about governance issues during geographic expansions.

## **Governance Connection**

Today, many successful community development corporations (CDCs) are looking at geographic expansion — taking the expertise they have built up over decades in one neighborhood or city to nearby areas — as a sustainability strategy.

Governance concerns are notably absent from the challenges commonly addressed during organizational expansion. The governance issue can be particularly challenging for organizations whose work is rooted in a particular geography and that recruit most of their board members locally. Robert Burns, director of field operations for NeighborWorks® America, observes, “We see that an organization’s health correlates with the health of its board.” While discussing collaborations and expansions, chief executives of NeighborWorks® organizations in the New England District recently observed that “...too often governance is an after-thought. It needs to be dealt with up front and openly, especially in regional partnerships that require local input and control.”

For CDCs focused on building sustainable communities, adjusting governance and representation to reflect the new service area raises distinct issues. Before expansion, the organizational identity is likely place-based, focused on transforming a neighborhood or city into a vibrant stable community, and governance is typically linked to neighborhood representation. Expansion forces a broader view, which can have a positive impact, but,

like all change, the process involves loss, growth, and new systems. Burns notes that when geographic areas expand and populations change, the board should ask itself, “Are we reflecting the diversity we are now serving?” However, with an expansion, unlike an acquisition or merger, the new community often does not yet have a formal “voice” to add to the discussion.

To address these challenges, CND identified three sets of issues for boardroom discussion:

1. The role of the existing board in the expansion process.
2. Discerning the “right” governance structure for the expanded organization.
3. Building appropriate representation in the new communities.

### **Expansion Scenarios and Questions Raised**

- ❖ A NeighborWorks® Organization (NWO) is expanding beyond the medium-sized city it has served for 25 years. It now serves an entire region that includes many small towns and one significant city, yet continues to have board representation from only the founding city. A mayoral change in a satellite community left the NWO facing a significant funding challenge with no formal ties or advocates in the host community. The NWO is creating an advisory group and considering ways to strengthen local ties. To what degree and when does resident engagement need to be part of an expansion effort in order to build a local base?
- ❖ One NWO serving a large rural area recently expanded to two new counties. It decided, however, to not change its board structure due to uncertainty around the future of funding that supported the expansion. This organization did create an advisory group of representatives from the new counties, and it meets regularly. How does the advisory group see its long-term connection to the agency, and how does this impact its own investment in the expansion?
- ❖ One NWO expanded multiple times over a period of 10 years to become a county-wide organization. It has been a challenge to align the governance structure with the interests of residents from the three different cities now in the service area. Recently, the organization decided to contract its programs, which may impact resources in the areas of expansion. When an organization leaves a city or neighborhood, how can it leave an intentional legacy? How can it leave with a leadership base — be it formal or informal — in place, so that progress can continue?
- ❖ Many NeighborWorks® Organizations (NWOs) are expanding geographic reach through service agreements with existing agencies and not concurrently wrestling with board representation. When does the expanded reach of the organization impact the effectiveness of the existing board to govern?

## **The Role of the Existing Board in Directing Expansion**

CND's research and experience indicate that the existing board must confront two challenges early on: the emotional ramifications caused by change, as well as practical governance issues. The board's job is to decide upon and oversee transition during expansion, yet the board may be mired in loss as it faces the change and find it challenging to move forward effectively. As a CDC expands to a new geographic area, board members must adjust to giving up some of their control, and sometimes even an agency name that identifies the organization with a particular community. The board might fear resources such as time, money, and recognition will no longer flow to its home town or neighborhood. This is an issue relevant to chief executives and board leaders raised by Ron Heifetz and Marty Linsky in their book, *Leadership on the Line*.

“... it becomes critically important to communicate, in every way possible, the reason to sacrifice – why people need to sustain losses and reconstruct their loyalties. ... you also need to name and acknowledge the loss itself. It's not enough to point to a hopeful future. People need to know that you know what you are asking them to give up on the way to creating a better future. ... Grieve with them, and memorialize the loss. This might be done with a series of simple statements, but often requires something more tangible and public to convince people that you truly understand.”<sup>1</sup>

Boards may lose members over the expansion, even founding members. Heifetz and Linsky write that loss like this “is virtually inevitable when organizations and communities go through significant change. Some people simply cannot or will not go along. You have to choose between keeping them and making progress.”<sup>2</sup> The CND board reached this turning point after debating expansion for a year and a half. Mike Martin, a veteran board member of 25 years, told the board, “We just have to make a decision! Sometimes we have to sacrifice consensus for progress.”

Boards also may need to make decisions before the outcome of the expansion is clear, which will of course add stress and potential volatility to the ongoing process of creating a new future. In many cases, a board consultant may be useful to diffuse tension in a transition that requires a measure of blind faith.

Even after deciding to approve geographic expansion, the nonprofit may be reluctant to engage in board restructuring right away. It's hard work. It requires enormous time and focus from leadership at the same time the expansion clamors for attention. There is a natural tendency to postpone discussions about board changes, yet our experience tells us that expansions have a greater likelihood of success if discussions about board structure

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<sup>1</sup> Martin Linsky and Ronald A. Heifetz. *Leadership on the Line: Staying Alive through the Dangers of Leading*. Harvard Business School Press, 2002, p.94.

<sup>2</sup> *Ibid.*, p.99.

and issues of representation are initiated from the start. Governance decisions may be made incrementally, or after the shape of the expansion is clear, but it is important for place-based organizations to commit to a board structure that ensures the needs of the new community are taken into account.

## **Creating the Right Governance Structure**

Different paths will emerge for different organizations, and there is no cookie-cutter approach that can be rolled out per se. In fact, there may be interim structures that will serve the organization well. It also is worth noting here that boards have certain regulatory and affiliation requirements to consider in determining composition. For example, organizations affiliated with NeighborWorks® America or desiring to be certified as a CHDO (Community Development Housing Organization) must ensure their board structure conforms to the requirements of each certifying entity.

For organizations with designated resident representation on the board, creating a new board composition that reflects a broader geographic footprint is often complicated by different levels of engagement across the communities that are served. CND's executive director, Ann Houston, discussed this particular problem with Robert Corley, executive director of Neighborhood Housing Services of the South Shore, an organization that has also expanded geographically.

Houston and Corley framed a model for their respective boards to consider. When geographically expanding across a region, there are some locations to which a CDC can bring all of its strategies and programs. In these strategic locations, the CDC can establish an office and work to ensure local representation on the board. In other communities, the same CDC might deploy just one program or line of business, such as real estate development. In the wider web of the organization, these satellite service areas can be stewarded by board members who have expertise in a specific line of business and are well-suited to serve the entire umbrella organization.

A more evolved version of this approach could incorporate advisory councils for the strategic communities, allowing a larger number of local residents to help guide work in their community. Organizations that have adopted this approach tend to stagger their board and advisory council meetings, with the corporate board meeting six times per year, and the advisory councils on the alternating months.

Whatever structure is decided upon, the board might commit to trying it out for a year and then evaluating the structure's effectiveness. During the interim period, the local task force or advisory council would have decision-making power over issues particular to the expanded area. Critically important programmatic decisions would remain with the existing board or be delayed until a new board is structured.

Some organizations move through several board structures as they expand. Larry Kluetsch, executive director of the Mutual Housing Association of Southwestern Connecticut (MHASWCT) from 1998 – 2011, describes a 15-year process of expansion

and mergers while growing from a neighborhood organization to a regional agency. Similar to the model Houston and Corley imagined, MHASWCT was governed by local advisory groups and a full board that met quarterly. As its identity shifted to a regional entity, the structure became cumbersome. This year, the advisory councils were disbanded. Kluetsch notes that when the focus of an organization is on revitalizing individual cities, the local advisory board makes good sense. The challenge, he cautions, is to keep the board process as simple as possible, in order to maintain the board's focus on the work of the entire agency.

## **Building Appropriate Representation**

As place-based organizations expand to multiple service delivery areas, thought must be given to how best to build engagement in a new community and how to recruit and develop leaders from the expanded area who will bring their new perspectives to the full board. People are eager to join efforts to address the challenges faced by their neighborhoods, especially given the extended foreclosure crisis impacting so many communities. The tricky part is understanding the potentially varied interests they bring to the organization, as well as assessing their interests in the agency's broader mission. Because of this, an interim representation model might be advantageous as local community members get to know the agency and vice versa, while the shape of the CDC's work in the community develops. A nominating process could help ensure the recruitment of the right people, a process to which board and executive leadership must commit considerable time.

As CND expanded into neighboring Revere, staff identified four local leaders who organized five "kitchen-table conversations" to introduce 60 people to the organization over the course of six weeks. The conversations produced a core group of residents eager to participate in an advisory group that will ensure Revere residents guide CND's entrance into the community. The advisory council has recently elected two candidates to serve on the CND board.

Outi Flynn, director of knowledge resources at BoardSource, offers practical advice to boards managing an expansion:

- If cultural or ethnic diversity is introduced to the board, consider including diversity training or discussions in the meeting agendas.
- Assess whether meeting places or times need to change to accommodate all board members.
- Consider using electronic portals to facilitate the sharing of all documents and communication between board members.
- Facilitate your committees' ability to meet and work by assigning them members who live close to each other.
- If advisory groups have been formed in different locations, establish structured communication links with the advisory group chairs.
- Form a solid governance committee that is attuned to good board practices.

## Wrapping It Up

Today's focus on using place-based strategies for community development, while at the same time reaching scale, has resonated among funders. In fact, a collaborative of more than 20 funders of the wider nonprofit sector convened by Grantmakers for Effective Organizations, is paying increased attention to these issues through its *Scaling What Works* initiative. Matters of governance are not of primary concern in the national dialogue around scaling up, however. If boards are to adapt and engage in the hard work of good governance, they need the financial support and encouragement of funders and partners.

Mark Levine, a respected community development consultant, worked with CND in the spring of 2010. He reminded the board to “take the time to work towards building a new, unified board culture by doing a great job on new member orientation and establishing that each board member is responsible for leading towards overall mission success, rather than watching out for the part of the service area that they might feel they represent.”

One of the CND board's key goals and challenges for 2011 is to fully integrate perspectives from Revere into the organization's governance structure. A new board member from Chelsea, Iris Rodriguez-Delgado, has urged the board to prioritize strong engagement with the community, both as part of CND's on-going work and as part of the expansion. She suggested that committees in each city provide local direction and guidance to ensure the integrity of a community-driven process. Mary Bourque, board member and the in-coming superintendent of Chelsea Public Schools, suggests that the challenge will be to ensure, as we move “up” the decision stream from local committees to the board level, that we include individuals who are particularly sensitive to the issues in the new communities served. The board acknowledges that it is crucial to design and then refine a process that is truly responsive yet manageable. With new members from Revere about to join the board, the discussions will now shift from planning to actual integration.

CND heads into this next step with a few lessons learned:

1. Make decisions: If a big decision is complicated, break it down.
2. Be willing to “call the vote” rather than always strive for consensus.
3. Track decisions that have been made, and do not revisit them unnecessarily. We are keeping a flip chart of key decisions to review at the beginning of each new decision-making process.
4. Use a coach or facilitator if the conversation gets bogged down internally.
5. Honor the hard work of change: Mourn loss, celebrate success, remember our history.

As CND has learned, grappling with appropriate board structure, representation, and perhaps alignment with an expanded mission is core to the expansion process. CND is committed to encouraging the board to engage in generative<sup>3</sup> discussions when making important organizational decisions. At the end of the day, it is the work of a board of directors to accept the challenges associated with expansion and work through governance changes, as difficult as this may be. Board members and CDC staff can certainly learn from peers and available training, but it is by digging in and doing the work themselves — by governing thoughtfully in times of change — that they will learn and benefit the most.

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<sup>3</sup>Richard P. Chait, William P. Ryan, and Barbara E. Taylor. *Governance as Leadership: Reframing the Work of Nonprofit Boards*. BoardSource and John Wiley & Sons, Inc., 2005. CND espouses the framework authors promote, of creating space for Boards to engage in generative discussion.



## Appendix I

### Governance During Expansion: Consultant Tips

*Anushka Fernandopoulle, former senior consultant at CompassPoint and now an independent consultant to nonprofit boards:*

It is the chief executive's role to staff the board, which during an expansion will take increased time and thought. For example, how will the chief executive adapt to working with an expanded board? Many chief executives struggle to incorporate the time involved in restructuring the board into an already full schedule, so it's important to build in that time up front.

It is also important to be clear about board roles and agreements. In terms of the culture of an existing board, how will this have to change as representatives from an expanded region are welcomed to the board? What does the existing board know about the expanded region; what stereotypes might board members hold?

*Outi Flynn, director of knowledge resources, BoardSource:*

The success of the expanded organization will mostly be reflected in the overall integration of the new constituencies in the organization's activities. That happens when the board is paying attention to the overall health of the organization while evaluating specific programs. The board will need to pay attention to growth of membership, the attendance at service activities (well-attended activities indicate that your activities meet the needs), and satisfaction rates of service users.

*Mark Levine, organizational development consultant with more than 20 years supporting good governance practices:*

Build and strengthen personal connections among board members through activities such as personal story telling<sup>4</sup> and discussing common values and motivations that emerge through the process. This will lead to a unified and highly effective board.

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<sup>4</sup> *Marshall Ganz, lecturer in public policy at Harvard's Kennedy School, teaches about using stories to break down barriers and create "a story of us" and a "story of now," versus the old story. See Marshall Ganz, "Leading Change: Leadership, Organization and Social Movements," Chapter 19 in Nitin Nohria and Rakesh Khurana, eds. *Handbook of Leadership Theory and Practice*. Harvard Business Press, Boston, 2010.*

## Related Reading Material

- *Leadership on the Line: Staying Alive Through the Dangers of Leading* by Ronald A. Heifetz and Marty Linsky <http://hbswk.hbs.edu/archive/2952.html>
- *Transforming Board Structure: Strategies for Committees and Task Forces* by Marla J. Bobowick, Sandra R. Hughes, and Berit M. Lakey <http://www.boardsource.org/Bookstore.asp?Item=61>
- *Advisory Councils* by Nancy R. Axelrod <http://www.boardsource.org/Bookstore.asp?Item=147>
- *Culture of Inquiry* by Nancy R. Axelrod [http://www.boardsource.org/Bookstore.asp?category\\_id=25&Item=1076](http://www.boardsource.org/Bookstore.asp?category_id=25&Item=1076)
- “Virtual Meeting Attendance: Not Present, But Still Here,” a BoardSource white paper [http://www.boardsource.org/dl.asp?document\\_id=713](http://www.boardsource.org/dl.asp?document_id=713)
- “Scaling What Works” by GEO <http://www.geofunders.org/scalingwhatworks.aspx>
- *Governance as Leadership: Reframing the Work of Nonprofit Boards* by Richard P. Chait, William P. Ryan, and Barbara E. Taylor <http://www.boardsource.org/Bookstore.asp?Item=161>

## About the Authors

Ann Houston has been the executive director of Chelsea Neighborhood Developers since 2004. Ann has 25 years of experience in affordable housing and community development. She has served on numerous boards, including serving as board president of Citizen’s Housing and Planning Association (CHAPA). Ann earned a master’s degree in real estate development from MIT and a bachelor’s degree in community planning from UMass Boston.

Hilary Marcus has served as a management consultant at NeighborWorks® America since 2001. In this capacity, she has worked with many community development organizations on board development, recruitment, and overall governance issues. Hilary has also served on boards in the nonprofit and for-profit sector. Hilary earned a master’s degree in public administration from Harvard’s Kennedy School and a bachelor’s degree in history from Yale University.

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