13

Case Study #3 Explosive Growth

The characters

For 25 years, Carl has been dedicated to the mission of music education for disadvantaged kids.

After graduating from the conservatory in a major Northwest city, Carl created a not-for-profit, KidsMusic, whose mission was to provide instrumental and vocal enrichment for kids in the poorest neighborhoods of his hometown. KidsMusic teaches afterschool vocal and instrumental music to more than a thousand kids every year.

Starting with $300 and no staff, Carl created a not-for-profit organization that now has a staff of 10 and a budget of $2.2 million.

Carl is a charismatic and highly regarded entrepreneur. He is recognized as one of the most effective fundraisers in the city. Every year, donor dollars continue to increase.

He works 60 hours per week raising money and gives all outward appearance of burnout.

While he has delegated the program operations to two very talented recent graduates of a local MBA program, he is still involved in many decisions that could easily be construed as micromanagement.

His board has recently expanded by adding more seasoned business executives and high-net-worth individuals. Angela, the board chair, is the regional VP of one of the largest banks in the West.

Everyone associated with KidsMusic, on the staff, and on the board is passionately positive and incredibly enthusiastic about the mission of bringing music education to those who would never otherwise receive it.

The scenario

After 18 months as the board chair, Angela, an experienced executive, senses that KidsMusic is a classic case of an organization growing beyond the skill set of its founder.

Angela has gently had the conversation with Carl that perhaps it's time to bring on a more experienced executive as CEO while allowing Carl time to focus on what he loves to do—fundraising and proselytizing. Carl is not responsive to that line of thinking.

Carl frequently complains that he is working too hard and that he is underpaid. He adamantly resists any suggestion to change the current organizational structure. While strongly supportive of his two young deputies, he refuses to delegate any decision-making.

The sophisticated board is becoming more and more concerned about Carl's unwillingness to adapt to the changing organization. At the same time, the board recognizes that Carl is the charismatic face of KidsMusic, and unilaterally removing him from the picture would create existential problems for the organization.

Sensing

The objective data is generally positive. However, a deeper dive into revenue and expense data shows that without any reserves to buffer cash-flow variations, KidsMusic has several times come perilously close to not meeting payroll. In addition, Carl has committed to expanding several programs without ensuring downstream cash flows.

The subjective data is less sanguine. The tension between Carl and the board, particularly the more experienced executives on the board, has slowly ratcheted up. Carl is leery of any new direction, yet several of his personnel and organizational decisions have put KidsMusic potentially at risk.

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In this case study, the CEO is not fulfilling one of his major roles—to be the chief sensor! He is blind to the fact that KidsMusic is growing so rapidly that the leadership model for the organization is not capable of effectively managing the growth.

What got Carl and KidsMusic here will not get KidsMusic there – in fact, operating in the past has the potential to destroy KidsMusic.

Visioning

Everyone, including Carl, realizes that the organization needs a new vision as it transitions from an exponential-growth start-up to a steady-growth sustainable organization.

With Carl and his senior staff, the board creates a new vision and attendant strategies that would make KidsMusic to a successful and sustainable growing organization. Over Carl's active and passive objections, one of the strategies is written to develop a leadership model that would support the new reality of a sustainably growing organization. After all, Carl says in private and public, things are just fine!

Enabling

This is a case where the only tool that needs to be changed is the CEO. If Carl, after extensive coaching and advice, is still unable or unwilling to change, then it's time for the board to change the CEO.

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This is much easier said than done, given Carl's reputation and ability to bring in money.

It now falls to the board to enable the vision by creating a transition that is neither disruptive nor ineffective.

Acculturation

Culture almost always starts at the top. However, this is one of those rare situations where the culture has evolved from below. Everyone in the organization has shifted from entrepreneurial to sustaining—except the boss.

This is a much greater challenge than it seems, because the leader has not accepted that it is the leader who needs to change. This is the most difficult of all culture changes.

Regretfully, when the leader is stuck in a culture that doesn't work and does not adapt, the board must change the leader.

Deciding and Responsibility

Decision-making processes that work for a start-up are rarely effective for a sustaining organization.

Carl must change his decision-making by delegating both the decision-making and the attendant authority. This is a challenge for someone who has made almost every decision for a quarter century.

The unfortunate possibility is that the leader doesn't change, decision-making does not get delegated to the right level, and the organization slowly withers because decisions are made at the wrong level or not made at all.

Mentoring

It is now the board's responsibility to mentor Carl and to ensure a transition plan exists, as there is a real possibility that the CEO will not be able to adapt and change.

The board directs Carl to find a personal coach who he is comfortable with. While Carl objects that he doesn't need or want a trainer, the board is adamant. And the board adds two important caveats to the contract with the coach—the board chair will meet one-one with the personal coach prior to finalizing the contract, and will meet monthly with Carl and the coach together to go over progress and plans.

The board will receive joint quarterly reports from the board chair and the coach.

Key lessons

For the MoMA, the need for change was obvious to everyone. A new leader was brought in with a mandate for change.

For the Palmyra Clinic, the need for change first became apparent to the leader, and she quickly rallied the organization to change.

In the KidsMusic example, the leader was unwilling or unable to see the need for change. The leader was the problem.

When the leader is the problem, it makes the challenge much greater.

The leader must be coached and offered help, but the mandate to change the leader's behavior must be forceful. And the board needs to think through, in private, the various departure contingencies.