



Typical Stages in the Life Cycle of a Community-Based Organization*

Nonprofit organizations develop in many different ways, but a community-based organization (CBO) often goes through most or all the following stages in its development and life cycle. Often an organization is between stages or fits partly in more than one. Sometimes a nonprofit will move back to a prior stage – for example, funding for a large program ends and the organization goes back to operating on a smaller budget or on a volunteer basis for a while. Some CBOs choose to remain in a specific stage; for example, they decide to operate entirely with volunteers rather than hiring staff and receive enough funding through user fees that they decide not to fundraise – so they don't seek recognition as a tax-exempt organization.

Each phase of development creates opportunities, but also has its challenges – as does the transition to a new stage. Typical stages for a CBO include the following:

- 1. The Idea Stage:** An important problem or unmet need exists in the community, and a small group of concerned people get together and decide that something must be done about it.
- 2. The Beginning Stage:** These individuals become an informal group, and take action to address the problem, usually by doing advocacy or beginning to provide some kind of service on a volunteer basis.
- 3. The Informal/Volunteer Stage:**
 - The group is successful in addressing some aspect of the need. It decides to broaden its efforts, usually recruiting more volunteers.
 - The group recognizes that it could expand its efforts if it had some funding.
 - Through contacts with private-sector funders, government agencies, or other entities, the group discovers that it may be able to get some financial support for its work. Someone in the group prepares a proposal (often brief and informal), and the group receives some money.
 - Because the CBO has been operating informally, initial grants may need to come through another nonprofit organization that has tax-exempt status and is willing to take on the role of "fiscal sponsor," ensuring that the funds are managed properly and providing a tax deduction to donors. The CBO becomes a project of the fiscal sponsor.

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4. The Formalization Stage:

- Now that it has money, the group wants to become more formal and organized – and to be able to fundraise directly and manage its own money. Often it opens a bank account and decides who will be responsible for carrying out the funded activities, documenting the work, and approving the expenditure of funds – and so it has its first (paid or unpaid) staff and its first formal leaders.
- The CBO often incorporates as a private nonprofit corporation in the state where it is located. This requires articles of incorporation, a formal Board of Directors (generally at least three people, preferably not related to each other), and usually bylaws.
- The CBO formalizes its Board of Directors and elects officers. Members of the original group often become the Board of Directors, and one of the founders is typically chosen as the Chairperson.
- After incorporating, the group often applies for recognition as a tax-exempt organization from the Internal Revenue Service (IRS). Now it is eligible to receive and manage foundation, corporation, and public-sector grants directly, and individual and organizational contributions become tax-deductible.
- Over time, the organization obtains more funding, and a more formal staffing structure emerges. Often, one or more of the original leaders become paid staff; one of the founders is likely to become the first Executive Director. However, sometimes the organization continues to operate as a largely volunteer organization, with the Board serving *both* a governance role *and* as “volunteer staff.”

5. The Professionalization or Institutionalization Stage:

- If the organization continues to operate successfully, it is likely to grow larger. Over time, it becomes institutionalized or “professionalized,” in the sense that it hires more staff who have appropriate programmatic and management skills but were not part of the original organizing group. They typically bring important professional skills and experience, but may know little about the CBO’s beginnings, and must learn organizational history and values. Over time, the organization may change to reflect the values and priorities of new staff leadership.
- Some of the founders stay on the Board or staff, but many move on to other activities, and new Board members who were not part of the original group replace them. New Board members often bring valuable skills but lack institutional memory. Unless organizational history and values are heavily stressed in their recruitment and orientation, the organizational “culture” – including values, vision, and priorities – may change. This is not necessarily bad – sometimes it represents a healthy evolution. However, remaining founders sometimes find these changes difficult to accept, which may cause conflict.

6. The "Changing of the Guard" or Leadership Transition Stage:

- Time passes, and most or all the remaining founders leave the organization. If the CBO stresses the sharing of "institutional memory" and recruits new Board members who share their core values, the changes may be gradual and the transition relatively smooth rather than divisive. Sometimes the transition is very difficult. The departure of the founders, first Executive Director or Chair, or other key leaders may even threaten the survival of the organization unless others have been recruited and prepared for the succession.
- As the organization continues, new leaders take over responsibility for its operations and its future.

7. The Reformulation Stage:

- When the leadership changes, the organization often rethinks its mission and priorities. This rethinking may lead to more changes in Board and staff. Changes in community needs, economic conditions, and fundraising opportunities help shape revisions to mission, programs, and priorities.
- Over time, the organization will repeat this "changing of the guard" and reformulation process periodically. Major changes in staff and Board leadership may lead to review and restructuring of the organization's staff and/or Board structure and composition. Similar changes may occur if major changes occur in the community served and/or the organization obtains or loses significant funding.

Sometimes an organization does not emerge from the community. Instead, it is established "from above," because a larger organization or public agency sees a need. In such situations, the organization needs to take conscious action to ensure community needs assessment, outreach, and involvement to build community support. A nonprofit organization that is based in the community but is not seen as reflecting its needs and interests usually finds it much more difficult to obtain and retain committed, active Board members and to gain community support when needed – which makes it far less effective.

During each stage in a CBO's life cycle, the organization faces special challenges and opportunities. Its survival and success depend upon the ability of its leadership to change and grow with the organization, respond to emerging community needs, and seek assistance, formal or informal, to help with difficult transitions. Relationships with other organizations of similar size and values can be very helpful – Executive Directors, staff, and Board can learn from each other's experience in how to deal successfully with transitions.