

CEO Succession:

An Urgent Challenge for Nonprofits

Community Survey Report
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Thomas F. Toole

Executive Director
Center for Community Engagement

 **Center for Community Engagement**
at St. John Fisher College

Introduction

Executive leadership is critical for nonprofit organizations. The board of a nonprofit has no more important responsibility than hiring, overseeing, and supporting the organization's chief executive officer. Anyone who has gone through the process of recruiting, selecting, hiring, and transitioning a new CEO understands what is demanded of boards. These critical responsibilities will become even more challenging as the demands on nonprofit leaders grow and the demand for leaders outpaces supply.

Recent national studies, including the ones cited at the end of this report, document the magnitude of this challenge and suggest ways in which nonprofit boards, funders, and other organizations can meet it. They all agree on an urgent and strategic challenge: how can we recruit, develop, and retain the next generation of leaders for the nonprofits that contribute so much to the well-being of our communities?

Sound strategy must be based on sound data—hence this survey of nonprofit organizations in Monroe County. Its purpose is threefold: to quantify the challenge locally, to assess how prepared local nonprofit boards are now to meet this challenge, and to ascertain what kinds of assistance boards feel they need.

Survey Highlights

Profile Of Responding Nonprofits

Questionnaires were sent to the CEOs of more than 100 nonprofit organizations in Monroe County in January 2008. They were asked to fill out a questionnaire designed for them and also to ask their board chairs to fill out a version designed specifically for them. Seventy-one CEOs and 40 chairs responded.

The organizations that responded were small- to medium-sized with 85% having budgets less than \$10 million, 72% between \$1 million and \$5 million, and 34% under \$1 million. Eighty percent had fewer than 125 employees with about half reporting fewer than 30 employees.

Ninety-two percent are incorporated as an independent 501(c)(3) organization with its own governing board. The remainder includes religious organizations and subsidiaries of regional or national organizations. The vast majority (82%) report offering health and human services, 38% education, 30% planning and advocacy, and 14% arts and cultural programs.

What They Told Us About Their Current Executive Leadership

Based on the CEO survey, 2001 is the median year for the appointment of the current CEO. There is considerable longevity: one out of four was appointed in 1994 or earlier, and one out of three has served as CEO for at least 10 years.

Hiring the CEO is indeed the board's job. In 80% of the organizations, the search/selection process was carried out by the board or a committee of the board. In more than 50% of the cases, the board as a whole made the final selection, and in 27% of the cases, the selection was made by a group appointed by the board. Only 7% report that the board was not involved in any way.

What They Told Us About Leadership Turnover

When does the current CEO expect to retire or leave? Thirty-one percent of the CEOs say less than three years; 59% say less than five years. (These numbers are slightly less than those turned up by national surveys which have gone as high as 75% turnover within five years.) Importantly, the numbers from our CEO survey are consistent with what our board chairs report. When it comes to anticipating future turnover, local professionals and boards are on the same page. This was not the case with one national survey.

Where will boards look for a replacement? Very few boards expect to find him or her near at hand: 8% will look only within their organization and approximately 18% expect their search to be exclusively local; 54% report that they expect to conduct regional or national searches. Interestingly, CEO responses indicate a little more confidence (12%) that a successor will come from within the organization.

What Boards Say They Are Doing

Are boards thinking about succession? Thirty-eight percent of the board chairs report that executive succession has been discussed at a board meeting (though only 30% of the CEOs report such a discussion). Only 10%, however, say that a plan is under development, and fewer (5%) report having adopted a plan. Of those without a plan in place, less than half of board chairs indicate that their organizations intend to do so. Of the plans in place, the most common element is emergency succession (24%) and development of internal candidates (21%). Less than 15% mention the search/selection process as a part of any plan. (See chart below.)

Fifty-nine percent say they are doing something to develop internal candidates. Exposure to all aspects of the organization and coaching or mentoring are the most commonly mentioned ways. Asked specifically about discussing executive succession as an opportunity for strategic change, more than 50% of board chairs agreed with this, but only 23% report having done so.

Action Taken By Boards	
5%	Formal succession plan has been adopted by the board
7%	Succession plan has been presented to the board
10%	Succession plan or policy is being developed
38%	Topic has been discussed at a board meeting
43%	No action

What Sort Of Help Do Boards Want?

Summary of Most Frequent Responses		
Type of Assistance	Very valuable or valuable	Very likely or likely to use
Training of board relating to succession management	80%	57%
Training of CEO relating to succession management	69%	56%
Consultation with board relating to search process	69%	51%
Conduct elements of search or recruitment process	47%	33%

What Leadership Characteristics Are Important To Nonprofit Boards?

We asked board chairs what characteristics would be important in their next executive, and the following received the highest scores (combining “very important” and “important”):

- Demonstrated leadership abilities (100%).
- Demonstrated skill in management (98%).
- Demonstrated skill in resource development (98%).
- Local community connections (88%).

The following characteristics received honorable mention but were clearly less important:

- Demonstrated skill in program development (80%).
- Advanced education in the organization’s field (51%).
- Advanced education in management (38%).

Conclusions

Are Boards Doing Enough Now?

The turnover crisis is real. While boards are somewhat aware of and many are thinking about the implications of this crisis, it is fair to worry that they are not thinking hard enough or doing enough now to anticipate it. Board search committees invariably work diligently at their task, but diligence, long hours and even hiring a search firm is not going to make up for a shortage of qualified people to step into, and remain in, nonprofit executive positions. Everyone will be looking for “demonstrated leadership skills.”

Small Nonprofits Will Be Affected Most

The challenge will be especially serious for smaller organizations. Succession management is often viewed as a human resource function, i.e., developing executive potential from within. The simple fact is that many nonprofits are small and thus do not have the human resource depth and capability to do this.

Leadership Is A Strategic Issue

Finally, leadership succession is above all a strategic issue. Leaders are appointed for the next, not the last, ten years. Having an emergency succession plan is not enough. Concluding that the organization needs an effective fundraiser is not the answer. Mission depends on leadership vision as well as skill. Boards are ultimately responsible for mission. Thus they have the responsibility for ensuring excellent leadership.

National Studies*

The Leadership Deficit

Thomas J. Tierney, Stanford Social Innovation Review (Summer 2006)

www.bridgespangroup.org/kno_articles_leadershipdeficit.html

Tierney’s study quantifies the magnitude of executive and managerial talent that will be needed in nonprofits over the next decade. Based on a study of nonprofits with revenues greater than \$250,000 (excluding hospitals and higher education), it projects that nonprofits will need to attract or develop new senior managers equal to two and a half times the number currently employed. Tierney makes the point that the challenge is not just quantitative: as more is expected of nonprofits, leaders and managers will need a higher level of skill. He offers ideas for addressing the challenge: investing in leadership capacity, changing management compensation practices and exploring new talent pools. He concludes by warning that, while the short-term implications are “tolerable,” the longer-range consequences could take a devastating toll on the nonprofit sector.

Ready To Lead? Next Generation Leaders Speak Out

Marla Cornelius, CompassPoint Nonprofit Services, et al. (2008)

www.compasspoint.org/assets/521_readytolead2008.pdf

This study examines results from an earlier survey forecasting that three out of four executives (in 2006) expect to leave their jobs within the next five years, citing “lack of compensation, burnout, and overwhelming fundraising responsibilities” as their reasons for leaving. More than two out of three executives say they feel underpaid for the work they do. In spite of this, survey results indicate that respondents view the nonprofit sector as a desirable place to work, and one in three aspire to be an executive director. The survey also reveals the following perceived barriers:

- Long hours and compromised personal lives.
- Insufficient lifelong earning potential.
- Lack of support from incumbent executives.
- Obstacles to opportunities within their current organizations.
- Lack of appeal in the prevailing executive director job description.

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National Studies *(Continued)*

Supporting Next-Generation Leadership Grantmakers for Effective Organizations (February 2008)

www.geofunders.org/home.aspx

Put forth as an “action guide” for grantmakers, this report summarizes what earlier studies have shown: it urges grantmakers to play a major role in identifying and developing the next generation of nonprofit leaders. It also suggests paths to achieving these goals:

- Adopt grantmaking practices that help make nonprofits stronger, more effective, and more attractive to young people as places to build careers.
- Invest in successful and proven approaches to recruiting, developing, and retaining the next generation of nonprofit leaders.

* These articles can be found in the Resource Library on our website.

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For More Information

For more information on this issue and on programs for nonprofit boards and executives, contact Thomas F. Toole, Executive Director, Center for Community Engagement, at ttoole@sjfc.edu or visit our website at www.cce-rochester.org.



321 Kearney Hall
3690 East Avenue
Rochester, NY 14618

Phone: 585-899-3898 • Fax: 585-385-5240

Email: info@cce-rochester.org

Visit our website: www.cce-rochester.org