Daring to Lead 2011

A National Study of Nonprofit Executive Leadership

A Joint Project of
CompassPoint Nonprofit Services
and the Meyer Foundation

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About Daring to Lead 2011

More than 3,000 executive directors participated in *Daring to Lead 2011*, the third *Daring to Lead* national study produced in partnership by CompassPoint and the Meyer Foundation, with previous studies published in 2001 and 2006.

Daring to Lead 2011 has multiple components:

- This main report
- Three topical briefs: *Leading Through a Recession, Inside the Executive Director Job,* and *The Board Paradox*
- The interactive *Daring to Lead* website (daringtolead.org), where you will find report downloads, additional data and findings, downloadable charts and graphs, community comments, research methodology, and information about the project team and regional partners.

Please visit daringtolead.org frequently to hear what sector leaders are saying about the findings and to engage in the ongoing dialogue about their implications for nonprofit executives and boards, philanthropy, and capacity builders.

Daring to Lead 2011 Partner Organizations

CompassPoint and the Meyer Foundation deeply thank our partner organizations for distributing the survey and supporting this project. Without their partnership, this research would not have been possible.

Center for Nonprofit Management, Dallas

Center for Nonprofit Management, Los Angeles

Center for Nonprofit Management, Tennessee

Community Resource Exchange, New York

Donors Forum, Chicago

Georgia Center for Nonprofits, Atlanta

Hawai'i Community Foundation, Hawai'i

MAP for Nonprofits, Minneapolis

Nonprofit Association of Oregon, Portland

Weingart Foundation, Los Angeles

Note on terminology: We use the term executive and leader interchangeably in this report to mean both Executive Director and CEO.

For reference purposes, please use the following citation: Cornelius, Marla, Rick Moyers, and Jeanne Bell, *Daring to Lead 2011: A National Study of Executive Director Leadership* (San Francisco, CA: CompassPoint Nonprofit Services and the Meyer Foundation, 2011).
All charts are available to download at daringtolead.org.

Our third *Daring to Lead* report in 10 years comes at an extraordinary time

to be the executive director of a nonprofit organization. Since our last report in 2006, powerful forces have influenced the requirements of—and the possibilities for—embodying the role well. On the challenging side, executives are daring to lead through a deep recession that resulted for many in fewer resources, and for all in profound shifts in when and on what terms individuals and institutions invest in their organizations. Moreover, executives leading the effort to respond to the economically disadvantaged are facing a relentless demand for services far beyond their capacity to respond. On the positive side, the comparatively progressive policies of the Obama administration and nonprofit-led progress on various social movements mean that executives leading critical social change efforts are experiencing greater opportunity and organizational growth. And with respect to the practice of leadership itself, five years later we know more about how the sector is experiencing the generational handoff, about what works in developing future leaders, and about which executive and governance practices are most associated with sustainable organizations. This report is organized around three key findings and concludes with corresponding calls to action.

KEY FINDING 1

Though slowed by the recession, projected rates of executive turnover remain high and many boards of directors are under-prepared to select and support new leaders.

"I had originally thought I would leave around the 10-year mark, but the economy has significantly stressed our organization over the past two years such that it would feel like a set-up."

As a sector, we have been anticipating and studying executive transition for 15 years. Executives wrestle with a number of personal and organizational readiness questions—as well as environmental factors from the economy to the election cycle—in determining when the successful handoff to a new leader can happen. *Daring to Lead 2006* found that 9% of executives were in the process of leaving their jobs and that 75% anticipated leaving their jobs within 5 years. In 2011, 7% have given notice and 67% anticipate leaving within five years. But within that 67% there is also a large cohort (10%) who have not given notice but say they are actively considering leaving.

These data suggest that several factors have created a drag effect on the rate of executive transitions. First, the recession required many older executives to reconsider their transition timing. One in six leaders is 60 years or older, and of this group, 22% reported that a loss in their retirement savings contributed to a transition delay. Across all age groups, 12% reported that a shrinking job market contributed to delay. And, 9% reported that reduced funding and the resulting instability of their organizations contributed to delay. A second factor that influences turnover timing is the perceived lack of an appropriate successor. Nine percent (9%) of executives said this contributed to their delay.

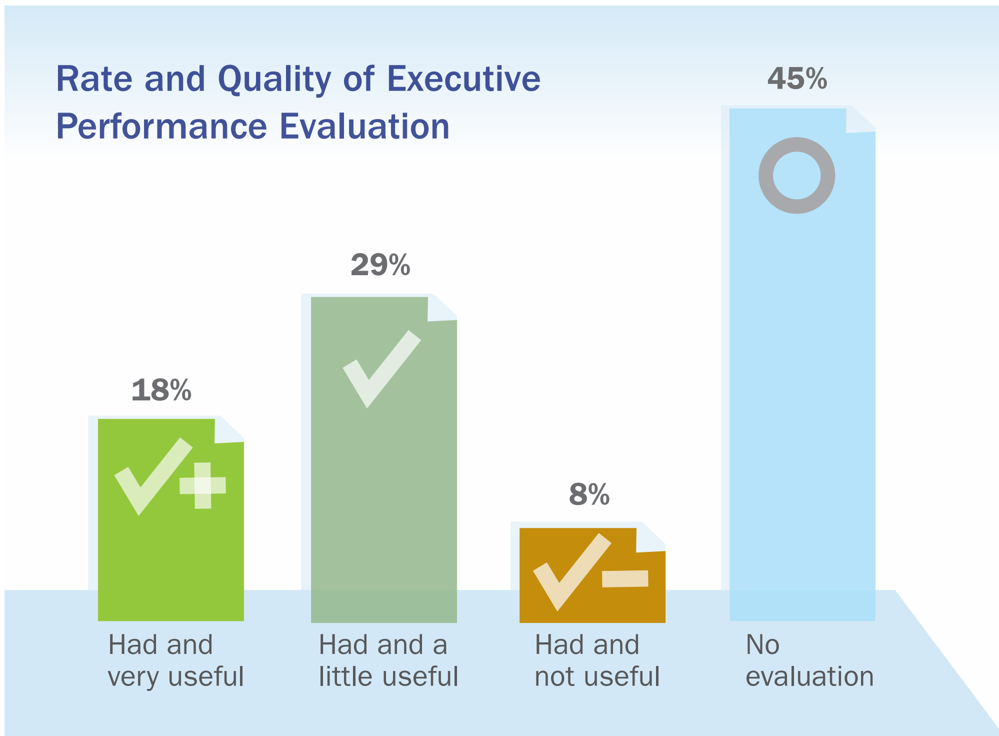
“One of my main concerns is making sure that staff are being recognized, that they are growing, and that we’re retaining and developing the next cycle of leadership. I have nightmares about it. What if I got hit by a bus? What would happen?”

Still, the distribution of executive tenure across the 3,000 respondents reflects a healthy continuum of new and veteran leaders in the sector. Nearly a third of current executives (31%) have been on the job for fewer than three years; this is more than the 27% who have been on the job for ten or more years. Alarm at the potential widespread sector disruption executive turnover might cause has given way to concern about how best to prepare new leaders and their organizations to weather, and even leverage, inevitable transition.

Despite 15 years of attention to the issue, a number of key practices associated with effective executive transition are not widespread. Executives and boards are still reluctant to talk proactively about succession and just 17% of organizations have a documented succession plan. Even more problematic is the extent to which many boards are unfamiliar with the dimensions of their executives’ roles and responsibilities. Just 33% of executives were very confident that their boards will hire the right successor when

“Look at all of us who’ve been in these roles for decades; for us to leave is the normal evolution of a healthy organization.”

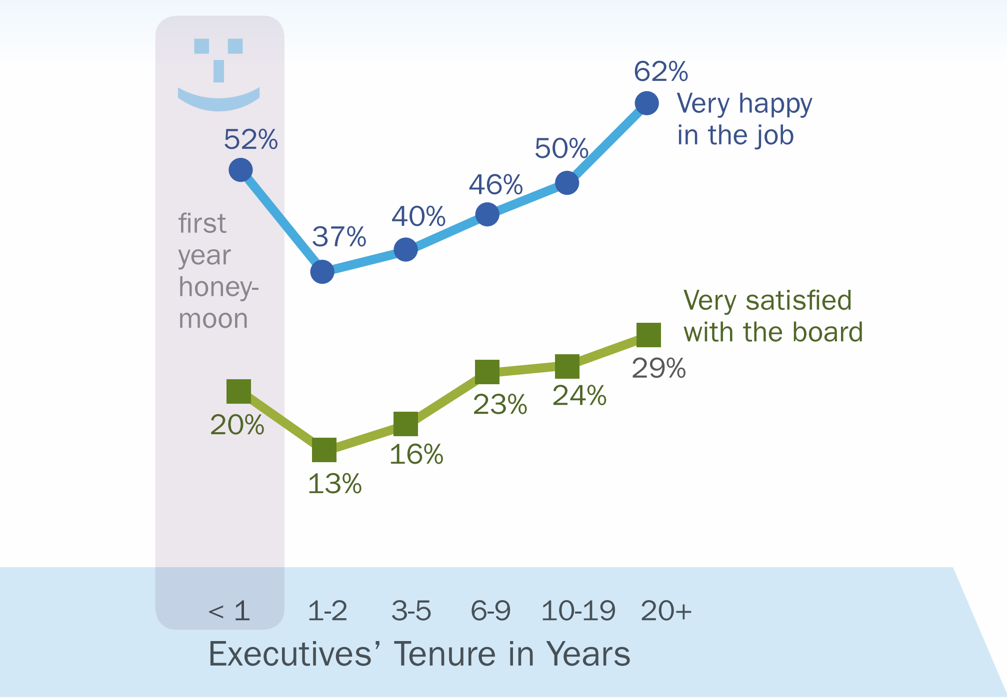
they leave. Performance management is a critical means of being in dialogue with an executive about success and its metrics, yet 45% of executives did not have a performance evaluation last year. Even among the majority of executives who did have a review within the past year, just a third (32%) said it was very useful, with the remaining two thirds reporting that it was only a little useful (53%) or not useful at all (15%). Without consistent, meaningful engagement in what the job requires, many boards are under-prepared for their critical role in executive transition.



Boards' unfamiliarity with the role and dearth of executive performance management no doubt contribute to two additional challenges related to executive transition: termination on the one hand, and supportive onboarding[1] on the other. Thirty-three percent (33%) of current executives followed a leader who was fired or forced to resign, indicating the frequency of mishires and unclear expectations between boards and executives across the sector. Further, this research uncovered a number of challenges for newly hired executives. While all executives reported periods of exhaustion, newer leaders described a visceral fear as they came to realize the enormity of their jobs. After an initial honeymoon phase during which 52% of leaders in the role for less than a year described themselves as very happy, just 37% identified that way during years one through three. Newer leaders were particularly challenged by establishing effective partnerships with their boards, describing disillusionment with what boards actually contribute with respect to strategy, resources, and personal support along executives' steep learning curves. As with happiness in the job, satisfaction with board performance was lowest among leaders on the job between one and three years. It appears that many boards see executive transition as ending with the hire, when in fact leaders—nearly all of whom are in the role for the first time—need intentional support and development as they build efficacy in the executive role.

"I don't know if I'd call it burnout but more panic. The 3:00 a.m. stuff for me is, my gosh, how are we going to find the money? And the feeling that it's very personal. That it will reflect on my leadership, but also that it will affect people who are doing really amazing work—people who I don't want to let down. More important than my own ego is that. I think what I am really talking about is fear. "

'Post-Honeymoon' Challenges for Early-tenure Executives

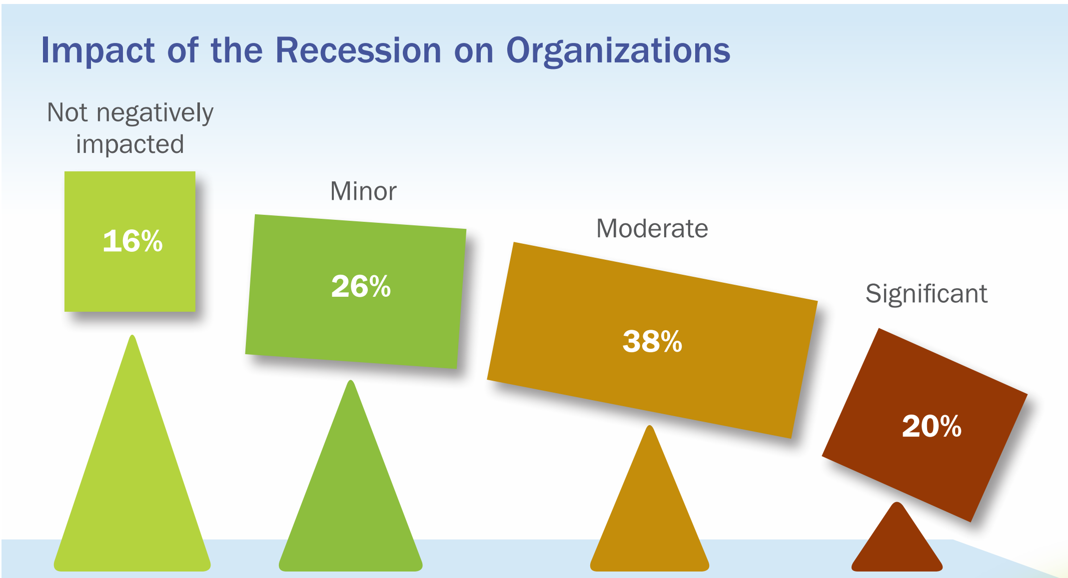


KEY FINDING 2

The recession has amplified the chronic financial instability of many organizations, causing heightened anxiety and increased frustration with unsustainable financial models.

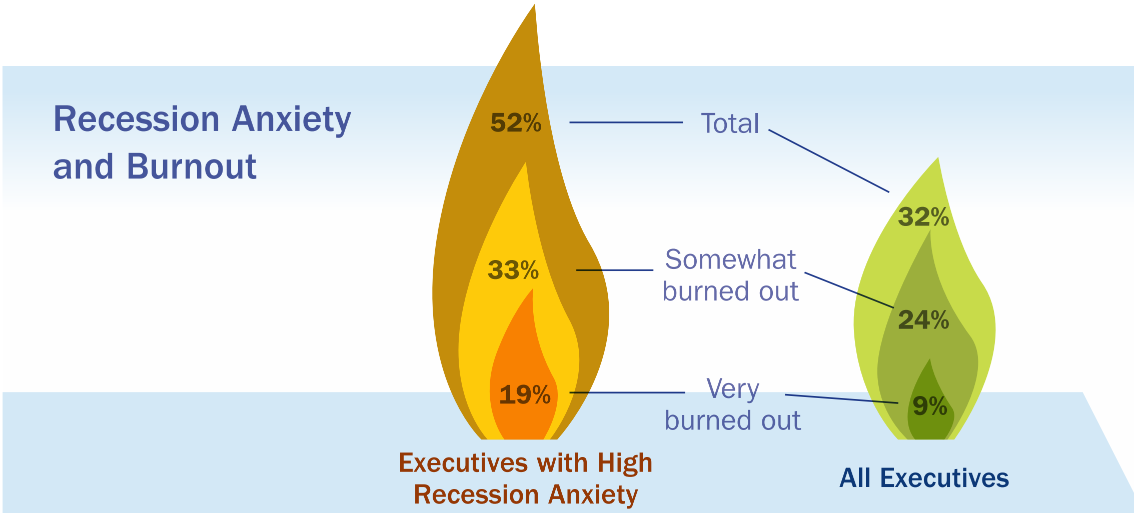
The majority of organizations were negatively impacted by the recession. Eighty-four (84%) of leaders reported negative organizational impact, though its intensity varied widely, with one in five executives describing the negative impact as significant. In the fourth quarter of 2010 when these data were collected, 26% of organizations had downsized; that is, were operating with a budget smaller than the previous year's. More than one third of nonprofits (34%) were operating with a budget larger than the previous year's, indicating the opportunity that some executives were able to find in higher demand, federal stimulus funding, increased donor commitment to safety-net services, and other counter-cyclical market forces. Given the dire budget situation in cities, counties, states, and at the federal level, it remains unclear how many organizations will in fact come out of the recession wholly intact. Specifically, there is widespread acknowledgment among leaders that fundamental shifts are underway in how the social safety-net—to which nonprofit service providers have become absolutely integral—is adequately financed going forward.

Beyond the effect on their organizations' balance sheets, the recession has taken a personal toll on executives. Sixty-five percent (65%) of executives reported significant levels of recession-related anxiety. Understandably, there was a strong correlation between executives' anxiety and the size of their organizations' operating reserves, or financial margin for error.[2] Thirty-three percent (33%) of executives with less than one month of reserves reported high recession-related anxiety, compared with 15% among executives with six months or more. Further, recession anxiety was strongly associated with executive burnout. Overall, 9% of executives described themselves as very burned out, compared to 19% of leaders with high levels of recession anxiety.



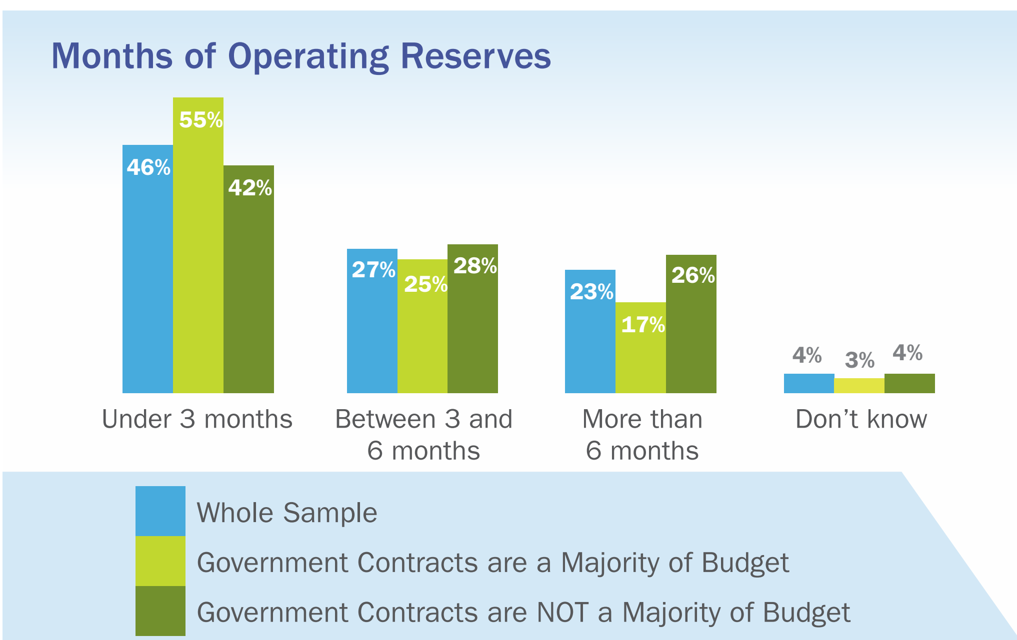
In fact, the recession has only exacerbated an endemic challenge of leadership in the nonprofit sector: developing a sustainable business model that fully finances a nonprofit's desired impacts and allows for strategic organizational development and growth over time. For instance, almost half of executives (46%) reported cash reserves of fewer than three months—when the prevailing wisdom is that organizations should maintain reserves of at least three to six months. This means that roughly half of nonprofit executives have very limited organizational savings with which to take risks, underwrite growth, or invest in their own capacity beyond what they can get existing funding streams to pay for. Nonprofits that rely on government contracts for more than 50% of their operating budget—typically those providing direct human services—are even more vulnerable, with 55% operating with less than three months' reserves compared to 42% among those that receive a majority of their funding from other sources.

"It's a business that doesn't work. We have to find a way for contributed income to be 60% or 70% of our income. We've tried going the other way to make earned income work. But I haven't figured it out. I truly believe that our business of nonprofit management can't work like a business."



Of particular concern, the recession and business model challenges are disproportionately affecting new leaders and leaders of color. Thirty-two percent (32%) of executives in their first year on the job have less than one month of operating reserves; in other words, those on the steepest part of the learning curve often have the smallest margin for error. Twenty-eight percent (28%) of people-of-color-led organizations were severely impacted by the recession, compared with 18% of white-led nonprofits. This is in part because people of color are more likely to run heavily government-funded organizations; 34% of leaders of color run nonprofits whose budgets are comprised of 50% or more government contracts compared with 27% of white executives.

For the majority of nonprofit leaders, boards of directors are not a buffer against this harsh financial reality. A minority of boards are active in fundraising. Forty-eight percent (48%) of executives reported that they had someone on their boards who participates in donor identification; 41% had someone who participates in donor cultivation; and 42% had someone who participates in asking for donations. In fact, nearly half of boards (44%) have not even achieved 100% giving, which is a fairly standard expectation of board support. Moreover, just 32% of boards are participating in policy advocacy, which can be critical to the protection of public funding.



KEY FINDING 3

Despite the profound challenges of the role, nonprofit executives remain energized and resolved.

"I love seeing the transformation that takes place in the lives of our clients. I love witnessing the changes in people's lives. I love that we do both policy and direct services. I get to be involved in the big picture, but also to witness the impact on everyday lives."

Despite the complexity of the economic and structural challenges to nonprofit leadership—and perhaps inspired by them in some cases—the majority of executives demonstrated a high level of resolve and confidence in their capacity to lead. Forty-five percent (45%) reported being very happy in their jobs, and another 46% reported that they have more good days than bad in the role. Levels of burnout, especially given the economic climate, were low; 67% of leaders reported little or no burnout at all. In fact, leaders distinguished between burnout, which they associated with disengagement and ultimately leaving the job, and the realities of fatigue and elusive boundaries between their work and personal lives that go with the job. Forty-seven percent (47%) of executives reported having the work-life balance that's right for them, while a significant minority (39%) said they did not. The inherent isolation of the position is also a reality, with 70% reporting some degree of loneliness at the top. These indicators of executive well-being differ significantly among men and women. Men report burnout at half the rate of women and are significantly more likely to report having the work-life balance that's right for them.

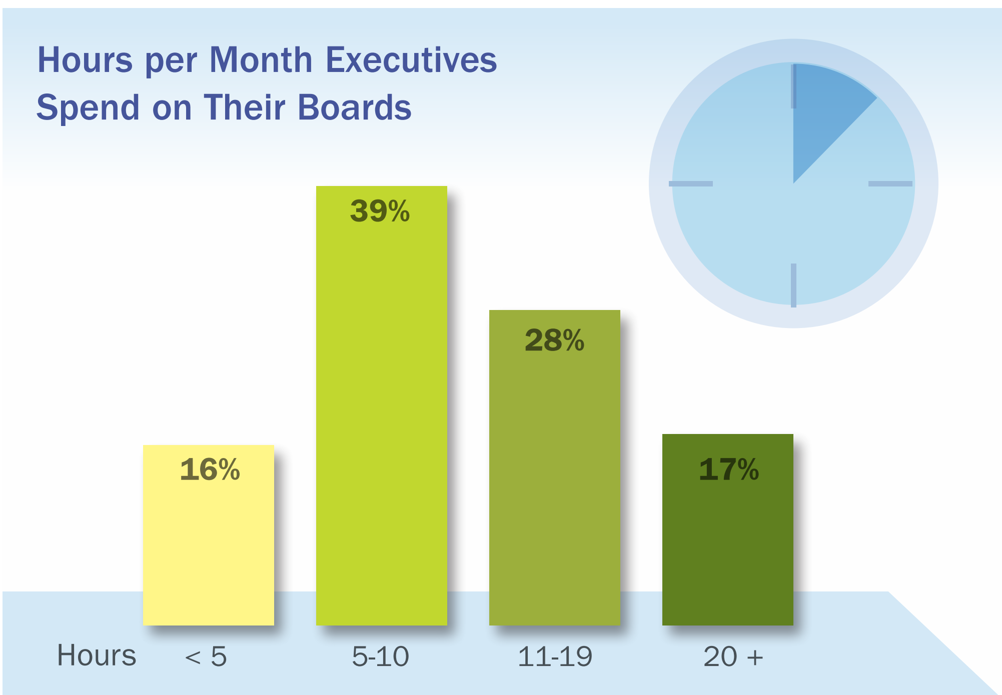
Feelings of leadership efficacy are widespread among nonprofit executives. Leadership theory now distinguishes among the leadership domains that any role may require: the capacity to lead self, to lead others, to lead an organization, and to lead externally in networks and community.[3] The vast majority of leaders assessed themselves as effective or very effective in all four of these leadership domains. The domain where the smallest percentage (35%) assessed themselves as very effective was leading others. The classic challenges associated with human resource management—hiring and firing, giving and getting effective feedback, keeping a whole team aligned and high-performing—contribute to this relatively lower self-assessment by executives. In fact, they ranked human resources as the most depleting and commensurately as the least energizing aspect of their work.

"Personnel is a sucking bog, and the thing is, I don't feel like there's any return on investment. I spend a lot of time working with this person or this department or this team, and now it's good, and then they get a new job. They're like, 'thanks for the training, bye!' Or 'thanks for the training. I'm really good now. I want more money, I want more time'... I want, want, want."

But leading others is also about actively developing people and effectively sharing responsibility and decision-making across the staff. Fifty-seven percent of executives (57%) said that shared leadership—described as a leadership approach that is inclusive and collaborative—very much described their style. Another 34% said that shared leadership somewhat described their approach. And a large majority (81%) reported having someone on staff that they trusted to make important organizational decisions without consulting them. Explicit executive mentoring of other staff was a relatively infrequent practice, with 31% of executives reporting being in an explicit mentoring relationship. Supporting executives in expanding their intentional leadership development practices and encouraging them to build organizational systems—beyond their individual shared leadership practices—that prioritize talent development are critical to strengthening organizations today and preparing them for leadership transition in the future.

"I have almost a flat hierarchy. Yes, I'm the executive director but we make a lot of decisions as a group. We have some more junior staff that are learning, but they're given equal voice at the table. And I think it's a really good way to go. I get much better ideas, much better input, and much, much better buy-in."

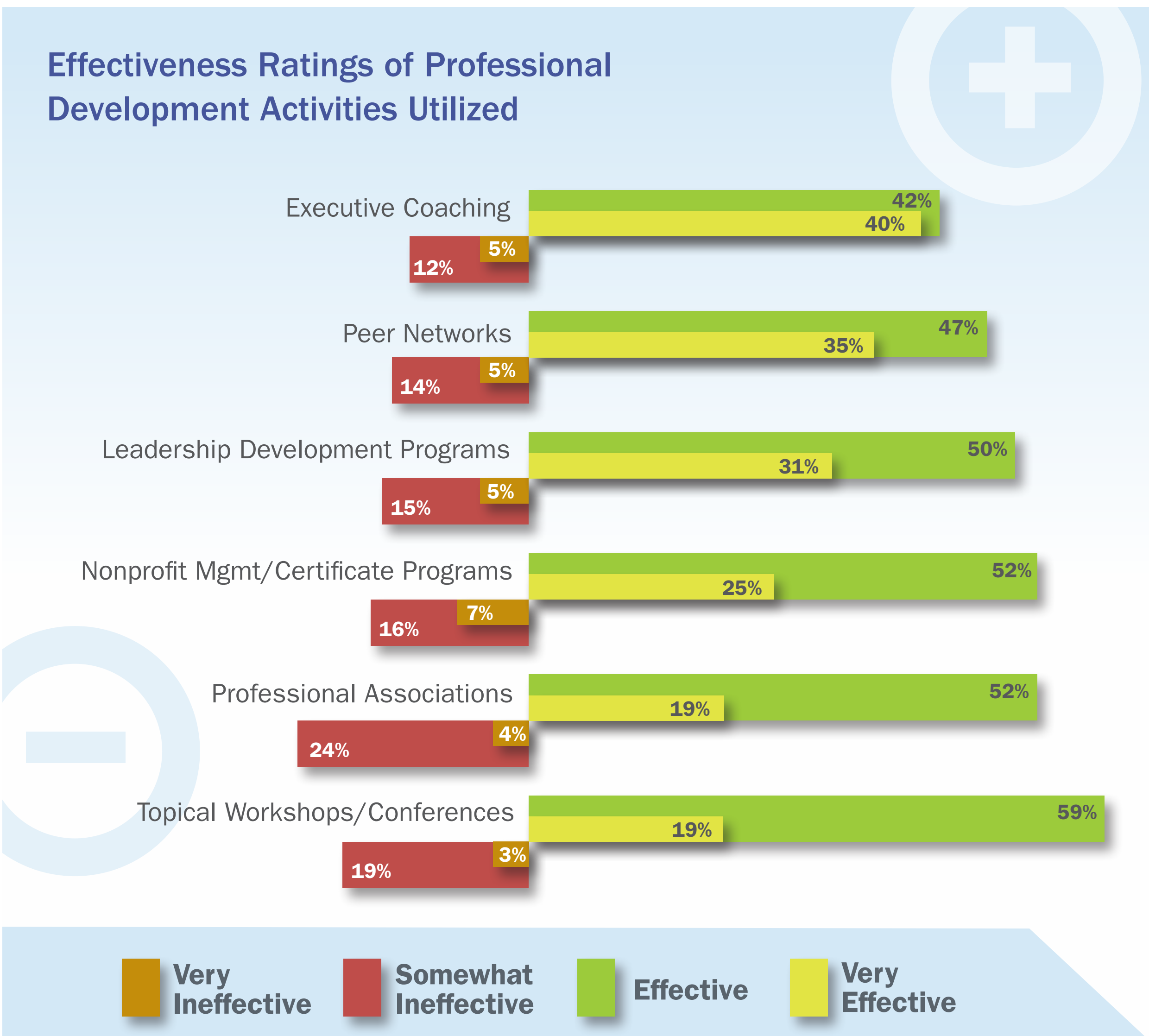
Executive time invested in working with boards of directors was notably low. Sixteen percent (16%) of executives reported spending fewer than five hours per month on board-related activity, yet nearly half of these executives described themselves as spending the right amount of time. The largest group of executives (39%) spend between five and 10 hours per month—just 6% of their time overall—and half of these executives said this was the right amount of time. Other studies have found that executives who spend 20% of their time on board-related activity have high rates of satisfaction with board performance. Similarly, among these respondents, executives at the low-end of the time investment spectrum were the least happy with their boards' performance.



In fact, overall executive satisfaction with board performance was quite low; just 20% of leaders described themselves as very satisfied. Moreover, only 38% of executives were very confident that their own efforts could influence their boards' performance. Despite decades of technical assistance to leaders promoting the value of strategic board development and engagement, many executives still struggle to define the return on investment (ROI) of board-related activity, and further to understand their position of influence on that ROI.

> *"For me as an executive director, the biggest angst is finding board members and their ability to understand what their role is in leading the organization."*

With respect to their own development as leaders, executives reported employing a range of strategies to continue learning and access support. They were most likely to assess executive coaching, peer networks, and leadership programs as very effective. All three of these strategies include non-didactic elements—an opportunity for skilled executives to grapple with the universal challenges of their roles and reflect on their own leadership practices in a safe environment. Ten percent (10%) of leaders were currently working with an executive coach. Peer networks, both formal and informal, were especially effective for decreasing feelings of isolation and norming the trials and tribulations of the role.



The five years since the last *Daring to Lead* were among the most challenging since the sector began emphasizing and exploring the dimensions of effective nonprofit executive leadership some 15 years ago. The demands on leaders have never been greater and for many, resources remain scarce. Yet overall, the 3,000 executives of this study tell a story of resilience and an undiminished commitment to—and passion for—their leadership roles in the social sector.

Calls to **Action**

1

Plan for successful transitions.

Both the age of current executive directors and the responses to this and previous surveys suggest that high rates of executive turnover will continue—and in some cases transition is healthy. Recognizing that some transitions are inevitable, boards, executives, and funders should do all they can to ensure that the ingredients necessary for healthy transition are in place. These include:

- Emergency succession and transition plans to ensure continuity in the event of an unexpected executive departure.
- A meaningful annual performance review process and conversation between the board and executive about performance.
- Recognition by funders of the importance of successful leadership transition to the strength and stability of grantees and, where possible, stepped up support during the transition.
- Understanding on the part of boards, funders, and executives themselves that financial stability is essential to effective executive transitions.
- Ongoing board involvement and support for new executives beyond the hire.

2

Advance understanding of nonprofit financial sustainability.

A significant number of executive directors don't thoroughly understand the financial underpinnings of their organizations, and boards of directors are more focused on financial oversight than on long-term sustainability. In addition to being a primary contributor to executive director burnout, financial instability can threaten an organization's ability to carry out its mission and its very existence. Addressing nonprofit sustainability challenges calls for:

- Clearer understanding on the part of executives and boards about the financial condition of their organization, its business model, and the meaning of sustainability. This will require many executive directors to improve their financial management and analysis skills, and boards to shift their focus from compliance and oversight to long-term sustainability. Beyond basic training in how to read financial statements or how to prepare for an audit, executives and boards need sophisticated training on financial sustainability—training and support that is not available in most communities.
- Recognition among funders of the ways in which they contribute to the chronic undercapitalization of nonprofit organizations.
- Increased board engagement in fundraising.

3

Expand and diversify the professional development options available to executive directors.

This study highlighted the fact that executive directors have different challenges and professional development needs depending on tenure, organizational size, and other factors. Boards, funders, and executives themselves need to develop a more expansive definition of professional development and recognize that executives will need different things at different times. Actions that could address this include:

- Increased support for and utilization of executive coaching, which stands out as a professional development activity that executives say is highly effective but is used by a relatively small number of executives.
- Support for new executive directors, perhaps from a coach or consultant, during their first few years on the job, when they are especially vulnerable to burnout.

continued >

- Development of alternative forms of coaching, perhaps in combination with peer networking or mentoring opportunities, to address the isolation inherent in the executive director role.
- Support from boards of directors and funders for practices and activities that promote healthy work-life balance as an essential element of professional development and support for executive directors.

4

Find new ways to improve the performance and enhance the composition of boards.

Weak board performance was cited many times by survey participants and contributes to botched executive transitions, financial instability, and executive burnout. The board plays a central role in supporting and sustaining executive directors and creating sustainable organizations. Despite decades of attention to improving board effectiveness, board performance continues to lag. Actions that could address this issue include:

- Recognition by executives of their own important role in helping to improve the performance of the board—and the need to invest their time in identifying and cultivating board members and supporting the board in its work.
- Development of improved systems for placing and training board members that can address the huge, ongoing demand for skilled and engaged board members.
- Increased attention and higher expectations of boards and governance from funders, along with funds to help organizations strengthen their boards.

Endnotes

1 Onboarding is the process of orienting and acclimating new staff and volunteers so that they acquire the necessary knowledge, skills, and behaviors to become effective in their roles.

2 We defined reserves as unrestricted cash in excess of the current budget's requirements. One month of reserve is equivalent in dollars to a typical month's expenses, or burn rate.

3 Adapted from the work of Center for Creative Leadership, Grantmakers for Effective Organizations, David Day, and Building Movement Project, the *Daring to Lead* survey defined the domains as follows: Leading self—Have a sense of personal purpose, self-awareness and understanding of personal leadership style, strengths, and abilities. Leading others inside my organization—Can relate to and understand others, develop them, coordinate their efforts and build commitments. Leading my organization—Can develop, communicate and manage organizational vision, strategy and priorities. Can problem-solve, make decisions, and manage and communicate change. External leadership—Can connect to and work with others outside of the organization in order to advance the organization's mission. Includes leading in collaborations, coalitions, partnerships, and other external community relationships.

visit www.**DaringToLead.org**

More data, updates and downloads

Find new articles, data and methodology on DaringtoLead.org.

Join the conversation

Hear what sector leaders are saying about the findings and add your own comments to the ongoing dialogue.

About CompassPoint Nonprofit Services

CompassPoint intensifies the impact of fellow nonprofit leaders, organizations, and networks as we achieve social equity together. We believe that nonprofit organizations and leaders need relevant support that builds on their strengths, experiences, and achievements and that those individuals and organizations that invest in increasing their leadership and management capacities are better poised to achieve progress. For over 35 years, CompassPoint has worked to carry out this purpose by guiding nonprofits as they become better managed, more adaptive, and achieve higher impact. For more information, visit www.compasspoint.org.

About the Meyer Foundation

The Meyer Foundation identifies and invests in visionary leaders and effective community-based nonprofit organizations that are working to create lasting improvements in the lives of low-income people in the Washington, DC metropolitan region, and works to strengthen the region's nonprofit sector as a vital and respected partner in meeting community needs. The Foundation makes grants to organizations working in the areas of education, healthy communities, economic security, and a strong nonprofit sector. Meyer's nonprofit capacity building programs, which were established in 1994, have received national recognition. In 2006, as a response to the previous *Daring to Lead* study, the Foundation established the annual Exponent Awards to recognize outstanding nonprofit executives. For more information, visit www.meyerfoundation.org.

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