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Nonprofit CEO Succession Planning

Avoiding Transition Mistakes

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Executive Summary

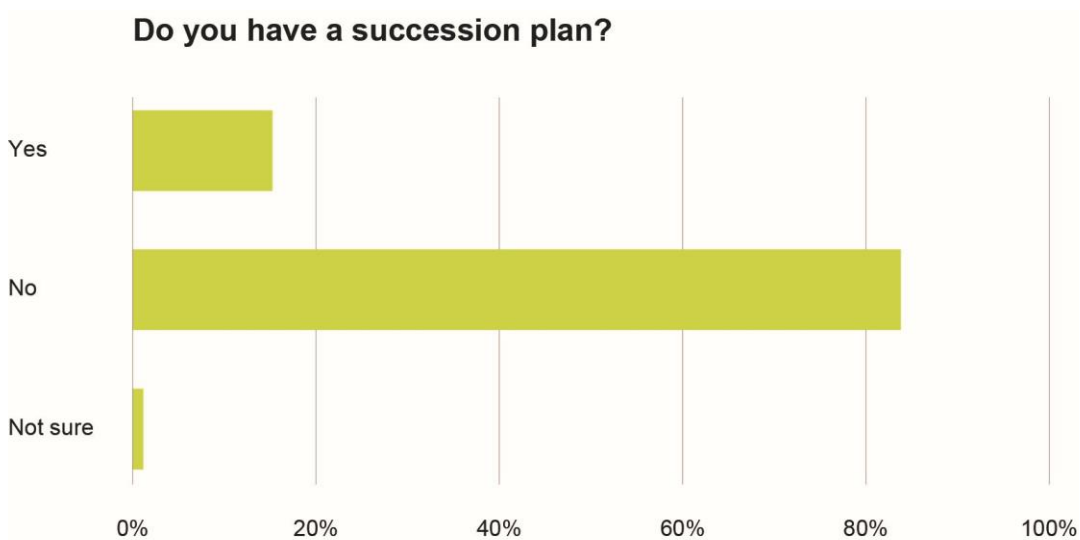
Insuring outstanding management leadership is arguably the single most important responsibility of the nonprofit board. The CEO, more than any other person or group, manages the financial affairs and shapes the programmatic vision that keeps the organization solvent, accessible and relevant.

Hiring a nonprofit CEO is complicated and costly. According to the SHRM, the cost of replacing an employee is equivalent to six to nine months of that person's compensation. The costs of hiring a senior level employee, particularly a CEO, can be much greater. And the costs are more than just financial: the interregnum between the departure of one CEO and the hiring of the next may bring loss of productivity, interrupt fulfillment of the organization's mission, derail a strategic plan, delay fundraising campaigns and spark the departure of other executives. And even after a new person is hired, the success or failure of the CEO will remain unknown for months, if not years.

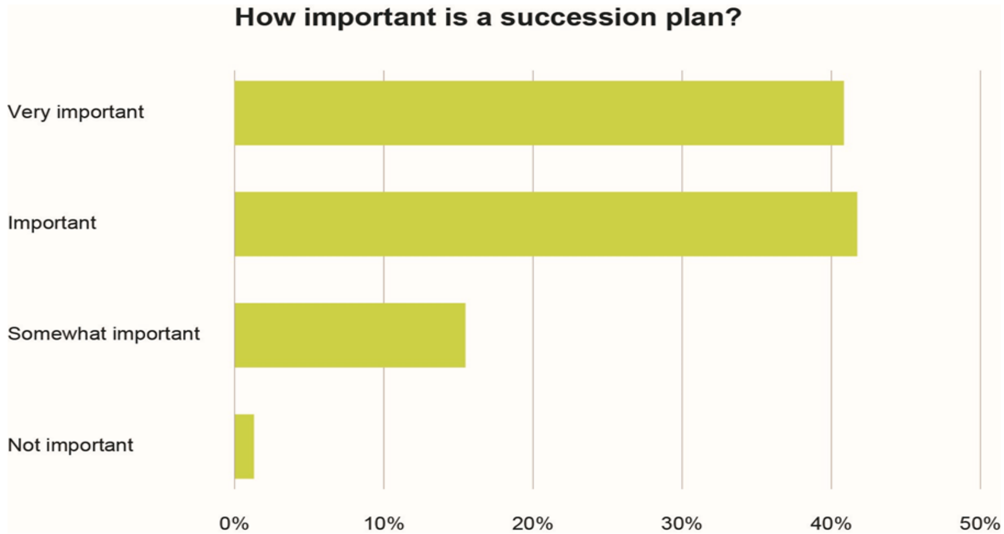
Today, the accelerated rate of retirements among sitting CEOs creates a demand for leaders that is outpacing supply. Because of this, and for all the reasons noted above, succession planning for the nonprofit CEO is critical. Yet it is largely ignored.

Nonprofit succession planning today

A recent DHR International survey of more than 400 CEO members of the Association of Science and Technology Centers (ASTC) revealed a systemic absence of succession planning. Fewer than 15% of those surveyed indicated that their organizations had CEO succession plans.

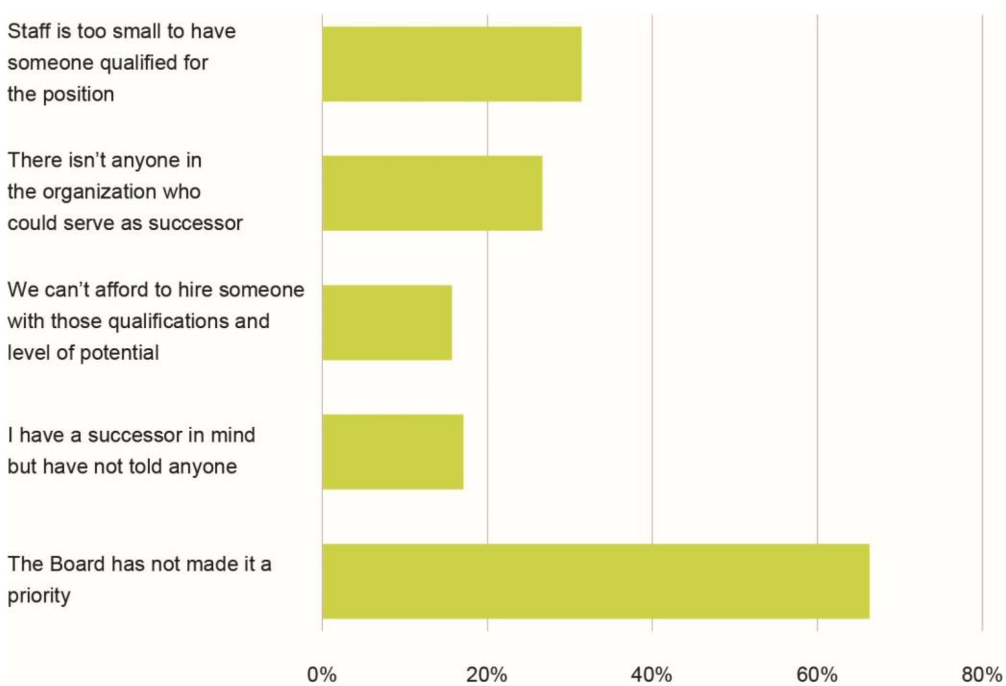


These statistics are similar to the results of other formal and informal DHR surveys of arts, economic development and social service organizations and zoos and aquariums. An overwhelming majority of these survey respondents ranked succession planning as "important" or "very important." And there is ample evidence to conclude that similar responses are common among the vast majority of nonprofit organizations.



So, why the disconnect? While four out of five leaders believe that a succession plan is important, why do the majority of institutions operate without one?

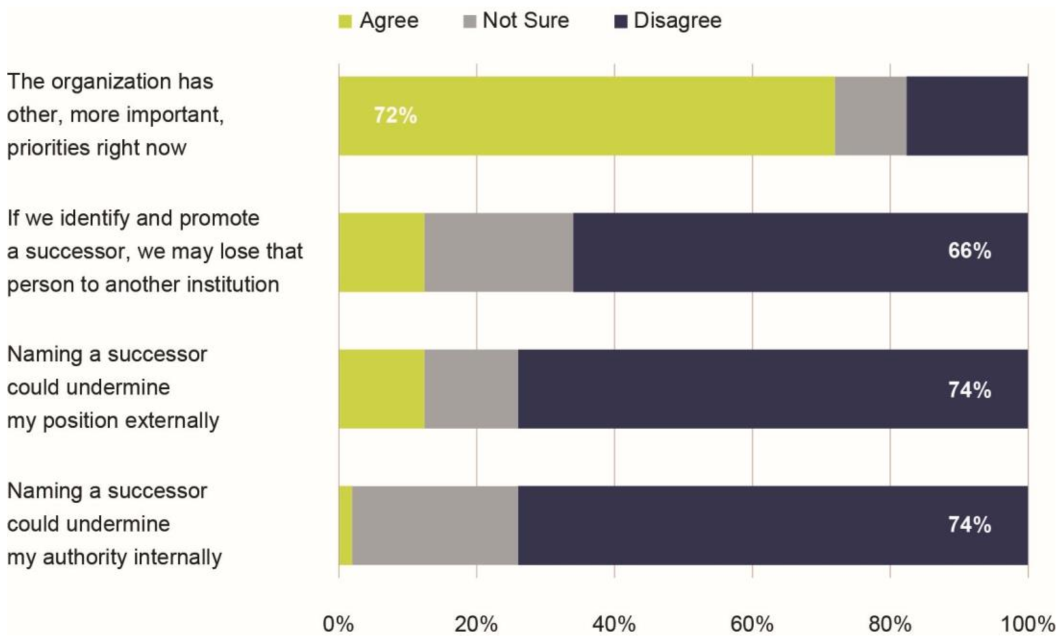
It is true that many nonprofit organizations have small staffs and limited resources for training. And some CEOs feel threatened by the prospect of identifying a potential internal successor or even discussing succession. The respondents of the ASTC are CEOs, not board members, so the results, though instructive, are perhaps one-sided. But the larger implications are overwhelmingly clear.



Succession Planning

More than two-thirds of the respondents believe that the reason their organization has no succession plan is that the board has not made it a priority. Of the organizations with a succession plan, most were initiated by the CEOs themselves. For many CEOs, however, other challenges take priority.

While the importance of succession planning is acknowledged by virtually every stakeholder, the urgency of other, more pressing "here and now" issues explain the overall absence of succession planning.



In addition to Executive Search, DHR offers succession planning services to select clients. However, boards and CEOs of nonprofit organizations can take the initiative and create their own CEO succession plans.

Succession Planning

There are two forms of succession plans: emergency and strategic.

The Emergency Succession Plan

The emergency plan, which according to the data, only five of the ASTC organizations have in place, prepares the organization for when there is an unplanned, extended absence of the CEO. According to the Center for Nonprofit Advancement, "a temporary absence is one of less than three months in which it is expected that the CEO will return to his/her position once the events precipitating the absence are resolved. An unplanned absence is one that arises unexpectedly." The emergency succession plan is also in place for the tragic and sudden loss of a CEO due to death or severe disability. An emergency succession plan is approved in advance by the board and known throughout the organization. It identifies the agreed-upon steps to take (see below) during such an emergency.

There are five steps to an effective emergency succession plan:

Step 1. Acting CEO

Since the planning happens in advance, the board and the sitting CEO identify who will take the position of Interim CEO in the event of an unplanned absence of the CEO; a second and third alternative may also be identified.

The Board of Directors formally authorizes the Executive Committee to implement the terms of the emergency plan. In the event of the unplanned absence of the CEO, a pre-designated staff member immediately informs the Board Chair of the absence. As soon as it is feasible, the Chair convenes a meeting of the Board or Executive Committee to review the procedures described in the plan and, if circumstances require, make modifications.

Step 2. Governance responsibility

The plan specifies which members or committee would be responsible for monitoring the work of the Interim CEO. It is imperative that those named be sensitive to the special support needs of the Interim and the entire organization.

Step 3. Communications Plan

The presence of an orderly plan adds credibility and stability to the organization. Once responsibilities are transferred to the Interim CEO, the Board Chair notifies staff, all board members, key volunteers, government contract officers, foundation program officers, civic leaders, major donors and other stakeholders of the temporary leadership structure.

Step 4. Completion of Short-Term Emergency Succession Period

The Interim CEO and the board determine when the CEO will return. When it becomes certain the CEO will not return, the board activates the formal succession plan, if a succession plan is in place. With no formal plan, a search committee is formed.

Step 5. Authority and Compensation of the Acting CEO

The interim CEO's authority around decision-making will be predetermined; everything from seemingly simple details like security passcodes, access to confidential personnel information, signing authority, etc. is already scripted. There may be a temporary salary increase or a bonus during the Interim CEO's tenure, which should also be outlined in the emergency succession plan.

The Strategic Succession Plan – A Case Study

An executive committee member of a major, international performing arts organization also served on the board and succession planning committees of two Fortune 100 corporations. Under his guidance and chairmanship, a succession planning committee was created five years before the anticipated retirement of both the long-standing artistic and executive directors; each was offered long-term contracts with retention bonuses. The executive director's contract extended one year past that of the artistic director. The plan anticipated that the same board chair would continue through the transition of both positions. The best succession plans minimize concurrent leadership changes. The planning committee also asked the Executive Director to identify potential internal successors.

While the organization was fortunate to have a generous timeframe in which to find and onboard a new Executive Director, it also had someone ready to step in, not only as an interim Executive Director, but as a viable candidate for the actual position.

The most effective strategic succession plans require an ongoing effort by the board and the CEO. The best plans are written, approved by the board executive committee, reviewed annually and revised as required. Following are the steps to succession planning.

Step 1. Form a succession planning committee

Every board should have a committee responsible for succession planning. It may be the executive committee. In some cases, a separate succession planning committee is formed and fully empowered to develop the succession plan.

Step 2. Create and codify a contract

The strategic succession plan is tied to the CEO contract. Less than half of the CEOs in nonprofit organizations have a formal employment contract. An employment contract for the CEO identifies the length of employment, the dates when the contract terms would (or could) be extended, and often provides an incentive for the CEO to remain in the position through the end of the contract (sometimes in the form of a 457 (f) plan). The term, which need not be known publicly or even among the staff, provides the timeline and road map for the plan. For more information on the nonprofit CEO contract, see the DHR thought leadership piece, "Negotiating the Nonprofit CEO Contract."

Step 3. Identify required skills and experiences

Organizations change. The environment in which they exist is fluid. Therefore, the behavioral profile and skill sets of the next CEO will likely differ from those of the incumbent. By understanding the strengths and challenges of the organization, anticipating its future needs (for example, a capital campaign, partnerships with other organizations, or a changing stakeholder base) the committee will profile the next CEO.

Step 4. Identify Internal Candidates

Begin to provide the resources to supplement the skills necessary for any internal candidates. By understanding what will be needed in the future, internal candidates can receive additional training and, just as importantly, begin to take on a broader responsibility in the organization to position the person (or persons) both internally and externally. In the case of the international performing arts organization, the Executive Director, now part of the succession planning process, began to position one of the three senior managers; he began to take on a more public persona. He played a more prominent role at board meetings and his portfolio of responsibilities increased. Remember, however, there is no guarantee that the internal candidate will be promoted to the CEO position nor is there a guarantee that this person, once better trained and positioned, will remain in the organization until the incumbent departs, or be the most qualified potential candidate.

Step 5. Transition to a search committee

Fifteen months before the planned departure of the CEO, the succession planning committee may transition to the search committee. The committee would identify and confidentially retain an executive search firm and be ready to announce the retirement of the CEO 12 months in advance. The retained search firm's first task is to expand upon the profile created in Step 3 and to create a position specification.

Step 6. Insure stability and management continuity

To maintain management continuity during the transition, whether the candidate is internal or external, it may be beneficial to provide incentives to the senior management team to remain with the organization after the transition. A simple but formal "golden handcuff" promising senior executives a bonus if they remain with the organization until a certain time after the CEO retires has many benefits: it demonstrates the value the board places in those individuals; it provides incentives for the senior executives to deflect offers of employment from other organizations; it provides added insurance of continuity if the search is unduly delayed or fails; and it alleviates their concern of being fired (without severance) by the incoming CEO.

Step 7. Announce plans and timeline

Twelve months before the planned retirement, first the staff and key stakeholders, and then the public is informed of the CEO's retirement and the timetable for the search, which should be concluded within six months of its announcement. However, the remaining time on the incumbent's contract provides 'insurance' for unforeseen delays due to vacation periods of the selected candidate, false starts, last minute turndowns or inability to agree on terms with the selected candidate. The incumbent will be paid for the entire twelve-month period with the expectation that the seat will be vacated when the new CEO begins, and that the incumbent will be available for consultation as needed throughout the remainder of the contract year.

Step 8. Create an onboarding plan

Create an onboarding plan for the new CEO and ensure that members of the search committee participate. Also, plan for an overlap between the current and new CEO of up to two weeks, but no more than four.

Conclusion

The international arts organization engaged a search firm and followed the steps outlined above. Six external candidates and one internal candidate were interviewed. The internal candidate, who was positioned by the Executive Director, was offered the position. Because there was a national search, the internal candidate gained the imprimatur of credibility. Today, some three years forward, he leads the organization toward the completion of an endowment campaign and a new building, and he has built a stronger management team.

Succession planning must be a priority of any well-functioning organization. It requires a commitment from the board, the cooperation of the CEO, and a limited amount of time and financial resources that will avoid costly future interruptions. The best organizations consider CEO succession an integral element of sustainability and a sign of good governance.

Nonprofit CEO Succession Planning Timeline

Five years prior to CEO retirement	15 months prior	12 months prior	6–3 months prior
■ Form succession planning committee ■ Create requirements of next CEO ■ Begin to position internal candidates ■ Offer contract to retiring CEO	■ Create search committee ■ Retain executive search firm ■ Provide retention contracts to key senior management	■ Announce search and planned retirement (or departure) of CEO ■ Conduct candidate interviews	■ Announce hire of new CEO ■ Arrange transition

Established in 1989, DHR International is one of the largest retained executive search firms in the world, with more than 50 offices around the globe. We conduct search assignments at the board of director, C-level, and functional vice president levels. DHR's renowned consultants specialize in all industries and functions in order to provide unparalleled senior-level executive search, management assessment and succession planning services tailored to the unique qualities and specifications of our select client base.

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