Part 1

Beginning the Journey

The Voices of Experience

In each of the four parts of this book, the reader will find quotes drawn from interviews conducted with a dozen current and former executive directors. Their comments represent the real world state of nonprofit life; sometimes reflecting “best practices” and sometimes uncomfortably bumping up against the strategies recommended in the pages of this book. As a sector, we are clearly in the “pre-magnificent” stage of our learning and practice of succession planning.

“The biggest concern is the number of key players who are nearing the end of their careers. There is no one currently within the organization who can step into the ED role and be a leader.”

“After 25 years some of the same problems came around again. I thought, “Do you have the juice to do this again?” And I knew I did not.”

“You cannot walk away without leaving a path to follow.”

“Am I the right leader to take you to the future you are thinking of?”

“I have never, not worked. I don’t have children. I have no idea what I will do. Everyone thinks they can consult. They may have been good, solid employees but can they produce a product for a client?”

“I had known for two or three years that it was really time to think about going.”

“No one is getting rich in this sector. If I retired, I could not maintain my lifestyle with my retirement income, so I looked at creating a lifestyle with the money I had. Figuring that out is really important.”

"I thought I'd retire at 60. At 57 I realized I didn't want to shoulder the burden anymore. A good honest talk with yourself is needed."

"I asked myself, "Is work my whole life?" Once you decide you are leaving, you are already moving on."

"When I tell the board that I'm leaving they will be shell-shocked. I want to bring some ideas around process to the board when I tell them. I don't want people panicking when I give my notice."

"I've talked to colleagues who did not have a clear plan about what they would do when they retired. They are feeling lost."

"It scares me that I see all these great people every day and there will come a day when I don't."

"I would like to spend my last year in a coaching role and not as the executive director."

"I hope there will be more board members interested in succession planning. It doesn't seem real to them and I have to be a real taskmaster to get anything done."

"The board interpreted "succession planning" as "successor planning". I did some research and we began to educate ourselves."

"They think I'll be here forever and therefore they don't have to worry about a succession plan."

"My biggest concern about retirement is that I have no company pension. That, and work, makes me feel good about myself. I need to be valued and I get that feeling from the work I do."

Chapter 1
A Road That Must Be Traveled

A Succession Planning Snapshot

Let's begin with a few definitions and basic concepts. The literature supports the idea that there are three components to succession planning:

- Emergency succession plans;
- Planned departure succession plans (also called long-term, departure-defined or defined-departure plans);
- Leader development plans.

A definition of succession planning:
"… any effort designed to ensure the continued effective performance of an organization, division, department or work group by making provision for the development, replacement, and strategic application of key people over time."[1]

Succession planning is a mindset followed by a commitment to ongoing succession and transition activities by the board and executive director. Succession plans do not leave future leadership to chance. A strategic approach to leadership helps ensure organizational stability and sustainability for the long term.

What Succession Planning is Not

- Succession planning is not the same as "successor planning". Grooming successors is an old-school corporate approach to succession that is not a good fit with most contemporary nonprofits. Successor selection is a board responsibility. Grooming an internal successor implies that the heir apparent has been chosen in advance by the current executive director, perhaps without board knowledge or input.
- Most boards and executive directors are well aware of the need for an emergency back-up plan in the event of a sudden and/or short-term absence of the executive director. No assumption should be made that the short-term acting executive director is the first or best choice in the longer term.
- Succession planning is not only about search and selection (often called recruitment) of a new executive director.
- Succession planning is not a task delegated to the current executive director who obligingly puts a few paragraphs on paper which the board approves as its' "succession plan".

A succession plan takes into consideration - or even helps create - the future strategic direction of the organization and translates this into the required qualities and qualifications for the incoming executive. Ideally, succession planning also goes more deeply into the organization to include planning for all key paid leadership positions and volunteer board leaders. (Chapter 8 is devoted to the topic of board succession planning). A comprehensive succession plan also includes a fairly detailed process for smooth exit and entrance transitions of departing and incoming executive directors.

As you can see, succession planning can be a bit complicated! My intentions are to demystify this process. By the end of this book, your board and management team will understand how to create a plan that supports effective leadership transition.

Executive Transition Management

Executive Transition Management (ETM) refers to a process that allows for a smooth departure and entry of executive directors. Implementation of a transition management plan begins when the current executive director announces her departure and ends about a year after the incoming executive director commences employment.

An abrupt departure of an executive director makes the transition management process more complex, highlighting the need for a well-designed plan developed in calmer times. A transition management plan complements your succession plan, ensuring support for employees and volunteers during this challenging time in your organization. A well planned orientation and ongoing support for your new executive director improves trust, builds relationships with board, staff, funders and community and also sets the stage for new executive satisfaction and long-term retention.

No Succession Plan Yet? You are in Good Company!

Although emergency and long-term succession plans are often discussed by boards and executive directors, few nonprofits have completed the planning process. A recent survey of 1,251 nonprofits by the HR Council of Canada, found that 52 percent had emergency succession plans in place and only 25 percent had long-term succession plans in place.[2] In the US, a recent national study of more than 3,000 nonprofits found that only 17 percent of nonprofits had written succession plans. [3]

A 2009 research project reporting on nonprofit succession planning found that organizational size did not appear to impact on whether best practices were used.[4] This is a bit of a surprise, given that larger nonprofits are assumed to have greater sophistication at executive and board level and many have internal human resource professionals and/or access to external paid consulting support. It supports the earlier observation that succession planning is first and foremost a *mindset.*

> *"We never have time to do it right, but we always have time to do it again."*
>
> *Unknown*

Not surprisingly, the nonprofit sector is a bit behind larger for-profit corporations. A 2008 study of publicly traded US companies found that 49 percent had documented succession plans.[5] Given that these are the largest corporations in the private sector, it is likely safe to assume that succession planning by smaller companies and owner-operated businesses more closely mirrors the nonprofit sector.

Succession Planning and Transition Management Requires Leadership

Successful succession is a four stage adventure which includes:

- The leadership of getting ready for change;
- The leadership of letting go;
- The leadership of between old and new;
- The leadership of new beginnings.

Each phase requires a substantial investment of time, talent and money. If embarking on the journey feels a bit daunting, then weigh this investment against the cost of an unplanned and potentially failed transition including repeat recruitment costs, ongoing staff stress, board member fatigue and turnover, possible loss of community and funder confidence, and lost opportunities for moving forward while the agency is destabilized.

Benefits of Succession Planning and Transition Management

Just in case some of you need convincing, and because I know you all love a checklist, here are the rewards you'll reap in return for all your succession planning effort.

- Confidence of employees, funders and community that organizational stability and continuity is assured during future transition.
- Increased in-depth understanding by board volunteers of the complexity of the executive director's role and duties.
- Making the most of the opportunity to review organizational priorities and to confirm or adjust future strategic directions.
- Critical analysis of the qualities and competencies needed by your incoming executive director to lead the organization.
- Raising the standards and activity level for leader training and development throughout the organization.
- Increased "bench strength" and internal capacity as employees build skills and leadership abilities.
- Improved partnerships and communication between board members, the current executive director and managers in the organization.

> *"Unfortunately, the short-term consequences of being light on leadership are tolerable. Nonprofits already do so much with so little – why not do a little more with a little less?"*[6]

- Testing and refining emergency succession plans.
- Strengthening relationships with stakeholders (employees, funders, donors, clients/participants and members) which results from consultation with these groups during the planning process.
- A positive legacy for board and executive leaders upon their departures.
- Satisfaction and peace of mind that comes from being one of only a few organizations in the country that have comprehensive succession and transition plans in place.
- A feather in your cap when you are asked by other organizations to share your plan and planning process!

Projecting Executive Turnover in the Sector

The most recent Daring to Lead survey in the United States reported expected turnover of 67 percent within five years – an average of 13.4 percent annually.[7] This figure was less than the 75 percent turnover projected in the previous (2006) Daring to Lead survey. The difference is largely attributable to the recession which has swept the United States, causing many sector executives to delay their retirements by several years. Survey results also indicated that a surprising one third of recent executive departures were dismissals or the executive was forced out of the organization by the board.

In Canada, the 2012 Driving Change survey results projected executive turnover of 54 percent over the next four years, an average of 13.5 percent per year, almost exactly what is projected for organizations south of the 49th Parallel. The survey also snaps a picture of aging leaders in the sector. Seventy-one (71%) of executives were between the ages of 45 and 64 suggesting that the majority of exits in the next ten years will be to full or partial retirement.[8]

The Demand for Leaders is Increasing

In Canada, 46 percent of an estimated 170,000 nonprofits have at least one employee. Using 13.5 percent projected turnover, the sector will require more than 10,000 new senior executives every year until 2017. In the USA, where there are 1.6 million registered nonprofits, this number jumps to more than 100,000 estimated vacancies each year. A more conservative estimate of ten percent annual turnover, projects the need for replacement executive directors at about 8,000 and 80,000 per year in Canada and the US respectively.

Is the Leadership Deficit Likely to be a Crisis?

The short answer is, perhaps! However, the sky is not falling quite yet, Chicken Little! A sector-wide proactive response could have significant positive impact. However, in 15 years of tracking leadership trends in the US, CompassPoint Nonprofit Services notes that there has been almost no increase in the number of organizations with written succession plans in place.[10]

The looming leadership deficit in nonprofits is exacerbated by non-competitive compensation (compared to public and private sectors), a shortage of leaders with sector experience, increasing complexity of executive roles and

Fast Facts:

- By 2016, an estimated 640,000 senior leaders will be needed by US nonprofits.
- There are three or fewer qualified candidates per vacant senior management position.
- The sector in the US grew by 66% between 1995 and 2005.
- 30% to 40% of senior leaders are recruited from within the sector.[9]

often unrealistic demands for accountability by multiple funders (Tierney, 2006).[11]

There is some good news however. Annual actual turnover lags predicted turnover by several percentage points. Projected sector turnover in the US from 2004 to 2009 was 66 percent or 13.2 percent per year. Economic realities made the actual turnover closer to nine percent for this same period. Actual turnover between 1994 and 2004 was significantly lower at 57 percent or about 5.2 percent annually.[12] At the time of the 2011 Daring to Lead survey, seven percent of survey respondents had already given notice and an additional ten percent expected to stay less than one year. [13]

Executive turnover projections usually do not include vacancies of other senior management positions in organizations. Many in these roles are also baby boomers, the youngest of whom will approach age 60 by 2025. This magnifies the challenge and underlines the importance of leadership development both within organizations and across the sector.

Expected growth of the sector is another factor to be considered. Pre-recession sector growth in Canada was 10 percent per year, including both expansion of services by existing agencies and the incorporation of new nonprofit organizations.[14] The economic downturn in Canada and recession in the United States has slowed sector growth considerably. Pre-recession, in 2007, a record setting 68,300 new nonprofits were registered, representing four percent growth in the sector. In 2011, 49,700 new nonprofits were registered in the US.[15] This represents a 27 percent decrease in growth and an annual growth rate of about three percent. Sector growth will continue to create a need for more mid- and senior managers within existing organizations and for executive directors of emerging nonprofits.

Baby Boomer Turnover and Next Generation Leaders

As of 2011, 46 percent of executive directors in Canada are aged 55 or older. An additional 35 percent are between the ages of 45 and 54.[16] In the US (2011), 59 percent of executive directors are age 50 and older[17]. Some turnover is healthy for the sector and new blood is essential for organizational renewal. Generation X and Y leaders will bring a fresh vision, changing priorities and different approaches to managing people and systems. Although some believe this represents a threat to the sector, many others believe nonprofit organizations will benefit from what younger leaders have to offer.

> ***The Baby Boomer Glass Ceiling***
>
> *"Many young leaders are thinking about how leadership and organizations might look in the future, including different ways to operate and enact leadership, but they find little space … to explore new ideas."*[18]

Every generation has a legacy and this legacy is a mix of good and not-so-good! Baby Boomers have much to be proud of from their tenure as leaders. A less positive part of the Boomer legacy is a culture of over-work, focus on rules, tendencies toward too much bureaucracy and concomitant lack of flexibility. Next generation leaders must assess what to keep and what to change within both individual organizations and the sector as a whole.

In North America, there are considerably fewer Generation X (born between 1965 and 1980) than Baby Boomers (born between 1945 and 1964) and Generation Ys (born between 1981 and 2000). There is some evidence that Gen Xs are less likely to aspire to senior leadership roles than Gen Ys. (MacLean, 2008).[19] While

Gen Ys may be more likely to move into senior leadership roles, there is at least 15 years of experience separating Gen Ys from Gen Xs. Both generations reputedly gravitate toward "work that makes a difference", a fact that bodes well for the nonprofit sector's ability to attract next generation leaders.

Factors Offsetting the Leadership Deficit

On the upside, there are several factors predicted to offset the current deficit of sector leaders. The most significant positive impact will be increasing labor force participation among older workers. This group is comprised primarily of Baby Boomers who have retired from corporate life and, after a few years out of the workforce, are returning to seasonal, part-time and even full-time employment. It has been suggested that the nonprofit sector may be attractive to many former corporate executives who do not seek to make a living so much as to seek meaningful work and contribution to society.

Other offsetting factors for the next three to five years include:

- Increased retention of current executive directors due to lack of a successors, their mistrust of their boards to hire a quality replacement, organizational financial instability and loss of personal retirement investments due to economic downturn;
- Slowed growth and some consolidation of organizations;
- Migration of employees out of other sectors to nonprofits, especially Generation Y employees who are attracted to organizations with a higher sense of purpose; [20]
- Improved leader development focus within organizations, the sector, sub-sectors and specific communities, on the longer term;

- Thirty-nine (39) percent of exiting executives indicate they will remain in the sector, many will continue in senior leadership roles;[21]
- Increased interest in leadership roles by Generation Y employees who already work in the sector.

A Caution about Focus on Leadership Deficits

Put simply, the "Law of Attraction" states: "That which we focus on grows stronger". The leadership deficit within our own organizations and within the sector may get us thinking about replacement or successor planning *not succession planning*. We may become preoccupied with finding and grooming a successor, scanning internally and externally for a possible heir-apparent for "when the time comes". We also muse about building an internal pipeline of potential leaders that contains one or more hopeful successors.

These distractions may cause us to forget other important pieces of the leadership planning picture. We must consider:

- Community needs that must be addressed; (What needs to be done?)
- Future strategic directions for the organization to meet community needs; (What will our organization's focus be in the decades ahead?)
- The competencies and qualities needed in future executive leaders; (Who will lead us?)
- The structures and systems needed for success; (How do we make ourselves most efficient and effective to ensure we accomplish our goals?).
- What resources do we need? (How will we attract the right people, with the right talents and enough money we need to succeed?)

> ***Counter Point:*** *"I'm fairly concerned about the discourse about shortages of qualified people in the sector, that there's a leadership gap or succession crisis … I'm not buying it. There are phenomenally capable emerging leaders and young people who are ready to step into leadership. But very few of them are straight, white males or straight, white females of middle class backgrounds, born in Canada with English as a first language … I think we have to start changing the face of who is leading."* [22]
>
> *Patricia Bradshaw, York University, Toronto*

In short, we must focus on future potential of organizations *and* people if we are to create valid succession and transition plans.

What are the Barriers to Succession Planning?

Why isn't succession planning more common? Read the following list and tick off any barriers that apply to you and your organization.

- The planning process is time consuming for busy volunteer board members and overworked executive directors.
- There is a misperception that succession planning and "successor planning" are synonymous. Either the presence or absence of an internal successor may mean no further planning occurs.
- Neither board members nor executive directors are entirely clear on where to start and what needs to be done.

- Having a plan is important but rarely urgent (and when it becomes urgent, it is usually too late to start planning!).
- The results have no immediate impact or perceived benefit.
- Some boards are deeply in denial about the inevitability of losing their executive director.
- The board may be reluctant to bring up the topic for fear of offending the executive director or creating an incorrect impression that the board wishes the executive director to leave.
- The executive director is reluctant to bring up the topic because it may prematurely signal her intention to leave.
- If the executive director starts the conversation and guides the process, boards usually willingly participate – but most boards are unlikely to initiate or take leadership.
- The primary focus of resources must be on delivery of quality services and programs. Succession planning is a small drop of water in a very big pond.
- Finances (enough money, accountability for money, finding more money, negotiating with funders) takes precedence over planning of all kinds.
- The process may need external consulting support and the board and management may be reluctant to use precious funds for this purpose.
- Senior management may be reluctant to spend time and money developing internal leaders, fearing that they become more marketable outside the organization.

Whose Job is it Anyway?

The answer may surprise you. I've already pointed you to research that shows only 17 percent of nonprofits in the US and 25 percent in Canada have written succession plans. Still fewer organizations have a written transition management process.

It is too convenient and too simplistic to point fingers at boards of directors for failing to get their succession ducks in a row. In a courageous article entitled "It's the ED, Stupid", Curtis Chang (founder of California-based, Consulting Within Reach) points to a disturbing trend to attribute funding shortfalls and other systemic problems in nonprofits to weak boards and other external factors assumed to be outside the organizations' control.[23]

> *"We've met the enemy and he is us."*
>
> *Walt Kelly*

From personal experience, most boards are comprised of nice, reasonable, intelligent people who are giving their time for the right reasons – to make a difference in their communities. Collectively however, boards tend to be responsive to the information they receive from managers. Boards (and I am generalizing) tend not to be proactive or take initiative on their own. Many boards have at least discussed the need for succession planning. Some have decided that succession planning is not all that important. Others think it is important but struggle to get started and don't know what steps will lead to the desired outcome.

When an executive director suggests to the board that succession planning is a worthwhile goal, provides a sense of urgency and proposes a process to accomplish the goal, the board is usually willing to endorse the idea. Rarely does the board lead the process, although we can usually expect one courageous member will volunteer to chair the succession planning and transition committee!

Purists will argue that it is the board that must lead, decisively directing the process toward a top-notch succession and transition plan. No doubt there are some boards capable of producing a quality outcome in a timely manner. However, left to their own devices, most boards will produce nothing.

Like it or not, it is the executive director who must initiate the action required to complete succession and transition plans. It is also likely that your board will need sustained support by your executive director and/or a paid external consultant during the planning process.

Succession planning is about what, how and when. It is not about WHO.

So, forgive me for saying this so bluntly, but when an organization does not have a succession plan or is not actively engaged in developing one, all roads lead back to the executive director. Organizations without enough money, flounder, shrink and may even close their doors. Organizations without stable and competent leadership will follow a very similar path. And, not to put too fine a point on it, organizations without effective leadership often soon find themselves without the financial resources to sustain them.

When a board defaults on its responsibility to initiate succession and transition planning, it is the executive director who must put this on the board's radar and make it stay there.

The Elephant in the Room

Board members are understandably reluctant to bring the topic of succession to board or committee meetings. They may fear offending the executive director or they may not want any misunderstanding about their intentions behind broaching the topic. Unless the executive director brings "it" up, succession remains the elephant in the room.

If conversations about succession are the elephant, then the baby elephant is the need to have succession plans for all key roles in the entire organization. This includes but is not limited to all the positions that report to the executive director. The board is wise to set a policy requiring the executive director to identify key positions requiring succession planning and to prepare a written plan for each position. This plan should be made available to the board executive and should be reviewed and updated after each change in structure and personnel.

Board Support Required During Planning

"Executive transitions call on the board to step up to a higher level of engagement and to lead the organization through a crucial period that will determine its future course." [24]

Discussion must be followed by action and your board will need some support along the way, including:

- Reading materials that inform the board on process and outcome;
- Access to external and/or internal consulting expertise to guide the process and give advice on what makes for a great plan;
- Clarification that the outcomes must be an emergency plan, a planned departure plan and a transition management process;
- An expectation of the executive director to create and sustain a process that strengthens internal leadership, without pre-determining an actual successor;
- Sufficient budget to complete the plans and to execute recruitment and transition activities required by the plans;
- Assistance with writing the plans, if required.

The board and executive director are hand-in-glove partners in all things relating to governance. Succession planning and transition management are simply another step on the governance journey and represent an opportunity for strengthening the executive-board partnership.

About the Author

Paula J. MacLean is the best-selling author of 6 books on human resource management and working with volunteer boards of directors. Her workshops and conference presentations have enlightened and entertained thousands of leaders over that past 20+ years. Since 2008, Paula has been semi-retired. She continues to enjoy consulting on human resource matters and with boards of nonprofit, health and educational organizations. She also coaches executive directors and board volunteers across the country.

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Books by Paula J. MacLean include:

- Following the Leader – Executive Succession for Your Nonprofit. (2013)
- 7 New Rules for the Sandbox – The ABCs of Generational Retention. (2009)
- From Hiring to Firing – A No-Nonsense Guide to Managing Employee Performance. (co-authored by Derek G. Redman, Q.C.) (2006)
- Great Boards Plain and Simple. (2003)

- Great Boards the Workbook. (2003)
- Taming Turnover – Creating Strategies for Employee Retention. (2001)
- The Supervisor's Big Book of Answers. (1999)

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