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Managing the Transition:

Useful Board Guidelines for CEO Succession

By Peter C. Carpino and Howard Berman

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While the economic downturn of the past few years may have delayed the timing of the estimated 75 percent of sitting nonprofit executives who had planned to retire by 2011[1], the core issue remains: there's going to be a "sea change" in nonprofit leadership during the next decade.

How will boards deal with this? Will they procrastinate and ignore the inevitable, risking a rushed search with a greater risk of a bad choice–or, worse, an emergency succession? Or will they seize the opportunity presented by the anticipated leave and effectively manage the transition?

Hiring the chief executive is the board's most significant operating responsibility and getting the transition right–particularly for small or developing nonprofits–very well could be the key to an agency's future growth and, in some cases, its survival.

Here's how to effectively manage the transition process:

Step #1: Start the conversation. Ideally, depending upon the economic circumstance of the agency and its chief executive officer (CEO), the CEO needs to initiate this, at least two years before the planned departure, first with the board chair and then during one of the board's executive sessions, so speculation and rumors can be minimized. The CEO needs to take the lead both because it is his or her personal future that is at stake and because he or she will want to be able to influence the process, thus minimizing misunderstanding about intention or timing.

If the chief executive fails to take the lead, then the board chair should raise the issue as part of the CEO's annual review, recognizing that the timing of the discussion and the subject matter itself may be sensitive. That said, the board chair can't shirk the responsibility to begin the dialogue, given that expected retirement (particularly once traditional age and tenure thresholds are crossed) is an appropriate matter for the board's concern. By initiating the discussion, the board simply is carrying out its governance and oversight responsibilities.

The purpose of the discussion is four-fold:

1) to manage expectations;

2) to prepare the organization for the transition;

3) to provide adequate time for a seamless change in leadership; and

4) to eliminate personal economic barriers to a timely transition.

While the first and third objectives are self-explanatory, ensuring that the organization is ready for the transition may be a multi-year task, particularly if it lacks a strategic and operating plan. The agency needs to prepare for a change in CEOs by honestly and critically self-assessing whether it, in fact, has the processes and procedures in place to ensure an orderly transfer of leadership.

ORGANIZATION DEVELOPMENT PLAN EXAMPLE CHECKLIST

When the following conditions are in place, an enterprise can expect a relatively smooth transition to new leadership whenever it might occur. An enterprise might determine which elements below are lacking in its current operations and then create a "capacity building plan" that prescribes activities and timelines for filling the gaps. The organization is then ready for leadership transitions, foreseen or unforeseen.

1. A strategic and operating plan is in place with goals and objectives, including objectives for leadership talent development.
2. The board evaluates the chief executive annually.
3. The board evaluates itself annually.
4. The chief senior executives receive annual performance reviews with continuously updated individual development plans.
5. Another staff person or board member shares important external relationships (major donors, funders, community leaders) maintained by the chief executive.
6. A financial reserve is in place with a board established minimum amount of operating capital.
7. Financial systems meet industry standards.
8. A succession management process is in place, utilized and monitored by the board.

Exhibit I - " reprint of Exhibit 15-2, pp. 226, Making a Difference by Berman (2010).

Exhibit I presents some factors to be considered when readying the organization for a chief executive transition.

The goal of the self-assessment–and any changes that result from it–is simple: to ensure that the new CEO is able to assume leadership of a strong, stable entity, instead of having to begin his or her tenure dealing with infrastructure basics. It's better that one's energy and creativity be focused on the strategies that will enable the enterprise to prosper.

The discussion's final objective–eliminating personal and economic barriers to a timely transition–is also a key to enabling the agency to make a productive transition.

That's because few, if any, CEOs are prepared to make an economic sacrifice to ensure a seamless leadership succession for their organization. Particularly given the economic climate of the past few years and its impact on retirement portfolios, nonprofit executives increasingly may tend to overstay their value and welcome, if leaving would penalize them economically.

To get the personal and personnel side of transition right, the agency first must get the personal economic side right. This takes time … time for conversation, deliberation, and decision and then, as importantly, for prudently accumulating the resources needed to put a compensation package in place that neither forces the chief executive out, nor forces him or her to stay in order to protect one's financial future.

Some board members understandably may feel that getting the proper economic incentives in place is an unwarranted expense. The question is whether the board wants to incur known costs that are tangible and current or deal with the ultimately higher intangible costs of a chief executive staying too long, simply to avoid some loss of retirement benefits.

Those intangible costs can be enormous in terms of lost opportunities, reduced morale, and organizational stagnation–all of which are future costs that will significantly impair the agency's ability to achieve its potential for success. In the end, those intangible, future costs will far exceed the defined and manageable expenses of enabling the chief executive transition to proceed in an operationally necessary and timely manner.

Step #2: Allow sufficient time. Beyond the initial transition-focused conversations between the board and chief executive, including the time spent to eliminate personal economic barriers, the chief executive's formal announcement to the board ideally should provide eight-to-18 months of lead time.

This will allow the board to take one month to organize itself for transition management; two-to-six months for strategic considerations and decisions (this is particularly so for a smaller agency, as the strategic options may have profound implications and require careful and unhurried analysis and decision); two-to-six months for search, interview, and selection (longer, if an external search is required); up to three months for notice and relocation (assuming the successor is an external candidate); and one-to-three months for transition overlap (to provide an understanding of the flow of activity, as well as introductions to key stakeholders).

Keep in mind that once the announcement of the incumbent's successor has been made, the incumbent will become a lame duck, whose authority deteriorates at an accelerating rate. To counter this, no more than three months should elapse before the new CEO assumes his or her responsibilities.

Step #3: Organize for the transition. The CEO's announcement to the board that he or she is leaving should trigger the next phase of the process–organizing and managing the transition."

Before a public announcement is made, the board must be prepared to answer the following questions: Who will lead the transition process? What board committee will conduct the search process? If an ad hoc committee is formed, who will serve on it? How, if at all, will former board leaders and others in the community be involved? What support and resources will be required? (i.e., internal staff support, consultants, etc.)? What is the target timetable? Who will be the designated spokesperson for the search process and what is the communication plan for the informal and formal announcement of the planned transition and the announcement of the new CEO?

The importance of a communications plan and an ongoing flow of information to key constituencies both for maintaining confidence in the agency and starting to build a positive climate for the new chief executive can't be overstated. (See Exhibit II).

COMMUNICATION PLAN OUTLINE

1. Internal Announcement: Chief Executive Leaving
2. Identify single person to communicate for the enterprise
3. Establish Communications Guidelines
   - Only one voice
   - All inquiries channeled to the spokesperson
   - No individual board member or staff comments
   - Confidentiality of information
4. External Announcement: Chief Executive Leaving
   - Informal—Key stakeholders, should precede the public announcement
   - Public—Share the news as well as begin:
     - Thank you and recognition of incumbent
     - Managing expectations
5. Status Reports
   - Internal—To manage rumors and false information
   - External:
     - Key stakeholders—To manage expectations and maintain relationships
     - Public—Optional, depending on role and place of the enterprise in the general community
6. Selection Announcement
   - Board—Should be informed first
   - Staff—Ideally should be both personal introduction to senior staff as well as formal notification
   - Key Stakeholders—Should be informed prior to the general public; process should be tailored to stakeholder circumstance and begin the introduction of the new chief executive
   - Public—Share the news and celebrate the legacy of the incumbent and the qualifications of the successor

Exhibit II - " reprint of Exhibit 15-3, pp. 229, Making a Difference by Berman (2010).

The public announcement that follows the announcement to the board not only should share the news that the incumbent CEO will be leaving, but also begin the process of thanking the incumbent and recognizing his or her accomplishments. It also should outline how the organization will select a successor.

While there is no single formula for managing the transition process, the process itself must have legitimacy and transparency if it is to be viewed as credible.

Legitimacy will be gained if the process is headed by the board chair, the chair of the governance or compensation committee, or another current or past board member whose personal credibility will legitimize the process. To have transparency, the process must involve two-way communications. The agency needs to proactively and publicly share its plans and timetable and look for ways to involve stakeholders, either through informal communications or in a more formal advisory committee role–up to and including participation in the search process itself.

Step #4: Consider the strategic opportunities. During this planned transition, the board has both the opportunity and responsibility to review the agency's current strategic plan to assure itself that the plan is directionally correct with the appropriate priorities or, if not, how it should be modified. It's also a time when the board can identify the agency's vulnerabilities and what must be done to address them.

By assessing and sharing the current strategy and organizational strengths, as well as vulnerabilities, with potential successor candidates, the board will enable the candidates to learn more about the organization and–perhaps more importantly–to determine their level of comfort with the direction the board has decided to pursue.

A CEO's leaving also can present new strategic opportunities that typically are considered only reluctantly.

The most obvious is the possibility of some form of consolidation with another organization. Not surprisingly, determining what will happen to one or both of the incumbent chief executives often is a major barrier to organization consolidation. If one of the incumbents is leaving, that problem becomes soluble.[III]

While merger is not the answer for every organization, [IV] the board should at least be open to the possibility, recognizing that a restructuring may actually help the agency be better positioned to pursue and achieve its mission[V]; reduce costs, which will be more difficult the smaller the organization(s); and acquire the human resources it needs to take it to the next level of performance and achievement.

Taking a longer term perspective and given the challenges facing non-profits today, boards must seek candidates who will see the opportunities that organizational restructuring–including shared services, program consolidations, and affiliations–can offer.

The board should be mindful that consolidation, affiliation, or merger is reasonable as long as the new chief executive who emerges from the merger has the requisite skill. If not, then consolidation will be a failed initiative, wasting the opportunity that chief executive transition offers.

Step #5: Conduct the search. In pursuing search and selection, the search committee must clearly define what it is looking for in a candidate, so it will know when it has found it.

The next chief executive should not be a clone of the incumbent. The incumbent's skills are the drivers that have taken the agency to its current place; a new chief executive must be able to take it from where it is and continue to move it forward. Different competencies, in breadth and/or depth, may be needed.

Beyond basic skill sets, (e.g., demonstrated operational, financial and human resource development performance, interpersonal communications and relationship abilities, business and personal ethics, etc.) and specific competencies, are there minimal levels of experience and education required? Are there licensure requirements? Does the search committee have a sense of how much change the organization needs and is willing to tolerate?

This last question is critical. A board will say it wants a new executive to be a transformative change agent and then hire one. But when significant change begins to occur–and some staff and stakeholder feathers begin to be ruffled–boards too often lose their will, shifting blame to the new CEO (sometimes resulting in the CEO's severance) because the board was not honest with itself about the degree of change it would be willing to accept. This issue is exacerbated when a new CEO is succeeding the founder of an organization or an incumbent whose tenure has spanned decades. Boards need to be careful of what they ask for; they may get it and then not be prepared to deal with it.

The committee also must determine whether there are internal candidates to consider. If there is an internal candidate, the committee must make a difficult decision. Should it interview the candidate and, if the candidate meets the organization's requirements, select that person and forego an external search? Or, should the committee do a comprehensive search and include the internal candidate in the larger and lengthier process?

The latter approach offers transparency and the opportunity for the board to fulfill its stewardship responsibilities by ensuring that it has selected the best from a universe of candidates. However, a full search also adds time and cost to the process and possibly risks losing the best candidate if the internal candidate feels unappreciated and offended by the process.

There's another consideration. Mixing external and internal candidates in the same review process puts the internal candidate at a disadvantage. While the candidate knows the organization, he or she also is known by the organization. The board has seen the internal candidate at his or her best and worst. The board has seen frailties, as well as strengths.

In contrast, external candidates are comparatively unknown. They come with good references and recommendations, if for no other reason than they have selected the sources. They meet with the search committee and perhaps others for a relatively short time, under controlled circumstances, and while on their best corporate behavior. The result: external candidates are in a position to look good.

A more pragmatic approach is to determine if there are any qualified internal candidates and, if so, to make a judgment about them before incurring the time and cost of an external search. This will involve both strategic and personal considerations. If the board is comfortable with the agency's strategy and the way it is being implemented, then it should evaluate internal candidates. If it is not, then the search should recognize that an external candidate is necessary.

As noted earlier, an external search adds time and cost. It also is logistically complicated. If it can afford one, the agency should consider engaging a search consultant to organize and navigate the process and help the board further define and clarify its and the agency's real needs, strengths, and weaknesses. The consultant also can provide a buffer between the candidate and the board, protecting the board from unwarranted direct contact.

If a consultant is not affordable, then the search committee's chair must play the consultant role, relying on the incumbent CEO, other board members, and possibly the agency's funders to help identify potential candidates.

Step #6: Select the candidate. Regardless of whether the candidate is internal or external, the committee must develop a position description that outlines in some detail the responsibility and expectations of the position and qualifications and skills required. Consideration also will need to be given to the compensation package–including a relocation allowance, if necessary–that will be offered. If the committee has engaged a consultant, he or she can draft these materials. If not, the search committee will have to do it.

Having a clearly defined position description and compensation package is important for marketing the position and setting the base for the later negotiation to close the deal. Both pieces should reflect an understanding of the economics of market conditions as well as the board's expectations with regard to the authority that it is expecting to give the new chief executive and the support it will provide to help ensure his or her success.

Regardless of whether the candidate is internal or external, the committee must decide on a candidate selection and interview process.

Typically, the committee should act as a filter, with the chair (or the chair and the search consultant) identifying candidates who would merit an interview either through a review of their resume or an informal personal conversation.

Once selected for an interview, candidates should meet with as many members of the committee as possible, enabling the committee to determine who should move to the next round of interviews with non-search committee board members. At this juncture, as many board members as possible should have an opportunity to talk with the candidates. This is important for both the board members and the candidates[VII]. The candidates will be able to get a sense of the board/chief executive chemistry and dynamics and the board members will feel greater ownership of the decision. Both are important in setting the base for the new chief executive's selection and assumption of responsibility.

Beyond the search committee and the board, the interview process obviously has a bit of a public relations opportunity to it, assuming that the board wants the candidate to meet with key stakeholders and other community leaders so they feel part of the process too. Following these meetings, the chair should seek feedback on any reasons the candidate should not be offered the position; stakeholders however should not be allowed to determine whether a particular candidate should be offered the position or to rank the candidate relative to other candidates. Those decisions are the responsibility of the search committee and the board.

When it comes time for a decision, the search committee should rank-order its choices. The first choice, depending on the committee's charge and authority, then should be reviewed with at least the board's leadership to assure comfort level. The candidate then can be approached and, hopefully, agreement reached around salary and benefits.

Salary and benefit negotiations with a potential new chief executive are no different than any other negotiations. It's a mistake to think that because it involves a job, and the candidate is interested in the job, that it is a fundamentally different kind of conversation. If agreement does not come quickly and relatively easily, with both sides compromising to show good faith and optimism about the future, the committee should discontinue the negotiation and move on to its next choice–or start over.[VIII] Either decision will be less costly to the organization in the long run than hiring an executive who harbors ill will because of the contention generated in closing the deal.

Depending on the committee's authority, it either can approve the agreement and sign the hiring letter/contract or bring the matter to the full board for approval. The new chief executive's acceptance of the position begins the last phase of the process, the actual transition.

Step #7: Complete the transition. The board's hiring decision should be announced and timed appropriately for the internal and external stakeholders and the public audiences with the same care and attention that was given to the announcement of the incumbent's leaving. There also should be some period of overlap between the incoming and outgoing chief executive to ensure that the new chief executive is appropriately introduced by the incumbent to key stakeholders.

The incumbent's final task is to participate in a farewell recognition, which should be tailored to accommodate his or her comfort level. Not having some type of farewell recognition should not be an option. The organization needs to say "goodbye" and "thank you"–even if the incumbent doesn't feel it's necessary–and bring closure to the change in leadership.

After the final farewell, assuming there is a remaining period of overlap, the former chief executive must assume a new, non-management role serving as chief cheerleader for the new CEO. It's the board's responsibility to ensure that the former CEO does not compromise the new executive's position by continuing as part of the organization's operational leadership, even in a consulting role, or as a member of the board. The best way to protect against this is to ensure that the former executive has no involvement in either the governance or management of the organization.

In summary … Although an effectively managed chief executive transition can provide a competitive advantage and a platform for enabling an organization to become better, transitioning to a new chief executive–regardless of how well the process is constructed and managed–is always organizationally traumatic.

The board must recognize this and both understand and take responsibility for its role in ensuring an effective leadership transition. Just as the former chief executive must be a cheerleader for the enterprise and his or her successor, the board must be the new CEO's ambassador, introducing the new chief executive to the organization, the organization's stakeholders, and the community-at-large and providing vocal and visible support.

By getting the chief executive transition right, the board will have taken one of the most critical steps to getting governance right and guaranteeing the organization's future success.

About the Authors:

Peter C. Carpino is President of the United Way of Greater Rochester, N.Y., the region's premier fund raising organization for health and human services. Prior to his appointment as United Way's president in April 2005, Carpino served for 10 years as president of the United Way of the Greater Lehigh Valley, the third largest United Way in Pennsylvania. He also held previous positions at the United Way of Greater Rochester and St. John Fisher College.

Howard Berman is the Chairman of The Center for Community Engagement at St. John Fisher College, Rochester, N.Y. In April 2003 he retired as CEO of The Lifetime Healthcare Companies, the parent company of Excellus BlueCross BlueShield, a position he held since 1985. Berman is the author of "Making a Difference: The Management and Governance of Nonprofit Enterprises" (CCE Publications, 2010), "A Great Board: Building and Enhancing Nonprofit Boards" (Health Research & Educational Trust, 2003), co-author with Lewis E. Weeks of "Shapers of American Health Care Policy: An Oral History" (Health Administration Press, 1985), and "Financial Management of Hospitals" (Health Administration Press, eight editions, 1972-95). He has chaired, served on and reported to numerous boards.

NOTES

[I] Grantmakers for Effective Organizations. (2008). Supporting next-generation leadership, summarizing results from the Daring to Lead 2006 study conducted by CompassPoint Nonprofit Services in partnership with The Eugene and Agnes E. Meyer Foundation. www.geofunders.org

[II] Berman, H. (2010). Making a Difference: The Management and Governance of Nonprofit Enterprises. CCE Publications, Rochester, N.Y. www.ccepublications.org

[III] The steps that follow have relevance whether a CEO is retiring or leaving for a better career opportunity.

[IV] For some nonprofits, consolidation can become the corporation's succession plan. Enterprises with good succession management processes are in a better position to pursue consolidation, if for no other reason than their "bench strength" gives them the ability and flexibility to more effectively manage a consolidation.

[V] David La Piana, "Merging Wisely," Stanford Innovation Review, Stanford, C.A., Spring 2010

[VI] Thomas A. McLaughlin, "Tying the Knot," The NonProfit Times, October 1, 2008, 13

[VII] In considering basic chief executive competencies, a more exhaustive list includes:

Leadership Style:

- Clear communication skills
- Impactful yet versatile style of leadership, mixing consensus and team building with, as appropriate, direct initiative taking
- Relentless focus on achieving results
- Willingness both to shoulder the responsibility for failure and delegate the credit for success

Thinking Style:

- Innate curiosity
- Exploratory creativity
- Ability to manage complex information, integrate diverse perspectives and multi-task
- Decision making grounded in both analytics and values

Emotional Competencies:

- Ability to accept and translate criticism as well as differing points of view into productive alternative solutions
- Confidence without arrogance
- Equanimity in the face of uncertainty and pressure

Career Interests:

- High level of motivation to be successful
- Commitment to make a difference
- Recognition of the importance to grow and develop the careers as subordinates, as a way of achieving personal career success

[vii] If the candidate is going to relocate, the interviews also provide an opportunity to see the community and look at potential housing and schools.

[viii] If there is a failed search that could result in a leadership void when the incumbent retires, the board might consider hiring an interim executive. The practice of hiring interim executives to "steer the ship" until a permanent leader can be found is becoming increasingly popular when incumbents retire or move on to better opportunities. The duration of these interim positions typically lasts from a few months to a year and advocates argue that their limited length is part of what can make the interim period a fruitful time of change for a nonprofit. See Jennifer C. Berkshire, "As Boomers Retire, More Nonprofit Groups Hire Interim Leaders," The Chronicle of Philanthropy, June 17, 2010, 23.

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Questions? Contact
Kevin P. Kane, MS, APR, Publisher
Kevin.kane@excellus.com