



**THE  
ALFORD  
GROUP**

Strengthening not-for-profits

# Leadership Succession: Ready or Not, Here it Comes!

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# Beginning at the End:

## Desired Outcomes from Today's Workshop

- Sector Overview
- The Leadership Deficit
- Key “Drivers” Impacting Change
- Seven Success Factors



# Not-for-profit Sector Overview

- 1.4 Million Organizations
- More than 17 Million Employees
- 55 Thousand New Organizations Annually
- 3.7% Sector Growth 1977-1994
- 2.1% for Corporations
- 2.3% for Government



# The Leadership Deficit\*

Over the next five years not-for-profits with revenues of \$250,000+ will need to:

- Recruit 640,000 – 1,000,000 New Senior Managers (2.4 times the current number employed)
- By 2016, 80,000 New Senior Managers will be needed annually



# Five Key “Drivers” Impacting Change

1. 75% of Not-for-Profit Executives Plan to Leave Their Jobs Within Five Years
2. Boards of Directors and Funders Contribute to Executive Burnout
3. Executives Make Significant Financial Sacrifices to Lead Not-for-profits
4. Executives Seek New Skills and Strategies
5. “Bench Strength”, Diversity, and Competitive Comparison are Critical Factors in Finding Future Leaders



# Five Key “Drivers” Impacting Change

#1

Executives Plan to leave Their Jobs

– But Not the Sector –

Within Five Years



# #1: Executives Plan to Leave Their Jobs Within Five Years

- Annually, 9% of executives leave their jobs
- 75% expect to leave their jobs within five years
- 33% are fired or forced out of the job – an unexpectedly high percentage



# #1: Executives Plan to Leave Their Jobs Within Five Years

- Only 29% have discussed a succession plan with their boards
- Even when executives do leave their jobs, most will stay in the not-for-profit sector
- 70% say that another not-for-profit, a grantmaking organization, or consulting is their ideal next job



# Five Key “Drivers” Impacting Change

#2

Boards of Directors  
and Funders

Contribute to Executive Burnout



## #2: Executive Burnout

- Executives who are unhappy with their boards are more than twice as likely to be planning near-term departures as those who have positive perceptions of their boards
- 33% of executives agree strongly that:
  - Their boards challenge them in ways that make them more effective
  - Their staffs view the board as an engaged leadership body
  - Their funders have a good understanding of the not-for-profit executive job
- More general operating support and more multi-year support would be most helpful



# Five Key “Drivers” Impacting Change

#3

Executives Believe They Make  
Significant Financial Sacrifices  
to Lead Not-for-Profits



# #3: Executives Make Financial Sacrifices to Lead Nonprofits

- Executives who are very dissatisfied with compensation are twice as likely to leave within the year
- Only 26% of executives have ever negotiated a raise
- 49% of organizations make financial contributions to executive retirement accounts



# #3: Executives Make Financial Sacrifices to Lead Nonprofits

- 38% of executives are sole or primary wage earners; the mean annual household income of nonprofit executives is \$121,000
- Nearly 66% of executives believe they have made a significant financial sacrifice to do this work
- Despite being 33% of the executive population overall, men are overrepresented among large organizations and make more than women at every budget size



# Five Key “Drivers” Impacting Change

#4

Concerned with  
Organizational Sustainability,  
Executives Seek  
New Skills and Strategies



# #4: Executives Seek New Skills & Strategies

- Executives are re-thinking strategic planning, exploring business and entrepreneurial concepts, and engaging in advocacy
- Executives want to build skills in finance and fundraising
- 8% of executives have a paid executive coach – typically paid for by their organizations
- Executives at larger organizations access more professional development than those at smaller organizations



# Key Skills Needed for the Future

- Strategic Planning
- Advocacy
- Business Planning
- An integrated model for sustainability and deeper impact



# Five Key “Drivers” Impacting Change

#5

Bench Strength, Diversity,  
And Competitive Compensation  
Are Critical Factors  
In Finding Future Leaders



# #5: Critical Factors in Finding Future Leaders

- Internal hires are the minority at not-for-profits – just 27%
- Slightly more than half of executives are actively developing one or more people on their staff to be an executive director
- Nearly one in three current executives are likely to be not-for-profit executives again



## #5: Critical Factors in Finding Future Leaders

- 48% of executives older than 60 say retirement is not their ideal next role
- 18% of executives under 45 years old are people of color
- 61% of executives say that if they left today, their organizations would have to pay more than they are making to recruit a qualified successor



# Profile of Current Nonprofit Executives

- 21% are Founders
- Among Non-Founders, the CEO was rarely on the staff prior to selection (strongly associated with organizational size)
  - 42% with 100 or more paid staff were on staff prior to appointment
  - 22% of executives with staff of 1-4 people worked there prior to being appointed
  - 24% of small not-for-profits are led by executives who were formerly on the board
  - 7% of the largest not-for-profits are led by former board members



# Leadership Transition Success Factors



# Leadership Transition Success Factors

1. Clarify how the transition can benefit the organization
2. Don't skimp on any phase of the transition
3. Identify the type of transition
4. Assess organization's health, needs, and resources, and sharpen its mission, vision, and goals



# Leadership Transition Success Factors

5. Recruit a pool of finalists that is diverse in gender and ethnicity
6. Offer a competitive compensation package, including an employer-contributed retirement benefit
7. Consider outside assistance



# 1. Clarify how the transition can benefit the organization

- Don't be hasty
- Engage an interim CEO if necessary
- Address legitimate issues
- Define transition benefits
- Articulate outcome priorities



## 2. Don't skimp on any phase of the transition

- Devote adequate energy to all three phases of the executive transition process:
  - Readiness
  - Recruitment
  - Post-Hiring
- Energy by the board to be evenly distributed in all three phases



# 3. Identify type of transition

- Routine or Non-Routine; most are Non-Routine
- Turnaround Transitions
- Organizational Startups
- Underperforming Organizations
- Founder/Entrepreneur Successions



# 4. Assess needs & resources; Sharpen mission/vision/goals

- Understand the organization's history, current condition and future needs
- Define the next executive
- Develop compensation package to attract the right person
- Clarify issues needing attention before the hire
- Evaluate board expertise
- Seek outside assistance if appropriate



## 5. Recruit a pool of finalists diverse in gender and ethnicity

- Multi-ethnic considerations
- Clearly articulate skill base
- Develop sourcing strategies to assure a diverse pool of candidates



## 6. Offer competitive compensation package

- Survey peer compensation strategies
- Create outcome-based benchmarks
- Define performance-based compensation incentives



# 7. Consider outside assistance

- Adds objectivity to process
- Enhances alignment of candidate skills with performance expectations
- Helpful in:
  - Assessing readiness to recruit
  - Candidate outreach and reference checks
  - Facilitating the initial relationship-building and performance reviews with the new executive



# 7. Consider outside assistance

- New executives find enormous benefit in working with an executive coach or management consultant during the stress-filled first year
- Aligning the right person minimizes potential subsequent turnover



# Leadership Succession

Questions?





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for this opportunity!**

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