

## Into the Fire Boards and Executive Transitions

*Michael Allison*

*Managing the transition an organization undergoes when one chief executive leaves and another is hired is both a defining responsibility and one of the most critical jobs a governing board faces. CompassPoint Nonprofit Services, which consulted to twenty-eight organizations going through such transitions, found that three characteristic threats to successful transitions for nonprofit boards emerged: (1) boards underestimate the risks and costs of bad hires; (2) boards are typically unprepared for the task; and (3) boards too often focus on the problems in hiring new CEOs and fail to make full use of the opportunities in CEO transitions. This article describes the development of services to help organizations in transition, gives results from the first two years of work, and offers suggestions for support to boards and for future research.*

**T**HE process of firing pottery is an apt metaphor for human transformational events. If we pass the fiery test, we emerge transformed, stronger. If we can't take the heat, we end up broken—and must begin again creating the desired change.

When one executive director leaves and another takes over, the transition is analogous to taking a nonprofit organization into the kiln. For nearly all nonprofits, the board of directors is the leader of this process, as the sole body with authority for hiring and firing the chief executive. If the board is prepared, has an appropriate composition in its membership and supporting players, and uses a process that is well designed, the organization actually can become stronger through the transition. It can emerge with renewed clarity of purpose and an energized team poised for achieving success. Failure typically results in a poor choice of a new leader and a fragmented, exhausted group of people.

The Executive Transitions program of CompassPoint Nonprofit Services contracted with twenty-eight nonprofit organizations during its first two years (1998–1999). Our experience in consulting to these organizations revealed a pattern of three threats that boards

face in leading such transitions. Our experience also offers hope that suitable assistance can help boards meet these threats successfully.

This article describes steps leading to the development of the services, the consulting model, and experience with its application. The article concludes with suggestions for practice that we have drawn from this experience and ideas for further research.

### Genesis of Executive Transitions Services

Our consulting work with boards in this area grew out of our consulting experience and the exploratory research we did with 137 executive directors in the San Francisco Bay Area, whose results we published as a paper titled *Leadership Lost: A Study on Executive Director Tenure and Experience* (Wolfred, Allison, and Masaoka, 1999).<sup>1</sup> Our work with nonprofits indicated that turnover in executive leadership was a significant issue, and this growing awareness prompted our research.<sup>2</sup>

For many respondents, being an executive director is a onetime event. Nearly two-thirds of the respondents were on their first jobs as executive directors. Of these, only 20 percent indicated they wanted their next job to be as an executive director. Tellingly, only 14 percent of their predecessors left to take another nonprofit CEO position. We found these results to be disturbing: if this is a job that most people do only once, then the possibility of hiring experienced people is greatly limited, and it raises a question about whether something is wrong with the way nonprofits typically construct the job.

The management literature was largely devoid of work in this area. "The complex process of entering and exiting a position of organizational leadership has received little attention in the management literature," wrote Michael Austin and Thomas Gilmore (1993). (Gilmore wrote an excellent book on the topic, *Making a Leadership Change* [1989], that is now out of print!) When looking for resources in 1997, we could find many articles about executive leadership in the private sector, but we could find little that gave any guidance relevant to nonprofit organizations managing the process of executive transition.

We did find help from others who were actively assisting nonprofits with this issue. The experiences of the Neighborhood Reinvestment Corporation (NRC) and the Presbyterian Church were particularly helpful. NRC is an association of two hundred housing and community development organizations across the United States. As part of an initiative funded by the Kellogg Foundation from 1990 to 1995, NRC found that it was able to increase retention and effectiveness of leadership by combining three strategies. By raising salaries an average of \$10,000 per year, the group expanded and improved the pool of candidates that NRC affiliates could attract.

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Two additional strategies were consulting to boards in the hiring process and providing training to new executive directors once they were hired. Combining these three strategies, NRC found a significant measure of success. In 1999 Tom Adams, the lead consultant on this initiative, authored a very helpful manual informed by this experience. The lessons we drew from NRC's experience helped us to understand the discrete steps in the transition process and to develop distinct strategies for each step.

Leaders at the Presbyterian Church in Northern California shared valuable experience and knowledge with us about their formal pastor transition program. The church treats leadership transition as a naturally occurring event in the life of a congregation (rather than an unanticipated crisis to be avoided) and has developed a national program to support congregations in this transition. A central feature is the requirement that a congregation take a full year for reflection and renewal between pastors. During this process the congregation reflects on its goals and on the nature of the leadership that its members want their next pastor to provide. In order to manage during this transitional year, the church has trained a cadre of interim pastors ready to step in and provide temporary leadership—as well as guidance in hiring—to these congregations. We learned two key lessons from this model: (1) to look on the transition as an opportunity for renewal and (2) to support that transition with skilled interim leadership.

Finally, although we did not find much in the way of published research and writings about this process, William Bridges' work (1991) on the overall process of transitions proved helpful in developing our conceptual framework. Bridges makes a fundamental distinction between change, which occurs externally, and transition, the emotional process people go through as a result of a change. A change, such as moving across the country, takes perhaps a week or two, whereas the transition, the personal adjustments needed for the individual to finally feel at home in a new city, may take a couple of years. We might say that transformation (such as the finished pottery emerging from a kiln) has been accomplished once the transition is complete.

Bridges provides a three-stage model to describe the emotional process of transitions: ending, neutral zone, and new beginnings. "All changes begin with an ending," he writes (1991, p. 19), and goes on to discuss the importance of acknowledging the inevitable loss associated with any change. The neutral zone that follows the ending describes the emotional turbulence people experience between the familiar state of the old and the reality of the new. This unsettled, in-between time is also characterized by creativity and fluidity necessary for meaningful change to take place. Finally, the new beginnings truly occur when people have let go of the past, moved through the discomfort and uncertainty of the neutral zone, and begun to accept the changes and focus on the future.

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Our consulting and management experience has borne out this model: we have seen many instances in which an organization has quickly replaced a departing executive director only to have the new executive leave within a year. (Gilmore and Ronchi, 1995, also describe this phenomenon.) Bridges' three-step description of the emotional transition that individuals, and organizations, confront in a major change helped us in two ways. First, it provided a practical conceptual framework for structuring our services. But far more importantly, we found that this straightforward approach resonated easily and deeply with our clients—it helped us build a shared understanding with clients about how we would approach managing this process with them.

### Consulting Model

We developed the Executive Transitions Services program to reflect and build on these influences. Built on the recognition that this transition is an important opportunity for reflection, change, and agency growth, the program acknowledges that this transition is critical and that the costs of mistakes in the transition are disproportionately high. And we emphasize that the change of occupant in the office of executive director can be successful only if the organization pays attention to the transition from one leader to another.

CompassPoint's Executive Transitions program provides a menu of services categorized into two types: organization development consulting and interim support services.

Organization development consulting includes one or more of the following components:

- Organization assessment
- Board assessment and development
- Transition coaching to the board and support to the process
- Executive search
- Coaching to the new executive director

Interim support services include

- Assistance in hiring an interim executive director by providing screened referrals and guidance in contracting (typically for three to six months)
- Coaching and resource support to the interim executive director

All clients receive an introduction to our approach and services. Our emphasis on attending to the transition means that we will assist clients with the executive search while also working with them on other dimensions of the transition. We have often seen nonprofits that had directly searched for and hired an executive and subsequently run into serious trouble—in part based on the group's failure to acknowledge the endings, make use of a neutral zone, and work

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to create an environment where the new executive would succeed. We offer organization development services alone and interim support services alone, along with the combination of both. For example, if another resource for providing interim management is available (such as an internal manager), we can successfully work with the agency by providing organization development services. Similarly, we provide only interim support services when we feel that the organization, with the assistance of an interim executive director, can appropriately manage the transition work on its own. Our experience, supported by the results of the first two years, is that providing both types of services in combination leads to better outcomes.

### Results

In the first two years of this program (1998–1999), we worked with twenty-eight organizations. The reported results are documented in two program evaluation reports (Frank, 2000, 2001). The organizations’ budgets ranged from \$100,000 to \$5 million, with a mean of \$1.14 million. The age of the organizations ranged from one year to over thirty years, with the mean and median both over twenty years. Though most older organizations had larger budgets, two of the clients had incorporated more than twenty years before we began working with them, had smaller budgets, and were hiring their first executive directors. The 5 percent mean for consulting time was sixty-eight hours per engagement.

Of the twenty-eight organizations, ten (36 percent) used both organization development and interim support services. Another ten (36 percent) used organization development services only. The final eight (29 percent) used interim support services only. Larger agencies tended to use more services.

<i>Services Used</i>	<i>Median Budget</i>
Both organization development and interim support services (N = 10)	\$950,000
Organization development services only (N = 10)	\$750,000
Interim support services only (N = 8)	\$375,000

As expected, this pattern of using consulting appears to be a function of the cost of consulting. The larger agencies were more likely to have resources available from their general funds. They were also more likely to have successfully obtained a special grant for at least some part of the transition cost.

An independent evaluator gathered information about the results of the transition processes from surveys with a sample of nine of the organizations approximately one year after we finished working with them. Although evaluating the process one year in may prove too early to assess fully the outcomes of the transitions, indications are

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that most organizations have managed the transitions well and indeed made use of the transition to renew the organization.

For example, eight of the nine organizations reported that they are either healthier or much healthier since hiring the new executive director. (Indicators for health included financial growth, strength of board and staff, and levels of satisfaction reported by new executive directors and board members). Additionally, since they hired the new executive directors, all but one of the organizations increased their budgets; one-third of the organizations are serving new populations, with 44 percent offering new programs and 33 percent serving higher numbers of clients; and two-thirds of executive directors and board members report the board of directors is stronger than prior to the transition. Finally, two-thirds of new executive directors reported being satisfied or very satisfied with their jobs; only one reported being dissatisfied.

Our internal records and follow-up with the full population of clients appears to indicate that the organization's success is related to the comprehensiveness of services it used. Of the eight organizations that used interim services only, four are struggling or have already lost their new directors. On the other hand, of the twenty organizations that used organization development services—with or without interim services—only three are struggling or have replaced their new directors within a year. We will continue to track the development of this group to see the degree to which these early results are borne out over time.

## Threats to Successful Transitions

Clients' experiences during the first two years of this program has thrown into relief several problems of governance that threaten successful transitions. Our experience working with clients on these characteristic threats gives us confidence that we can increase the organization's chances for success through structured support.

### **Threat 1: Boards Underestimate the Risks and Costs of Bad Hires**

Selecting an executive director is arguably the most important act a nonprofit board performs. The literature on business management is crowded with books and articles about the importance and exercise of leadership.<sup>3</sup> Private sector companies often pay CEOs more than one hundred times the amount they pay to the lowest-level staff. Although the hero status and myths associated with leadership in U.S. culture probably overemphasize the value of the individual leader, many agree that the individual CEO can make or break an organization. In an article about the relationship between CEO transition and the failure of rural community hospitals, Alexander and Lee (1996) present a well-researched and compelling case that this is particularly true for small nonprofits.

However, the nonprofit sector has tended to downplay the importance of the executive director and the CEO. Perhaps because of nonprofit organizations' generally higher commitment to issues of equality and participatory democracy, much of the nonprofit management literature focuses on what organizations do or should do rather than on the role of the individual in the most influential leadership role. For example, the literature contains many more books about board roles and responsibilities or about management functions (such as financial management, program evaluation, strategic planning, and so on) than about executive leadership.<sup>4</sup>

Executives as well as board members seem reluctant to acknowledge the importance of the role. Without exception, at each of the initial meetings we held with prospective clients, board members would express the desire to spend as little money as possible and to replace the director as quickly as possible. Rather than seeing this executive search as the defining moment of their board terms, their opportunity and responsibility to shape the future of the organization, they often saw the task as an unwelcome and troubling burden. Surprisingly, this reaction predominated whether the outgoing director was leaving on good or bad terms.

Failure to place proper importance on this process is a major threat to the organization. The decision to hire a new executive director raises important questions about the organization's future, and about the nature of the leadership it requires to achieve success. Will the organization continue its current programs or pursue new directions? Will the organization's operational infrastructure support its programs, or does it need to grow or change in some important way? Are relationships with key constituencies healthy, or is rebuilding required with certain stakeholders? And what are the strengths and weaknesses of the current board, staff, and volunteers? Clearly, the nonprofit's response to each of these questions affects the nature of the individual and the nature of leadership in general that an organization requires at the point of hiring a new executive director.

Why, in addition to resisting any new burden, do boards underestimate the risks and costs of poorly managed transitions? In contrast, when organizations lose a major funder or experience a public relations disaster, board members are typically more attentive and willing to engage with the work of responding appropriately. Further, even when a board has made a poor choice and is facing another transition within a short period of time, board members have tended to see the situation as an unfortunate fluke rather than a failure of their approach. Finally, the cost of a poor choice is often in the form of opportunity costs, work that did not get done or growth that did not take place. The loss may be just as significant, but board members, for some of the reasons we will cite, are not typically skilled as a group at estimating lost potential.

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## Threat 2: Boards Are Typically Unprepared for the Task

Unfortunately, even when a nonprofit board appreciates the importance of the transition and the hire of a new executive director, boards are typically not well suited to this task. This is not due simply to ignorance; in fact, many characteristics of nonprofit boards make the process and the management of the change particularly problematic.

Many authors (Demb and Neubauer, 1992; Masaoka and Allison, 1995; Chait, Holland, and Taylor, 1996) have discussed an inherent paradox in the relationship between boards and executives. When acting as governors (hiring an executive director, setting long-term goals, and acting as ambassadors on behalf of the organization), the board is the “boss” providing leadership to the staff. However, when supporting the organization (assisting with fundraising, lending personal expertise to the development of management policies, or volunteering to support program activities), the board is in the position of accepting leadership from the staff.

*Paradox*, a situation with two mutually exclusive aspects, both of which are true, presents difficulties for all groups (Smith and Berg, 1985). Groups tend to choose one or the other dimension to hold as their truth, in effect denying the validity of the other aspect. Along these lines, members of the board of directors at a nonprofit often act as if the executive director is the boss, even while espousing and acknowledging their responsibilities for governing the organization.

Moreover, boards generally have too little time, too little experience with nonprofit management principles, too little expertise in the business of the organization (field of service), and too little skill at governing as a group to be able to handle the governing role well (Masaoka and Allison, 1995).

Sometimes board members assume that if they have colleagues whose professional experience lies in the private sector, the board has somehow “covered” the process of selecting a new executive. However, the work of governing a nonprofit board is different from work in the private sector (McFarlan, 1999). And researchers found that board members reported in a number of focus groups that they did not expect to play a governing role when recruited. Most board members saw their job as helping the organization rather than leading it (Wirthlin Worldwide and Alice Allen Communications, 1999).

Nonetheless, when an executive director leaves, the board has no option other than to play its governing role. As a result, the tasks of organization assessment, executive search, and transition management impose burdens that the typical board may not be prepared to shoulder. (This threat is reflected in the higher failure rate of clients who consulted us only for search or interim services rather than for organization development support.)

### Threat 3: Boards Fail to Make Full Use of the Opportunity in Transitions

One of the most important lessons we learned from the Presbyterian Church program was the extent of the opportunity that a change in leadership presents. A nonprofit's executive transition process presents not only dangers but also valuable opportunities for growth and renewal.

Unfortunately, nonprofit organizations are often operating with little in the way of cushions such as financial reserves or predictable cash flows, and a disruption can tip the balance between "making it" and "falling apart."

But far from seeing the opportunity for reflection and renewal, many boards of directors are anxious to get through the disruption, get back to normal, and replace the CEO as quickly as possible. This impulse to flee from the pressure that the situation imposes sometimes manifests in board members simply disappearing and leaving the task to a few hardy souls. On the other hand, we have also seen board members who have the impulse to fight. In a number of cases, we have seen boards that are not ready for the transition devolve into heated conflict and become paralyzed with power struggles and personality conflicts. In at least two situations, the process could move forward only once one or more board members left the board.

The good news is that many board members stay around and rise to the occasion. Once they accept the importance of the job and see the opportunities in this challenge, board members are often eager to invest fully in a meaningful transition process.

Finding a way to buy time for this work is essential to the success of this approach. This is why the presence of interim directors is so critical. The board cannot do the work of letting go while the departing executive is still present. And unless the incoming executive director is skilled at managing this transition, the individual is likely to fail to get an organization that has not yet let go of the past to move toward the future.

The organization must give itself the freedom to create a true neutral zone; this is one reason we counsel against having a candidate for the permanent job assume the interim role. We have found that the transition process works better for everyone if the prospective candidate makes a choice either to serve as interim director until the board hires a new director or to put a hat in the ring as a candidate for the permanent job.

Our Executive Transitions program responds to these three threats directly. To acknowledge the tendency of boards to underestimate the cost of a bad hire, we insist on a brief education process in discussions with any prospective client. This is also the reason we insist on combining consulting with the executive search. By providing board development support and doing some of the work of the executive search, our consultants help compensate for the typical

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board's lack of preparedness. And providing interim services along with educating boards of directors helps board members to see the opportunity that the transition presents.

## Concluding Thoughts

Even without structured assistance, the lessons for board members are clear. Leadership transition is a fact of organizational life, and one that the board of directors should accept as a normal development: one that they can prepare for, one for which resources are available, and one that should not be hurried. An important lesson for executive directors is to support independence and strength (as opposed to dependency and compliance) in their board leadership. In addition, executive directors can encourage the recruitment of board members who will be good transition leaders rather than only those who can be effective partners with the current staff. No matter how hard an executive director tries, one individual cannot ensure a safe future for the organization he or she has worked so hard to lead and build. For funders, a grant to support a thoughtful and careful process is likely to be a strong investment in grantee organizations that they want to see continue to thrive. For practitioners and researchers, an appropriate focus is to develop a deeper understanding of leadership turnover, the ways we can support effective leadership, and the unique and powerful role for boards in leading for change.

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*Michael Allison is director of the Consulting and Research Group at CompassPoint Nonprofit Services in San Francisco and the Silicon Valley.*

## Notes

1. CompassPoint Nonprofit Services conducts more than three hundred consulting engagements with nonprofit organizations each year and has been in operation since 1976. In addition, Tim Wolfred, director of the program, served as an interim executive director with sixteen organizations prior to joining the CompassPoint consulting staff.
2. The *Chronicle of Philanthropy* reported on June 3, 1999, that the David & Lucile Packard Foundation found executive turnover among 45 percent of its grantees from 1994 to 1997 (Marchetti, 1999). See Sean Bailey's interview (1997) with Jan Masaoka on this topic.

Apparently, the nonprofit sector is not alone. The study, conducted by the Center for Executive Options, a division of Drake Beam Morin, revealed that nearly 20 percent of the top U.S. corporations hired new CEOs in 1997 ("Executive Briefing," 1998). The study also found that roughly 31 percent of Fortune 100 companies had turnover in the CEO position between the fourth quarter of 1995 and 1998.
3. *The Leadership Challenge*, by Kouzes and Posner (1995), cites fifty-six references on theory and evidence for their model alone!
4. In September 2001 Amazon.com listed 709 books on nonprofit management and seventy-four on nonprofit leadership—of which only eighteen had to do with executive leadership.

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