



Organisational Capacity Building Series

Executive Succession Planning for Not-For-Profits

A Discussion Paper

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February 2013

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ABOUT THE AUTHOR

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In the not-for-profit sector, Neil is a volunteer and was previously a Board member of a major charity tackling homelessness in Dublin.

EXECUTIVE SUMMARY

“Executive Succession Planning for Not-For-Profits. A Discussion Paper” is part of 2into3’s Organisational Capacity Building Series. Its purpose is to initiate dialogue about Succession Planning in the not-for-profit sector in Ireland and how best practice in organisational capacity building might be developed.

Executive Succession Planning is the systematic and on-going process by which an organisation ensures durability of leadership and progression of key management capacity. The aim is to preserve knowledge, protect key relationships and defend the public reputation of the organisation. It is an invaluable but much underutilised tool for those charged with the responsibility of governance. The need for succession planning is based on the reality that the leadership requirements of not-for-profit organisations change over time.¹

Most join or establish not-for-profits because they are firm believers in their particular missions. Naturally, they want their organisations to succeed – and have impact. However, international research shows that a large number of not-for-profit organisations do not have an emergency plan in place for the departure of its Chief Executive. This paper makes the case to Board members and key senior executives for investing time in Succession Planning. It provides a number of guiding principles towards best practices which have developed in the corporate sector and outside of Ireland and points to further useful resources for the reader.

There is currently no research on the state of Irish not-for-profit organisations’ preparedness in Succession Planning and little information to help resource constrained leaders decide on the actions they should be taking. In addition, this paper provides a checklist of questions for Boards to consider about their succession planning. These questions will form the basis for further research. This will be aimed at sharing knowledge, experience and understanding of Executive Succession Planning and the development of best practice for the Irish not-for-profit sector.

We hope this discussion paper prompts the development of this proven capacity building process.

¹ Lifecycles of management and leadership change was the topic of the first paper in this series ‘Overcoming the Management Deficit in Ireland’s Not-For-Profit Sector’.



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INTRODUCTION

Succession Planning is the process by which an organisation builds its capacity to fill leadership positions which arise either as a result of emergency and planned departure or strategic change and development. It operates at the intersection of leadership, talent and strategy to build multiple streams of potential executive resource into the organisation. Succession Planning allows for durability of leadership and progression of key management capacity, its aim being to preserve knowledge, protect key relationships and defend the public reputation of the organisation.

Succession Planning



BACKGROUND

Nancy R. Axelrod, founding Chief Executive of BoardSource, a US organisation focused on strengthening not-for-profit Boards, states in her book 'The Board's Role in Securing Your Organizations Future' *'Chief Executive succession planning... is not only about determining your organization's next leader, it is a continuous process that assesses organizational needs, and creates a climate for an executive to succeed. An effective succession plan is linked to the organization's strategic plan, mission and vision...'*

Examples of this level of succession planning preparedness are visible in the Irish corporate sector already. Ireland's largest PLC, CRH, state as part of their social and community policy that to maintain the sustainability of their business they *'make a significant commitment to management development. Utilizing succession planning tools, on the job development, coaching and mentoring to develop the capacity to meet future leadership needs.'*

Yet, this is by no means a feature of all Irish companies. Deloitte recently reported that few family owned businesses in Ireland have succession plans and as a consequence two thirds fail the first succession step, only 11% survive into the third generation.²

The Irish not-for-profit sector cannot afford to be complacent. The departure of a not-for-profit Chief Executive can lead to the total loss of all organisational and operational knowledge held. For many founder-led organisations, all strategic decision-making, key relationships and the very identity of the organisation in particular, is dependent upon them. If a Chief Executive leaves suddenly, damage is caused to the organisation and the community it supports.

Writing for the Harvard Business Review in 2006, Dr. Ram Charan states rather bluntly *'A CEO or Board that has been in place for six or seven years and has not yet provided a pool of qualified candidates and a robust process for selecting the next leader, is a failure.'*

² <http://www.publishedinireland.com/product/planning-for-family-business-succession/>

CASE STUDY

The Board of a not-for-profit organisation decided it was time to introduce some fresh experience and diversity of backgrounds to a governance team that had been in place for many years. Many of the voluntary Directors had, at an earlier stage, been involved in the executive management of the organisation, achieving great success in the development of services, establishing a high public profile for the organisation setting it on a course from being an amateur body to an increasingly professional organisation. Those dedicated Board members had recruited the first paid staff and brought in a professional Chief Executive whose skill and dedication over many years had driven the not-for-profit to new heights.

However, when new board-members were introduced, they were surprised by the lack of involvement of the Board in key policy and strategic decision making. The Board's role appeared to be limited to dealing with operational issues associated with the volunteers, supporting fundraising events and rubber stamping decisions made by the Chief Executive. A greater level of inquiry brought to the boardroom by these new members led to real strategic challenges becoming evident - particularly in respect to the relationship with key funders and other external partners. The Chief Executive reacted defensively and became increasingly recalcitrant as these matters were raised. This shortly spiralled into a breakdown in relationship between the Chief Executive and Board, ending with the Chief Executive standing down.

No one in the organisation had the experience or capability to take over the Chief Executive function and so the new Board members had to step in on an interim basis to manage the organisation whilst recruiting a new Chief Executive. People with expertise in the sector were reluctant to step into the still warm seat of the previous Chief Executive and the Board had to go outside of the sector to appoint someone with the management ability to lead the organisation, but who had the huge challenge of being at a complete starting point when it came to understanding the organisation and its external relationships.



A Board member of this organisation later stated that had the organisation engaged in Succession Planning prior to the crisis, the relationship with the then Chief Executive might have been preserved, change would have been less costly and had the organisation still needed to recruit a new Chief Executive, it would have avoided much animosity and created an environment supportive of their success from their start.

Benefits of Succession Planning in the Not-For-Profit Sector

Benefits are usually tied to early planning, yet for the majority of Boards within the not-for-profit sector; we see many whom are not adequately prepared for the succession of their executive leaders. It is one of those initiatives that many simply either don't consider or don't find the time to start until it's too late. However, if addressed, Succession Planning can bring a range of benefits which will not only ensure that an organisation can meet the needs of the future, but will serve it as a whole by providing a continuous supply of appropriate talent throughout the organisation whilst serving the employees by helping them reach their potential.

- **Board Engagement**

There are many stakeholders in building a Succession Plan. Prepared well, as part of a structured and on-going process, it can deliver the benefit of a collaborative engagement between Board, the Chief Executive and senior management. Collaborative engagement allows the Board to better understand the challenges faced by the Chief Executive and equips them with a greater ability to evaluate and support the executive function. It works to ensure that the strategies are in place to transfer knowledge. Should an emergency occur, it prepares the Board members to step in to the executive role or make the right selection of a replacement.

- **Better Recruitment Outcomes**

Promoting from within decreases the risk and expense of external recruitment, when a good pool of candidates is readily available within the organisation. With no plan in place a recruiter can drive the process of defining requirements and may be biased towards the availability of certain external candidates. If the replacement is of a founding or long term Chief Executive and insufficient time is given to defining the strategic requirements of the organisation, the incoming Executive can often find they become the interim by default if they find they don't have the full support of a Board.

- **Builds Strategic Commitment & Capacity**

Another benefit to the Succession Planning process is that it can bring clarity of strategic direction and become a central part of capacity building activity, ensuring the availability of strong executives to the organisation. Succession Planning embeds people-development at the core of an organisation and this culture improves the level of retention and increases the likelihood of attracting top talent.

Having the senior executive team engaged in Succession Planning helps clarify the development path for those key staff and allows engagement in activities which enable professional development. In particular, their involvement in managing external relationships allows the organisation to become better networked with more robust relationships. The development of this shared responsibility across the senior executive team allows the Chief Executive to have a more sustainable balance between the demands of the cause and their personal well-being.



HURDLES TO SUCCESSION PLANNING FOR THE NOT-FOR-PROFIT SECTOR

Every organisation should have a succession plan and for those who don't, it is never too soon to start. For leaders who have been in position for longer than seven years it is important to face the reality of the dependence the organisation and the people it serves may have developed on them personally. Understanding what the implications would be for the organisation or community if they were not there to lead and plan for this long in advance is an essential responsibility of leaders. Provided people start early enough, these characteristics give a strong orientation to Succession Planning and the opportunities it provides.

- Available Resources & Expertise

Smaller not-for-profit organisations will perceive a lack of financial resources as well as limited internal candidates as a barrier to even starting a process, but these very same barriers are strong enough reasons to start the process. Naturally, there are some distinct differences between the circumstances in corporate organisations and that of the typical not-for-profit organisations.

Not-for-profits simply do not have the same level of resources for investment in training and development or recruitment and retention as a large corporation. However, it is worth remembering that the capacity of corporations was built because of an enduring connection between strategic ambition and organisational planning and that process had a starting point. It is never too early to start the process of engaging Boards and Senior Executives in thinking about future organisational requirements.

- **Emotional Attachment**

Corporate managers are used to making change as they advance up the career ladder. They are taught that developing talent to replace them is one of the most important responsibilities and they become used to that being a precondition of promotion from an early point in their career. By contrast, the not-for-profit sector has a high level of long tenure Chief Executives in place who are unaccustomed to career transition. There is an emotional attachment, in some cases leaders have been at the helm since the beginning. Often these leaders are naturally fearful and avoid dealing with changes that are unfamiliar, particularly when those changes run to the core of their identity. In this respect even raising the issue of succession in a not-for-profit organisation can be as sensitive as in family or founder-led business, where the underlying message is - *you are not going to be here forever*. Boards can be hesitant to broach the subject of Succession Planning for fear they may undermine their CEO's trust and confidence.

Not-for-profit leaders, who have worked with people through thick and thin, have a great loyalty towards those who have travelled that journey with them. As with a family business, making the choice between colleagues or even the possibility of bringing someone in from the outside can be an obstacle to open discussion on succession.

The prospect of change may also challenge the individual's sense of personal identity, purpose and meaning. For 'heroic' leaders the process of letting go of relationships and public profile can mean a loss of prestige, status, even adoration and respect.

- **Perpetual Contracts**

The work and cause of a not-for-profit is most likely to have great personal meaning and attachment for the Chief Executive and particularly for founders. Their vocational commitment frequently means they are paid minimal salaries and in some cases have little or no provision for pension. Without a financial exit mechanism people have to keep working and even if they are forced to leave due to physical incapacity it is going to be difficult to recruit a capable replacement at their level of remuneration.

The Chief Executive's commitment to the mission is an enormous strength. Many have careers dedicated to serving a mission and prioritising community over personal interests. Their core values are aligned perfectly to creating a legacy of sustainable impact. However, due to the absence of



fixed term limits, Chief Executives in the not-for-profit sector, who have been in office for more than a decade, can feel that they have nowhere else to go because they have specialised for so long.

CHIEF EXECUTIVE SUCCESSION PLANNING 101

1. Form a succession planning committee

This committee should include the current Chief Executive, the Chairperson, and selected key staff that possess cross functional management experience. In situations where the Chairperson is a professional practitioner, other Board members should be added to the committee who possess high-level organisational management expertise. This expertise is preferably developed from within high-performance environments with meritocratic cultures.

2. Review strategy and sustainability

The Succession Planning committee should consider the current Board approved strategy and reflect upon the most important objectives to be achieved in the next three years. Taking input from external stakeholders such as funders, the committee should identify the key challenges the organisation must overcome to meet these objectives.

3. Identify the leadership requirement

In light of the strategic objectives and challenges identified, the committee then defines the leadership competencies required for the organisation. The executive job description should be reviewed and updated. The composition of the Board should be reviewed for its capacity to direct, monitor and support the newly defined executive function. Anticipated timelines for retirement or planned departure must be understood and each new strategic cycle should mark a revision of the leadership requirement.

4. Assess current leadership development and emergency succession plans

The committee should consider whether the current leadership development plans meet the competency development requirements. The committee should review the performance appraisal process, ensuring it meets the right requirements for evaluation and feedback. Where the organisation lacks the capacity for an internal executive to step up into the executive role, in case of an emergency, plans should be developed to allow a suitably qualified and prepared interim to be appointed, preferably from the Board.

5. Strengthen external relationship management

The committee should consider the dependencies that exist on a single individual to manage key relationships with funders, partners and other strategically important bodies. The committee should identify opportunities to share responsibilities with other members of the leadership team. This provides professional development and gives a greater perception of organisational robustness to those relationships.

SUCCESSION PLANNING'S GUIDING PRINCIPLES

1. Locate where your organisation stands

Know where your organisation is in its capacity for succession management, its stage of planning and level of exposure to leadership risk. Are you in touch with career plans of the Chief Executive? Do you know how long they plan on staying? How long you want them to stay? Are there potential successors in the organisation? Is there a development and assessment process to evaluate their leadership competencies against the future needs of the organisation?

Many Irish not-for-profits do not have the scale for the development of executive succession within their staff. Where this is the case, a plan should be put in place e.g. the Board could be developed with individuals ready and capable of stepping in to the Executive role should an emergency succession situation occur. The important thing is to be prepared.

Below is a questionnaire which leaders can use to assess the readiness of their own organisations for Succession Planning. This questionnaire is available in the appendix and on the 2into3 web site www.2into3.com. Data from participants will be used to form a picture of the current state of succession planning in the Irish not-for-profit sector.

2. Start a Collaborative Planning Process Early & Routinely Update it

The collaborative engagement of the Board in Succession Planning allows the Board to better understand the challenges faced by the executive and equips them with a greater ability to evaluate and support the executive function. Should an emergency occur it equips the Board members to step into the executive role or make the right selection of a replacement.

It is important that one resists the temptation to solely carry the entire weight of creating and then sustaining a plan, rather, let the process work to act as a tangible demonstration (to a voluntary Board) of the executives' commitment to the mission and purpose of the organisation. Allowing the Board to engage in long-term strategic discussion more regularly than the 3 to 5 year planning



cycles, can bring clarity of strategic direction and become a central part of the organisation's capacity building activity ensuring the availability of strong executives to the organisation.

Starting early also maximises these development benefits, allowing provisions to be made for an emergency situation is the surest way to overcoming the barriers that inevitably develop with time. However, it's not a plan which can only be accessed when leadership is going to change, but rather a process that should be continuous and scheduled for Board discussion on an annual or biannual basis.

3. Engage Key Staff & Deliver Clarity to Professional Development

Having key senior staff engaged in Succession Planning also helps clarify the development path for those key staff and allows engagement in activities which enable professional development. The process embeds people development at the core of an organisation and this culture improves the level of retention and increases the likelihood of attracting top talent.

4. Provide proper remuneration & Pension Provision for CEO

Don't make your Chief Executive or organisation a hostage to underpay, lack of pension, or exit provision. The community and public sector is diverse and in reality there are more opportunities to accommodate people's contribution than exist in the pyramidal structures of the corporate world. Moreover, not-for-profit Executive Directors and founders are risk-takers. They are attracted to changing the status-quo and are prepared to offset personal motives to achieve this for the common good. However, this is only possible when basic security needs are met.



Appendix 1

QUESTIONNAIRE

WHERE IS YOUR ORGANISATION IN ITS SUCCESSION PLANNING AND READINESS?

1. Does your organisation have a **committee** responsible for succession planning? **Y / N**
2. **Who** is included in this committee?
Chief Exec Chairperson Directors Senior Execs
Voluntary Reps Funders Partners Other
3. How often does this committee **review** the succession plan?
Biannually Annually During strategy development Other
4. Do you have **an integrated executive development** and succession plan agreed with the Board? **Y / N**
5. Is this plan implemented with high organisational **commitment**? **Y / N**
6. Does your organisation have a **clear understanding** of the skills and competencies needed to lead the organisation in the next 3 to 5 years? **Y / N**
7. Does your current executive possess **skills and expertise** necessary to lead your organisation today? **Y / N**
8. Do you **monitor, evaluate and reward** executive development? **Y / N**
9. Does your organisation have a **succession plan agreed by the Board** in the event of an **unanticipated executive departure**? **Y / N**
10. Is your organisation in a position **to implement this plan** if required today? **Y / N**

11. Have you **identified candidates** who would be capable of stepping into critical roles?

Y / N

12. Are those candidates equipped with the **knowledge, relationships and expertise** to provide continuity of service for clients and funders? Y / N

13. Do you have **a recruitment plan** to source alternative candidates who would understand how to lead your organisation and continue to provide continuity of service to your clients and funders? Y / N

14. Do you have **a communications plan** agreed to support the emergency succession plan? Y / N

15. **Do funders trust** that the organisation can succeed without the current key executive? Y / N

16. **Do service delivery partners believe** the organisation can succeed without the current key executive? Y / N

17. Does the **Board have the right composition** to appoint and induct a new Chief Executive? Y / N

18. Will the organisation **lose institutional knowledge** and contacts if your key executive were to unexpectedly leave? Y / N

19. Is the Executive's current **level of responsibility** and **workload sustainable**? Y / N

20. Is your Chief Executive employed on a **fixed term contract**? Y / N

If so what is the duration in years: 3 5 7 Other

21. Does the organisation contribute to the **Executive Pension**? Y / N

22. Do you have any other mechanism to provide **a financial exit package** for the Chief Executive? Y / N

Appendix 2

FURTHER READING

1. "A Boardroom Guide to Organisational Capacity Building" Overcoming the Management Deficit in Ireland's Not-for-Profit Sector - Neil Pope (July 2012)
<http://www.2into3.com/fileupload/A%20Boardroom%20Guide%20to%20Organisational%20Capacity%20Building%20Overcoming%20the%20Management%20Deficit%20in%20Irelands%20Not-for-Profit%20Sector%281%29.pdf>
2. Nonprofit Hiring Expected to Increase in 2013 – The Chronicle of Philanthropy
<http://philanthropy.com/article/Nonprofit-Hiring-Expected-to/136891/>
3. Planning for Family Business Succession
<http://www.publishedinireland.com/product/planning-for-family-business-succession/>
4. Nonprofit Executive Succession-Planning Toolkit
<http://www.kansascityfed.org/publicat/community/Nonprofit-Executive-Succession-Planning-Toolkit.pdf>
5. Building Leaderful Organizations
http://www.compasspoint.org/sites/default/files/docs/research/526_buildingleaderfulorganiza.pdf
6. Compass Point
<http://www.compasspoint.org/et>