Executive Turnover in Nonprofit Organizations

Overview

The following reports on the findings of a dissertation research study implemented from summer 2014 to spring 2015. This study specifically explored the disruption of nonprofit executive turnover and what contextual factors help moderate the relationship of turnover and nonprofit performance.

While much has been written about executive turnover in a nonprofit organization, this study was one of the first significant empirical investigations into this relationship of executive turnover and nonprofit performance. Using a large, national, random sample of nonprofit organizations, this study presented a robust research design, which was comprised of three parts.

The first part was a quantitative analysis of nonprofit financial data as reported on nonprofit IRS tax filings (i.e. 990 forms). In this portion, the financial performance, as measured by nonprofit expenses, was compared between organizations experiencing executive turnover and organizations that had no turnover. The findings relate executive turnover to a 4% decline in a nonprofit's expenses for the year following the turnover.

The second portion implemented interviews with the current executives of 40 nonprofits that had recently experienced turnover. These interviews broadly explored the outcomes, as well as factors that helped or hurt the nonprofit during the times of turnover. The interviews emphasized the importance of an engaged boards of directors, strategically-oriented transitions, staff and stakeholder management, and attention to the relay between the outgoing and incoming executives.

The study also included a survey of nonprofit executives who worked in organizations that experienced turnover. These survey findings are instructive about personal, organizational, and process factors surrounding actual turnover events.

In order to make the dissertation findings useable to nonprofit executives, boards, and other stakeholders, the study is summarized in the following. The full dissertation (220 pages) is available at www.amandajstewart.net.

The Study's Approach

This dissertation focused on two research questions:

1. What contextual factors contribute to different turnover outcomes in nonprofit organizations and in what way?
2. How does turnover influence the financial performance of nonprofit organizations?

To answer these questions, a national, random sample of nonprofit organizations was drawn from all nonprofits in the United States using several parameters. These sampling parameters were drawn from prior research based on their relevance to the interest of this study.

These parameters included the following:

- The nonprofit served missions related to the arts, health, and human service sub-sectors.
- The nonprofit operated in one of the twenty largest metropolitan areas of the United States.

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- The nonprofit had a 990 IRS tax filing for at least three years of the sample time period: 2005-2012.

These parameters helped limit the sample down to 13,902 nonprofits, and IRS 990 tax filings were compiled for these organizations using the data files of the National Center for Charitable Statistics. These tax filings include nonprofit financial data, which are useful to research projects like this that ask questions about nonprofit financial performance.

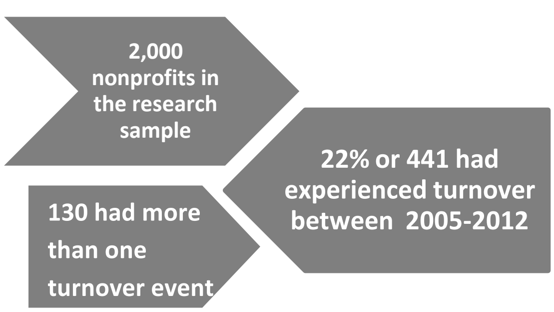
To identify turnover among a sub-set of this sample, 2,000 organizations were randomly selected from this sample. Using Guidestar.org, their staff listings were assessed to identify turnover in the executive position.

A sub-set of these nonprofits that experienced turnover since 2010 were contacted for either a survey or interview with the current executive (n=233).

For more about the research focus, refer to Chapter 3 of the dissertation. For more about the method, refer to Chapter 4.

Describing Turnover Events

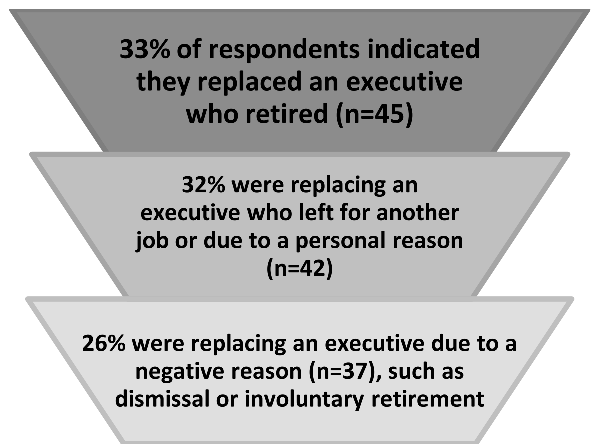
Among the 2,000 organizations, 441 had experienced at least one turnover event between 2005-2012. Among these organizations, 130 had more than one turnover event for a total of 625 turnover events.



For these nonprofits experiencing turnover: on average, these organizations had $11.4 million in revenue, were 27 years old, and had 15 board members.

Of the organizations contacted for the survey, over half responded. Their responses give insights into these turnover events.

Predictions of executive turnover forewarn of a pending wave of retirements due to aging Baby-Boomers. The survey respondents indicated that retirement was indeed the most common reason for turnover, and was followed closely by career moves and more negative reasons of turnover. These reasons are summarized in the following:



Survey respondents were asked if they felt the previous executive left on positive terms. On a scale of 1-10, the average response was just over 5.59, which may indicate that just as many executives leave the position on positive terms as do on negative terms (n=93).

With nonprofit boards responsible for hiring and managing executives, an executive transition stretches the capacity of its volunteer members. Survey respondents reported that most commonly they were recruited by the nonprofit's board (68%, n=93), followed by an executive recruiter (32%, n=42).

From the survey responses, less than 25% of nonprofits had a succession plan (n=32)

Nonprofit organizations also appear to enter into executive transitions with little formal planning. Less than 25% of the nonprofit respondents had a succession plan (n=32) and only 25% of these plans were written down (n=11).

65% of nonprofit executives responding to the survey were promoted from outside the nonprofit (n=89), compared to 35% promoted internally (n=47). Of these externally promoted executives, 44% came from another nonprofit in the service area, whereas 30% came from a nonprofit outside the local area.

This imbalance between internal and external succession may imply that nonprofits do not have sufficient bench-strength to promote from within. Yet, when controlling for organizations that have more than one executive (i.e. an executive team), 70% of these organizations recruited an external executive. Executives coming from other nonprofits or the public or for-profit sector may imply a strategic decision for the organization, but at the very least will require an orientation to the organization and possibly to the community and even nonprofit sector.

For more about these turnover characteristics, refer to Chapter 5 of the dissertation.

In order to explore the outcomes of these turnover events, the data was next used for a quantitative analysis of the nonprofit's financial data.

Exploring Financial Implications and Moderators

While the for-profit sector can measure its performance according to profit or stock prices, the nonprofit sector measures performance according to mission achievement. Yet, missions can be tricky to measure as they are often intangible, require subjectivity in evaluation, and are not easily compared between nonprofits.[i]

Instead, a growing body of nonprofit research looks to nonprofit financial data as a measure of performance. A nonprofit needs resources to do its work and a nonprofit's resources and their use are a reflection of the organization's mission.[ii]

This dissertation joined this research in linking executive turnover to nonprofit financial performance and used a nonprofit's expenses as a measure of financial performance.

Nonprofits experiencing turnover had just a 4% reduction in expenses

A nonprofit's expenses reflect its presence in a community and by extension, its capacity to fulfill its mission. Accordingly, a reduction in expenses has been used to predict nonprofit financial vulnerability, and this dissertation joined this research in evaluating if an executive turnover contributes to a nonprofit reducing its expenses.[iii]

Among the sample and controlling for organizational characteristics,[iv] nonprofits had a **4% reduction** in expenses in the year following an executive turnover.

Yet, with prior research evaluating financial distress as a 20% or more expense decrease,[v] these <u>findings suggest that executive turnover contributes to an expense decrease, but not to the financial instability or demise of a nonprofit organization</u>.

This is an important distinction as the inevitable event of executive turnover does not appear to cause irreparable harm to a nonprofit, but instead appears to be a recoverable event in the nonprofit's organizational life.

Of the other contextual factors evaluated, only organizational size, as measured by annual revenues, was found to have a positive and significant effect on nonprofit financially stability.

For more about this analysis, refer to Chapter 5 of the dissertation.

To help understand the outcomes of turnover and explore more of the moderating factors, executives were next engaged in interviews.

What Nonprofit Executives said about Turnover and Moderators

The current executives of forty nonprofits that recently experienced turnover participated in an interview as part of this research study.

These interviews intended to more broadly explore the turnover that brought the executive into the position, as well as any factors that helped or hurt the organization during this transition.

Executives generally spoke of turnover as a disruption to the organization – if not to the ultimate performance of the organization, a difference to the way things were done in the organization.

33 of the 40 interviewed executives spoke to positive turnover outcomes

Thirty-three of the 40 interviews spoke of positive outcomes to executive turnover. These executives describe financial and mission-related implications of executive turnover and their arrival into the nonprofit, while also describing themselves as an agent of change for the nonprofit.

These positive outcomes included:

- Fundraising and building donor relations
- Developing board membership and training members for their fundraising role
- Relating to private and government funding contacts
- Refocusing on core mission activities and introducing new programming
- Raising the profile of the organization through strategic communications
- Implementing industry standards or best practices to operations and services

Seventeen of the 40 executive spoke to negative outcomes of turnover, including the actual costs of turnover; stagnating operations during the turnover; operations slow to resume under the new executive; and turnover interacting with circumstances external to the organization.

Speaking next to factors that helped ease the transition, executives raised a myriad of moderators, which formulate 'take-aways' from this research study.

Board leadership is paramount: With responsibility for hiring and supervising nonprofit executives, the strategic leadership of the board cannot be understated during an executive transition. Supportive boards stepped up to fill the executive role on an interim basis; critically assessed the needs of the organization; and identified executives who fit. Boards also participated in fundraising and strategic planning activities as the new executive came on board. Boards stepped out of the way of the executive but remained supportive so they could do the job they were hired to do.

Executive transitions do stretch the capacity of boards as they are both time- and human resource-intensive undertakings. Their capacity is further stretched by the lack of preparations. Many survey and interview respondents indicated that their boards had not reviewed strategic plans, completed succession plans, or even conducted a recent performance review with their executive.

Boards will be strategically minded to engage preparations for turnover, rather than be forced to react to a crisis or to a letter of resignation.

Appropriate activities may include:

- Recruitment of members with strong networks for executive recruitment or capacity for interim or succession management
- Training of members for board responsibilities, including executive supervision and fundraising
- Completing routine supervision and performance evaluations with the executive
- Maintaining boundaries with the executive in the shared board-executive leadership structure of nonprofits

Maintain and develop donor relations: Executives spoke favorably of communications and other outreach activities that sustained donor and other stakeholder relations during the transition. These activities were marked by transparency and an understanding of the importance of these relations to the nonprofit. Such activities included personal meetings, written communications, and even welcome parties to celebrate the outgoing executive and introduce the incoming.

Size and structure may help buffer, but present challenges: Similar to the findings of the quantitative analysis, executives spoke to the benefit of size in terms of structure and other available executive staff that help sustain operations and capacity during executive transitions.

On the other side though, incoming executives found large organizations slow to change and challenging to corral, especially if they were entering following a long-serving executive or an extended executive search.

Board involvement, the use of an interim director, and even executive coaches or consultants may be helpful in managing transitions of large nonprofits.

All transitions are not the same: Executives spoke to turnover variations that present different decision points, and even challenges. For example, nonprofits that are losing a long-serving executive or even an over-bearing executive may benefit from an interim director and an intentional gap between executives. This transition will help nonprofits re-center themselves without the outgoing executive, and as one interviewed executive described, regain their 'operational confidence.'

Another example is an executive nearing retirement age. With some conversations between the retiring executive and the board, plans can be set into motion that help prepare the organization and its stakeholders for the inevitable retirement.

And yet another example is executive turnover in an organization that has repeated short tenures. In this scenario, the board may need to engage a critical self assessment to understand any underlying reasons, be prepared for board development and adjustment to the executive position to address these issues, and ensure management coverage is in place for programmatic as well cultural implications of this repeated turnover.

Communicate, communicate, communicate: Consistent among executives' comments was the importance of transparent and frank communications. While executives acknowledged that all does need to be told publicly – either internally or externally, there is great value in managing a transparent executive transition.

Interviews indicated that uncertainty and confusion can muddle otherwise smooth transitions, and that communication can clear the air and confront rumors. Communications took many forms from formal, scripted notices to informal conversations with staff and stakeholders. Yet, consistent among this emphasis on communications was a clear message that the taboo nature in which some executive transitions are treated is not helpful to the outcome of the turnover or the people involved.

Turnover can be costly, but these expenses can prove their value: There are some inherent transaction costs to turnover that are not typically considered in a nonprofit's annual budget. For example, costs may include an executive recruiter, search associated expenses, interim directors, and even double salaries if there is overlap in the executive position.

All these costs may impact a nonprofit's bottom line in the short term, but their impact can be positive in the long term. These expenses can be viewed as the cost of a well-executed and strategic executive transition. Further if nonprofits prepare succession plans, they can anticipate these expenses, and even budget or package and approach a donor for support.

Other costs of turnover may come in the form of lost productivity, lapsed funding relationships from unattended donors, and staff turnover triggered by the executive transition. While these costs may be disruptive for the short-term, nonprofits, according to the interviews, surveys, and quantitative analysis, indicated that nonprofits are resilient organizations.

Executive transitions don't end with the hiring decision: In thinking about executive turnover, the inclination is to view the turnover as complete when the new executive is hired. Yet, interviewed executives relayed stories of turnover as ongoing even years after they had assumed their position.

Executives spoke to 'on-boarding' processes that were marked by relationship building and assessment. Executives spoke to the need for building trust and relations both internal with staff and board members, as well as external community members, donors, and other stakeholders. The relationship building phase was especially extended and intentional for executives who came external to the nonprofit and even community.

Executives also entered positions ready and able, but cautious. They sought to understand the environmental dynamics of their nonprofits through assessment and engagement. For example, executives spoke of strategic planning processes that engaged boards, realigning programs under missions, and reorganizing staff for efficiency and effectiveness purposes. For some it even meant cleaning up past performance issues where executives felt like they were 'treading water' to survive both in terms of the position as well as to maintain a viable organization.

Boards that can appreciate and be supportive – vocal and intentional - of incoming executives as they transition beyond their hire date will help contribute to long successful tenures.

Consider the environment: Executive transitions do not happen in isolation but concurrent with ongoing nonprofit operations and the environment in which the nonprofit operates. Several executives noted events in their environment that compounded the disruption of turnover.

These events took the form of 'surprises' or even 'landmines' and ranged from financial shocks to their revenue streams (i.e the 2008 recession or an unknown debt emerging) to changes in their regulatory environment (i.e. the end of earmarks or the Affordable Care Act).

While these events may be unpredicted, a responsive and attentive board will be supportive in backing up a new executive navigating these surprises.

Environmental considerations should also include outreach and strategies to engage the nonprofit's stakeholders, which was previously mentioned but based on interview remarks cannot be stressed enough.

Respect the relay between the outgoing and incoming executives: The handoff between the outgoing and incoming executive will be determined by many factors, particularly the terms and reasons for the outgoing's departure and the timing and selection of the incoming executive.

Under positive terms, overlap between the outgoing and incoming executive may make sense and serve the new executive's orientation and help sustain operations. As cautioned by interviews, the terms of the outgoing executive's role should be clear and oriented to the new executive's needs, rather than to the nonprofit as a whole or other staff. Failing to draw clear terms and even timelines may undermine the authority of the new executive.

Under negative terms, the outgoing executive should be released from responsibilities with the incoming executive freed from contact with the outgoing. This may require the board to take on a stronger role in orienting the new executive, but will also help protect the fresh start of the new executive.

Be sensitive to personal and cultural considerations: Again, an executive turnover is not in isolation and may have ripple effects to personal and cultural considerations of the nonprofit.

Interviews indicated that uncertainty extending from the turnover affected staff morale and even their productivity. Interviewed executives respected these dynamics and undertook sensitive approaches in entering the position, which seemed to help the nonprofit's staff, its functioning and even the executive.

While interviews were with the current (i.e. incoming) executive, they spoke too of the outgoing executive and that their transition from the position was a personal one. An executive transition that acknowledges their contribution and eases them from the position may help both the outgoing executive and their release from the nonprofit.

Further many executives entering the position are doing so for the first time, and it is a position marked by high responsibility. Interviewed executives commonly remarked on the stress of the position and long hours. New executives should take heed and be cognizant of the personal toll of the professional position, drawing boundaries as appropriate, and taking steps for self care as feasible.

Boards that look out for the personal needs of their staff and executive will also be looking out for the nonprofit in the long run.

For more about these considerations and others raised by interviewed executives, refer to Chapters 6 and 7 of the dissertation.

Implications for Nonprofit Executives, Boards, and Stakeholders

This dissertation study has implications for nonprofit executives, boards of directors, and other stakeholders. Its findings complement existing literature that prepares nonprofits for executive turnover and also informs nonprofit leadership and stakeholders in how these preparations and management strategies link to performance outcomes.

Management challenges, such as an executive turnover, have a taboo-feel in that organizations do not like to talk openly about the 'death' or transition of an executive before they are gone. As such, the challenges an organization faces in executive turnover are faced in private, and this research poses an opportunity to open the discussion among executives and shed light on circumstances and context that are held in common, rather than in isolation. The interviews hosted as part of this dissertation highlight common experiences and travails of nonprofit executives. The turnover processes described may hold meaning to other executives who did not know their own experience in the executive position was shared by others.

For boards, this study's findings emphasize their critical role in successfully navigating and executing an executive transition. Boards should take a two-fold message away from this study: 1) Leverage executive transitions for their potential for strategic planning for the nonprofit and critical reassessment of the executive role; and 2) Bolster capacity to manage a transition through preparation, planning, and vigilant supervision of the executive.

For stakeholders, the findings show that they should have confidence in a nonprofit's capacity to withstand an executive transition, and should be a steady partner to the nonprofit so as to not compound the turnover's disruption. Donors can assist with capacity support to bolster nonprofit leadership and board development and be available if needed for guidance or funding support to the nonprofit navigating the transition. Stakeholders, such as donors and infrastructure organizations, can also help connect nonprofits sharing common experiences, such as executive turnover. This role can be informal or a more formalized convening role for groups of local executives for the purpose of mutual support and discussion of issues held in common to the executive function.

For more about the implications, contributions, and limitations of this research, refer to Chapter 7 of the dissertation.

More about this Study

The full dissertation will be posted to www.amandajstewart.net. Mandi will be hosting debriefs on the study with nonprofit executives who participated in the research, and is available for discussion or presentation of these findings.

A follow up study is planned with board chairs of nonprofit organizations to explore the board perspective of executive turnover.

Prior to implementation, the study protocol was reviewed by the American University Institutional Review Board. Follow up studies will be reviewed by North Carolina State University's IRB. Research findings will be prepared for presentation at upcoming academic conferences and publication in nonprofit journals.

For questions about this research, please contact mandijstewart@gmail.com.

About the Author

Amanda J. Stewart is an Assistant Professor at North Carolina State University in their School of Public and International Affairs. She completed her PhD at American University's School of Public Affairs. She implemented this study as part of her dissertation research and defended her dissertation in May 2015.

Mandi has over ten years experience working in nonprofits ranging from small, local efforts to large, international organizations. Her research interests include nonprofit management and foundation behaviors. Mandi has her Masters degree in social work from Boston College and her Bachelor's in business administration from Birmingham-Southern College.

Mandi extends her warm appreciation for the participation and contribution of the executive directors in her dissertation research sample.

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[i] Kanter & Summers, 1987; Lee, 2011; Sawhill & Williamson, 2001
[ii] Malatesta & Smith, 2014; Young, 2007
[iii] Greenlee and Trussel, 2000; Never, 2014
[iv] Organizational characteristics included: prior revenues, prior expenses, board size, revenue composition, and organizational age
[v] Never, 2014