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2006 Report on Nonprofit Executive Transition

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Executive Transition in the San Diego Nonprofit Sector

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Introduction

Nonprofit organizations play a critical role in the social well being of communities and in the development and furthering of civil societies. They are the “providers of goods and services that fulfill the unmet demands of consumers and clients” across a broad array of categories (Frumppkin, 2002, p.71). These are the organizations that heal the sick, house the homeless, feed the hungry, and meet the needs of our most disadvantaged citizens. Additionally, nonprofits support the arts, care for the environment and animals, provide education, and support youth activities. The range and scope of services provided by the “third sector” is immense and virtually everyone in society benefits from its efforts.

Aside from the contributions to social capital, the nonprofit sector also plays an important role in the economy. Nationally, the nonprofit sector generates revenue that “exceeds the gross domestic product (GDP) of all but six foreign countries: Japan, Germany, Britain, France, Italy, and China” (O’Neill, 2000, p.12). In San Diego, nonprofit revenues account for 6% of the county’s GDP. Additionally, San Diego nonprofit employees make up 5% of the workforce. Of that total, 62% of nonprofit jobs fall in to the category of health and human services (SANDAN, 2004).

As a sector, nonprofits generally allocate a small percentage of their resources to management development or infrastructure support, and instead focus the bulk of their resources on programs and services. The organizational structure of nonprofits tends to be flatter, with not as many career opportunities between the lowest and highest positions as you would find in government or for-profit corporations. Generally, this “thin management structure” forces nonprofits to rely heavily on the chief executive officer (executive director) of the organization for the successful achievement of their mission (Teegarden, 2004).

For all of its importance, the role and impact of the nonprofit executive director has been largely ignored by empirical research, although this is changing as research on the sector as a whole expands. Since 2000, several national and regional studies have been conducted on topics such as salary, training, career path, and job satisfaction of the nonprofit executive director. Perhaps one of the most alarming findings revealed through this research has been in the area of executive transition. National and regional studies have found that between sixty-two to seventy-eight percent of nonprofit executive directors¹ will be leaving their positions in the next five years (Volgelsang,

¹ An executive transition is defined as the departure of the key organizational figure, often referred to interchangeably as the director, CEO, president, or executive director. For purposes of clarity, the term executive director will be used to refer to this position throughout the paper.

2005). Like other sectors, many of these transitions will occur as baby boomers begin to retire (Teegarden, 2004).

These studies also found that nonprofits have done very little to prepare for a leadership exodus of this magnitude. Because of these findings, it is important for San Diego nonprofits to understand where they are situated in terms of this trend. Can San Diego nonprofits expect such a high rate of transition over the next five years? If so, to what extent has the sector that provides the majority of the county's most important social services prepared itself to handle such a precarious time of organizational change? This study examines these questions and provides an analysis of the variables that may, or may not, have an effect on executive transition in San Diego's nonprofit sector.

Previous Research

As mentioned in the introduction, there have been several studies conducted on this topic in the last several years. CompassPoint Nonprofit Services, the Annie E. Casey Foundation, and the Support Center for Nonprofit Management have been major contributors to the literature on this topic. Additionally, extensive qualitative research on generational change among nonprofit leaders has been conducted by the Building Movement Project.

In 2001, CompassPoint Nonprofit Services produced *Daring to Lead: Nonprofit Executive Directors and Their Work Experience*. This report utilized a 37-question written survey that was distributed regionally to nonprofits in Dallas, Texas, Fresno and San Francisco, California, and Washington D.C., and Hawaii. They reported findings in the areas of characteristics, career paths, salaries, tenure, and job training and support for executive directors. As it relates to executive transition, they found that "predicted length of stay was significantly associated with job enjoyment as well as satisfaction with compensation (Wolfred, 2001 p 20).

Following on the work of CompassPoint, the Annie E. Casey Foundation released *Nonprofit Executive Leadership and Transitions Survey 2004*. This research study included 2,200 responses from every state and is the largest study done to date. Although it covers many of the same topics as the CompassPoint report, the majority of the focus is on executive transition. Among their key findings they cite that 23% of executive directors planned to leave their positions in the next two years and 65% in the next four years.

Finally, it is important to note the work of the Support Center for Nonprofit Management based in New York. In 2004 they issued a report based on a survey of executive directors in the greater New York metropolitan area that included the extent of succession planning being conducted throughout the sector. Their findings were consistent with those of CompassPoint and Annie E. Casey.

The literature provided by these researchers informed the San Diego study as to the importance, or unimportance, of certain variables. For this reason, variables included in the San Diego study include age, experience, salary and benefits, tenure, organization

demographics, and level of education. The literature also utilizes variables that deal with succession planning and board involvement and these were adapted into the San Diego study as well. However, due to the scope of this study, variables concerning practices such as how the board recruited candidates and where the executive director had worked prior to taking the current position were not included.

Research Design and Methodology

This study seeks to answer the following research questions:

1. When do the nonprofit executive directors/CEOs anticipate leaving their current position?
2. How difficult is it to replace outgoing executive directors/CEOs?
3. What is being done to prepare the organization for the departure of the current executive directors/CEOs?

Data for this report was gathered through the use of an internet survey conducted through an online provider called Survey Monkey. Building on the questions asked in previous studies, a twenty-five question survey was developed. To increase the likelihood of participation, particular emphasis was placed on keeping the survey to a manageable length and incentives for participating were offered.

To derive a sample, it was decided that all organizations that reported income over \$500,000 in tax year 2004 would be surveyed. Over a three-week period email addresses were gathered for as many executive directors as possible. Where specific emails were not available, general organizational emails were acquired. Using the IRS business master file, 838 initial organizations were identified. From that group, all single-family foundations and those nonprofits that had ceased doing business were removed from the list. That took the sample size to 711. Of that group, direct exclusive emails addresses for 394 executive directors were identified. Emails were also sent to 152 organizations and made attention to the Executive Director. The overall response rate was 31%. The following chart demonstrates that survey responders are a good representation of the overall sample as it relates to organizational type.

Comparison of Respondents to Overall Sample:

Organization NTEE Code	Type	Sample as % of Total	Respondents as % of Total
1	Arts, Culture & Humanities	7.3	13.2
2	Education	15.5	19.8
3	Environment/Animals	3.5	5.4
4	Health	15.7	13.2
5	Human Services	28.6	30.5
6	International	3.5	2.4
7	Public/Societal Benefit	23.2	12.6
8	Religion Related	2.9	2.4
9	Mutual/Membership Benefit	0	.6

Most Frequently Reported Demographics

- Annual base salary range: \$100,000 to \$125,000 (17%)
- Age: 51-60 (37%)
- Highest degree: Master's (37%)
- Years of experience in nonprofit sector: Over 25 years (30%)
- Gender: Male (53%)
- Happy with current level of benefits: Yes (60%)
- Work more than 50 hours/week (49%)
- Number of paid staff members in organization: 6 to 10 (20%) and over 100 (20%)

Limitations to the Study

There are some limitations to this study that should be noted. First, there is a general limitation with all nonprofit data that is based on IRS files that is associated with organizations who file and those who do not. For example, organizations that are classified as religious and those with income under \$25,000 are not required to file with the IRS. Because an income threshold of \$500,000 was established for the sample, this limitation does not affect the study. However, religious organizations that decline to file with the IRS are not included in the sample.

It should also be recognized that the use of an online survey can bias results because it does not reach those who are not connected to the internet or who are wary of sending confidential information electronically. To minimize this limitation, the sample size was focused on the sector's largest organizations with the thought that they would be more likely to have web access. Additionally, follow up via regular mail could reach those who did not respond electronically.

Key Findings for San Diego Nonprofits

- 68% of ED's anticipate leaving their position within the next five years.
- Respondents cite next position will be:
 - Retirement (56%)
 - Consultant (41%)
- Reasons for leaving current position:
 - Better opportunities for professional growth (32%)
 - To receive a higher salary (32%)
 - To work less hours (28%)
- 63% of responding organizations have had the same ED/CEO for the last five years.
- 76% of ED's feel that it would be somewhat or very difficult to find someone qualified to take on their job should they leave.
- 68% of ED's rate the available ED candidate pool in San Diego as weak to very weak.
- Top barriers to recruiting qualified ED candidates:
 - Cost of living (67%)
 - Difficult to find someone with the appropriate nonprofit management experience (64%)
 - Competitive benefits and salaries not offered (56%)

- Only 12% of organizations report having formal, defined transition procedures in place.
- 63% of ED's report Board level of involvement in succession planning to be minimal or not at all.

Comparison of San Diego Study Findings to Annie E. Casey Foundation National Study

	San Diego Sector	National
Percent of ED's who anticipate leaving position within five years	68%	66%
ED age 51 or over	58%	55%
Over 15 years experience in nonprofit sector	54%	58%

Conclusions

The descriptive data is telling a compelling story that San Diego nonprofit leaders need to hear and understand. After a relatively stable period of leadership, executive transition in the nonprofit sector in the coming five years is going to be a very pertinent issue. Additionally, boards have not done sufficient succession planning and the candidate pool for qualified recruits is viewed as weak to very weak.

Data show that this topic is rarely discussed or acknowledged between the executive director and the board. As leaders of their organizations, nonprofit executive directors should advise their boards on these findings and assist them in becoming better prepared for a future of transition. To protect the sector (and their investments in the sector) grantmakers and individual donors should investigate funding leadership development for nonprofit managers as well as training in the area of succession planning and executive transition.

There are also implications for future research. Since this is just a snapshot from the viewpoint of one person in the organization, further study should be conducted to determine the perspective of board members and other employees. A more definitive understanding of what prohibits Boards and staff from communicating about this issue should be gained. Also, a survey of the organizations under the \$500,000 income threshold could contribute to the overall findings.

In response to these findings, capacity building measures are called for. Organizations providing such services to San Diego nonprofits should ensure that their curriculums are designed to include succession and transition planning. Likewise, nonprofit organizations should continue to develop leadership capacity of those in the 35-to44-year-old age range. Further, short-term solutions, such as phased retirement and/or flex-time, should be adopted thereby taking advantage of the large pool of respondents that indicate they would like to stay in the sector in a consultancy role or part-time role.

Emerging trends and practices in the for-profit sector should be investigated for applicability to the nonprofit sector; i.e., talents pools, rotational assignments, action learning, mentoring, high potential assessment, assessment centers, developmental experiences, and competency models.

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