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The Nonprofit Sector's Leadership Deficit

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Executive summary

Whether it is helping a teenage mother learn to care for her child, training an ex-convict to get a decent job, or aiding disaster victims, nonprofits increasingly do the work required to fulfill our desire for a civil, compassionate, and well-functioning society. Like most organizations, their ability to consistently deliver these results depends more on the quality of their people than on any other single variable. Yet today nonprofit organizations struggle to attract and retain the talented senior executives they need to fulfill their missions. Over the coming decade, this leadership challenge will only become more acute.

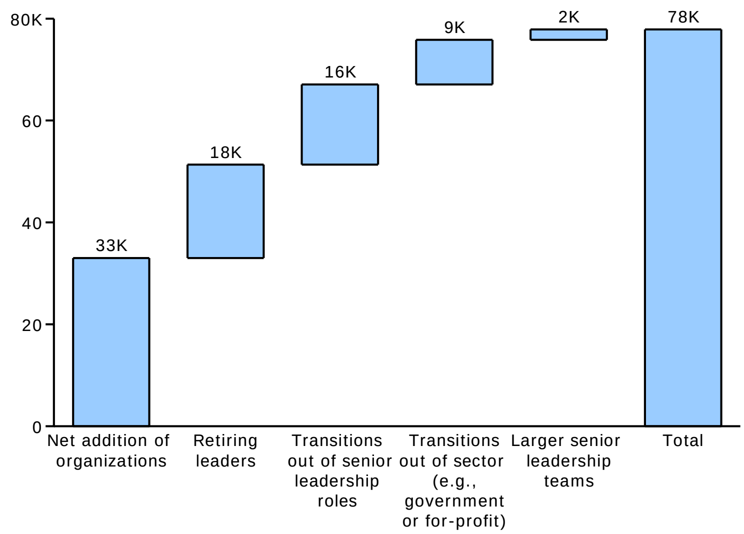
The Bridgespan Group recently carried out an extensive study of the leadership requirements of nonprofits with revenues greater than $250,000 (excluding hospitals and institutions of higher education). We found that:

- Over the next decade, these organizations will need to attract and develop some 640,000 new senior managers—the equivalent of 2.4 times the number currently employed.
- If the sector were to experience significant consolidation and lower-than-forecast turnover rates, this number might fall as low as 330,000. On the other hand, given historic trends, the total need could well increase to more than one million.
- By 2016, these organizations will need almost 80,000 new senior managers per year.

The projected leadership deficit results from both constrained supply and increasing demand. The key factors include the growing number of nonprofit organizations, the retirement of managers from the vast baby-boomer generation, movement of existing nonprofit managers into different roles within or outside the sector, and the growth in the size of nonprofits. The chart that follows summarizes the analysis.

The nonprofit sector will likely need nearly 80K new leaders in 2016

Number of new senior managers needed (2016)



Note: Transitions out of senior management positions include EDs and senior managers that have left their current position to become a consultant or to take an unpaid volunteer or board governance role. Transitions out of the sector include EDs and senior managers that have left their current position for a job in the government or for-profit sector. Senior management is defined as the most senior tier of management that could include the COO, CFO, CDO, Head of Human Resources, Head of Marketing, Head of Programs.
Source: National Center for Charitable Statistics data; Bridgespan analysis

The leadership deficit is further aggravated by the sector's lack of intermediaries to help in recruiting and developing managers. Nonprofits have neither the size nor the resources to develop large numbers of managers internally, as their for-profit counterparts do. The sector also lacks robust management-education and executive-search capabilities.

Addressing the leadership deficit requires, first and foremost, that all participants in the nonprofit sector—from boards and current managers to foundations and individual and corporate donors—recognize the enormity of the problem and make it a top priority. Three difficult but critical imperatives will need to be addressed:

- **Invest in leadership capacity.** Skilled management is the single most important determinant of organizational success. Nonprofits must invest in building skilled management teams—even if that means directing a greater proportion of funding to overhead. Philanthropy must deliver the operating support required, and boards must reinforce the importance of building management capacity and quality.

- **Refine management rewards to retain and attract top talent.** To recruit more and better leaders, organizations will have to structure more competitive management packages, particularly in light of the push to hold managers to higher performance standards. The greatest rewards of nonprofit careers will always be intangible, but more attractive compensation is critical in times of labor shortages.

- **Expand recruiting horizons and foster individual career mobility.** Nonprofits traditionally tend to hire from a small circle of acquaintances. That practice is no longer sustainable. Recruitment efforts will need to expand to new pools of potential leadership talent, including baby-boomers who wish to continue working, mid-life career changers seeking greater social impact, and the young. At the same time, the sector will need to strengthen and expand its mechanisms for attracting and developing managers and enabling talent to flow freely throughout the sector.

The leadership deficit looms as the greatest challenge facing nonprofits over the next ten years. We can use our unprecedented wealth to strengthen the sector's capacity to meet society's escalating demands; or we can allow its leadership deficit—with its debilitating consequences—to widen. We are at a crossroads. The choice is ours.

Introduction

As society's challenges have grown more complex and government's resources more constrained, nonprofit organizations have stepped into the breach. Whether it's helping a teenage mother learn to care for her child, training an ex-convict to get a decent job, or aiding disaster victims, nonprofits increasingly do the work required to create and sustain a civil, compassionate, and well-functioning society.

To deliver these results, nonprofit leaders must often be able to spin straw into gold. Despite steady increases in charitable donations, they face unyielding pressure to make every dollar go a long way. Nor is money the only resource in short supply. The many outstanding nonprofit leaders we at the Bridgespan Group are privileged to know frequently underscore the need for additional senior management talent—in their own organizations and in the sector more broadly.[1] Like their peers in for-profit businesses, they understand that what ultimately determines whether an organization succeeds or fails is the quality of its leadership team and the effectiveness of its decisions. As one executive director told us, "If I have the choice between spending time with a $100,000 donor or a potential candidate for a senior role, hands down it's the candidate."

Today, many nonprofit organizations struggle to attract and retain the talented senior executives they need to continue converting society's dollars into social impact. Searches for chief operating officers, chief financial officers, and even executive directors often turn up surprisingly few qualified candidates.[2] For

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[1] Founded in 2000 and incubated at Bain & Company, the Bridgespan Group is a nonprofit organization whose consulting, knowledge-sharing, and talent-matching activities and services are designed to help other nonprofits and foundations achieve greater social impact. Bridgestar, a Bridgespan Group initiative, is dedicated to developing leadership for the nonprofit sector through talent-matching and knowledge-sharing services.

[2] Because of the complexity of many nonprofit leadership positions, it can be extremely challenging to develop pools of qualified candidates. In Bridgestar's experience, shortlists for

example, we recently worked with a large nonprofit seeking an experienced executive to guide its national expansion. To describe the organization's work as potentially life-transforming is no exaggeration; and yet, at the end of the day, only a single highly-qualified candidate was willing to consider the position. Had that one person not appeared, the organization's leadership would likely have had to put the growth plan on hold.

Already pressing, the nonprofit sector's leadership challenge will become only more acute over the next ten years. Bridgespan recently carried out an extensive study of the leadership requirements of U.S. nonprofits with revenues greater than $250,000 (excluding hospitals and institutions of higher education). (See Figure 1.)[3] Collectively, these organizations provide the lion's share of philanthropic programs in areas ranging from the environment, arts, and economic development to youth development, elder affairs, and other social services.

We found that, in 2006, these nonprofits will need to add more than 56,000 new senior managers to their existing ranks. Cumulatively, over the decade from 2007 to 2016, organizations of this kind will need to attract and develop some 640,000 new senior managers—or the equivalent of *2.4 times* the number currently employed. To put this challenge in context, attracting the required number of managers will be equivalent to recruiting over 50 percent of every MBA graduating class, at every college and university across the country, every year for the next ten years.[4]

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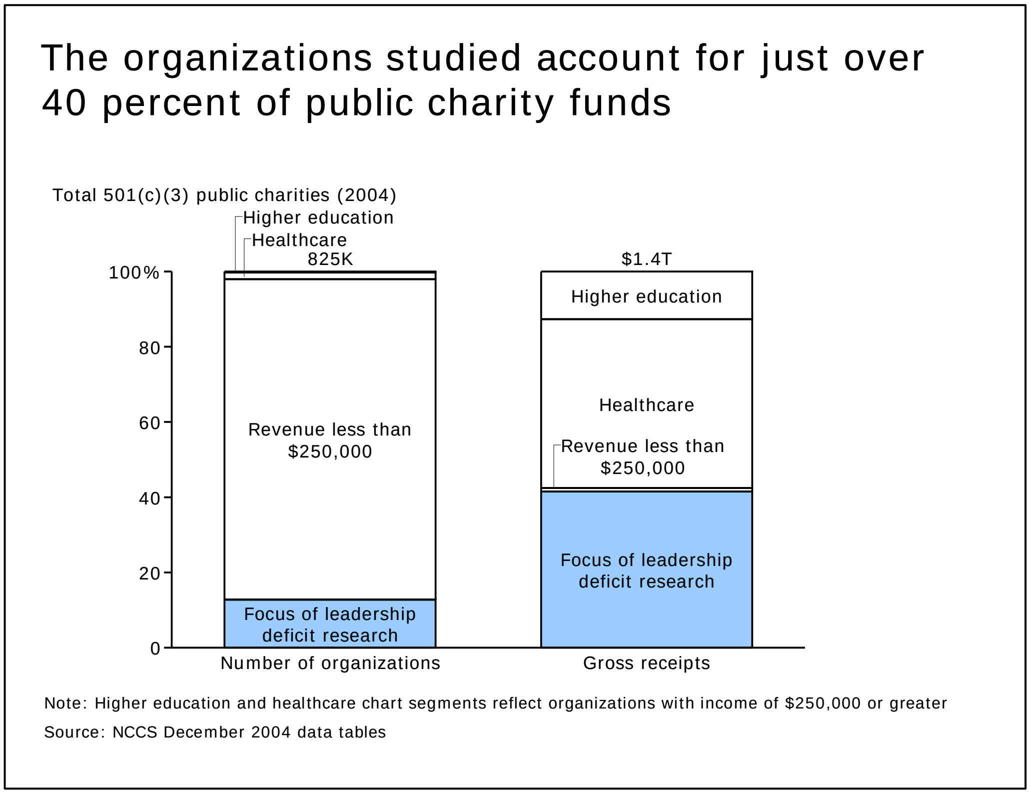
these positions are typically half the size of those in for-profit executive searches (one to three qualified candidates rather than four to six).

[3] We excluded hospitals and institutions of higher learning from our sample, because of their distinctive funding mechanisms, specialized pools of talent, and well-developed infrastructure for developing talent.

[4] The National Center for Education Statistic reports that 120,785 MBA degrees were conferred in the 2001-02 school year.

Figure 1



Whether—and how well—these leadership needs are met will obviously have an enormous impact on individual nonprofits with key positions to fill. But the repercussions of significant leadership shortfalls will be felt well beyond particular organizations and the people and causes they serve. Over the next decades, charitable bequests conservatively estimated at six trillion dollars will flow to the nonprofit sector, as wealth is transferred from the baby-boom generation to their heirs.[5] Should the nonprofit sector be unable to solve its looming leadership deficit, many of these well-intentioned charitable dollars will be wasted, and society as a whole will be the poorer.

[5] Paul G. Schervish and John J. Havens, “New Findings on the Patterns of Wealth and Philanthropy,” Social Welfare Research Institute, Boston College, June 2003.

Constrained supply, booming demand

Since 1999, when CompassPoint published "Leadership Lost: A Study on Executive Director Tenure and Experience," a growing body of research and experience has steadily underscored the challenges nonprofits face in filling leadership positions.[6] To understand the problem, and why it will intensify in coming years, requires an examination of the structural dynamics that are shaping the supply of and demand for nonprofit leaders.

The supply side of the story begins with a well-known demographic event: the aging of the baby boomers. The first wave of this nearly 80-million-strong generation is now turning 60.[7] As they exit the workforce or pursue part-time employment, the reverberations will be felt throughout the economy, not least because their successors constitute a much smaller cohort. Between 1980 and 2000, the pool of men and women aged 34 to 54 years in the United States expanded by 35 million. From 2000 to 2020, the number of people in this traditional senior-executive age bracket will grow by only 3 million.[8] Foresighted businesses have been preparing for this dramatic shift by engaging in a "war for talent" since the end of the 1990s.[9] The Partnership for Public Service began in 2002 to help address the federal government's anticipated brain drain.[10] Nonprofits

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[6] CompassPoint, "Help Wanted: Turnover and Vacancy in Nonprofits," January 2002; TransitionGuides and Management Performance Concepts, "Community Foundation CEO Survey: Transitions and Career Paths," October, 2003; New England Executive Transitions Partnership, "Executive Director Tenure and Transition in Southern New England," January 2004; Paige Hull Teegarden, Management Performance Concepts, and TransitionGuides, "Nonprofit Executive Leadership and Transitions Survey 2004: Greater NYC," November 2004.

[7] Marc Freedman, *Prime Time: How Baby Boomers Will Revolutionize Retirement and Transform America*. New York: Public Affairs, 1999.

[8] Committee for Economic Development, "Cracks in the Education Pipeline: A Business Leader's Guide to Higher Education Reform," May 2005.

[9] Eliza G. Chambers, et.al., "The War for Talent," *The McKinsey Quarterly*, 1998 Number 3.

[10] www.ourpublicservice.org.

will confront this same demographic reality—some experts expect the sector's annual retirement rate to climb by 15 percent or more before the end of the decade[11]—but as we will see hereafter, responses to date are few in number and small in scale.

In addition to the up-tick in retirements attributable to the baby boomers, ever-present factors (such as burnout or simply more attractive opportunities elsewhere) also cut into the supply of nonprofit leaders. As always, some of the sector's current senior managers are leaving management and taking on governance, consulting, or volunteer responsibilities within the sector. Others are leaving the nonprofit world altogether for jobs in government or business.[12] Writing in *The Nonprofit Quarterly* in 2002, two seasoned executives estimated that, at any given time, 10 to 12 percent of the country's nonprofit organizations are experiencing leadership transitions. They also cite surveys, conducted by the Annie E. Casey Foundation and others, which indicate that 15 to 35 percent of nonprofit executives plan to leave their current positions within two years, while 61 to 78 percent plan to leave within five years.[13] Whatever the precise timing of these transitions (and surveys like these are notoriously unreliable on this score), there is little doubt that there will be significant turnover in the sector's leadership ranks over the next decade.

On the demand side of the story, the basic dynamics are also in flux. Over the last two decades, the total number of nonprofit organizations tripled. The number of larger organizations (those with revenues exceeding $250,000) has been growing rapidly and steadily as well, increasing from 62,800 to 104,700 in the ten years from 1995 to 2004—an annual growth rate of almost 6 percent. Figure 2 shows the

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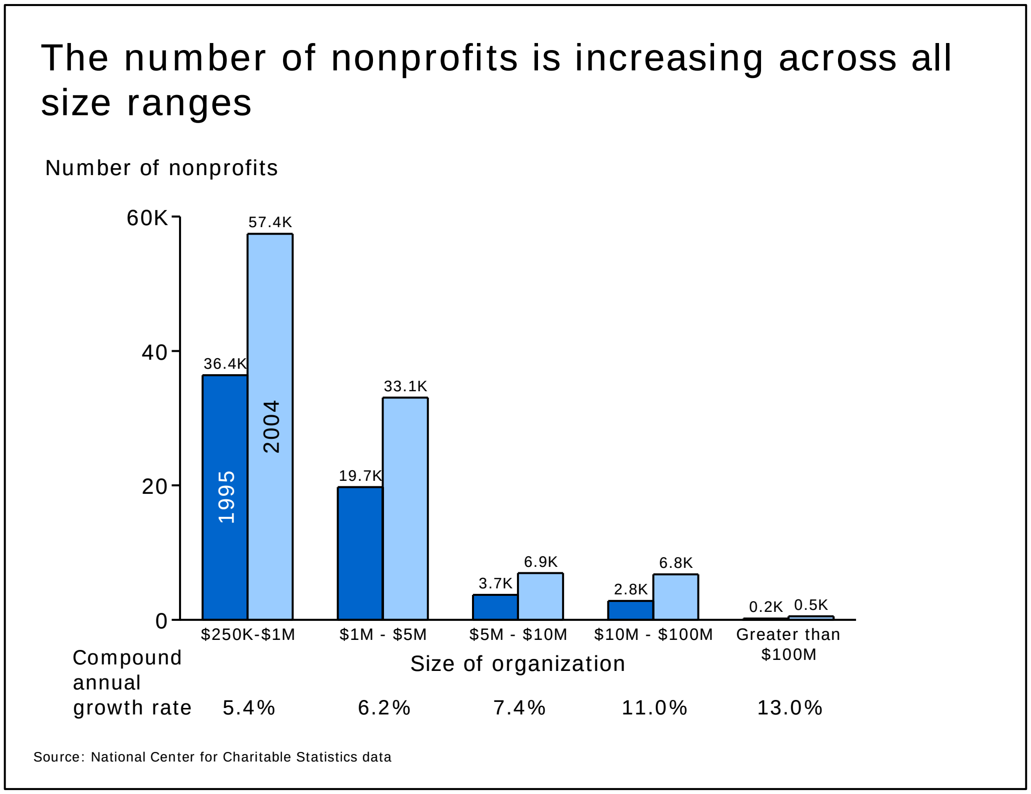
[11] Denice Rothman Hinden and Paige Hull, "Executive Leadership Transition: What We Know," *The Nonprofit Quarterly*, Winter 2002.

[12] CompassPoint, "Daring to Lead: Nonprofit Executive Directors and their Work Experience," 2001.

[13] Denice Rothman Hinden and Paige Hull, "Executive Leadership Transition: What We Know," *The Nonprofit Quarterly*, Winter 2002.

growth in larger nonprofits, organized by size, during this period, a time that encompassed both the giddy heights and sobering depths of the Internet economy.

Figure 2



Many trends are contributing to the expansion. Charitable giving has been increasing as the baby boomers age. The number of foundations has been growing rapidly, with an average of 2,900 new entrants annually over the decade ending in 2002.[14] Young people are displaying a growing interest in social entrepreneurship. Corporations are making social responsibility a greater priority. And last, but hardly least, government has steadily turned to nonprofits to deliver public services.

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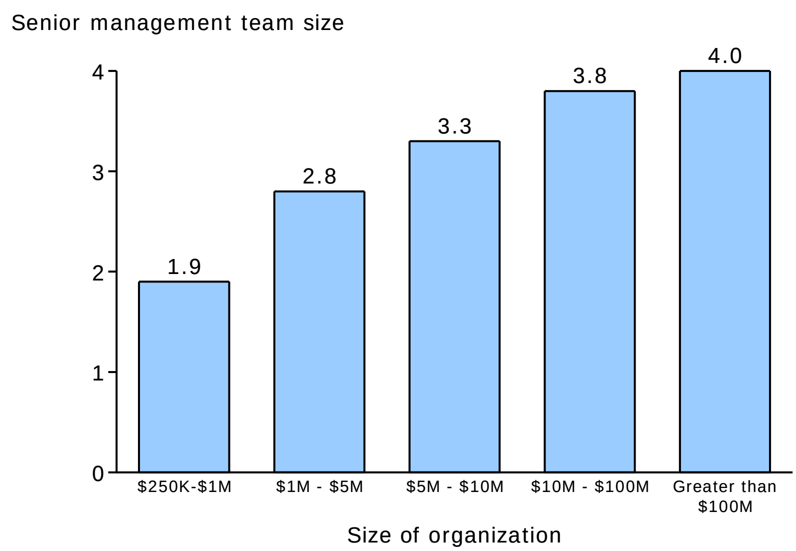
[14] Foundation Center, *Foundation Yearbook: Facts and Figures on Private and Community Foundations*, 2004.

Some knowledgeable observers label this growth "proliferation" and suggest that consolidation of the sector is in order. Others applaud it as evidence of our civil society in action. Regardless of one's perspective, the data clearly indicate a broad and steady rise in the number of nonprofits with a commensurate need for more management talent.

At the same time, the need for experienced managers with specialized skills, such as chief operating, finance, and development officers, is also growing. To some extent, this is a simple reflection of the fact that, as organizations grow, they require more senior managers (as illustrated in Figure 3, which depicts the management teams of a random sample of 100 organization grouped by size).

Figure 3

As organizations grow in size, their senior management teams expand



Note: The senior management team shown above is defined as executive director plus the most senior tier of management (this could include the COO, CFO, CDO, Head of Human Resources, Head of Marketing, and the Head of Programs)
Source: Guidestar; Organization websites and interviews (N=100)

But other forces are at work as well, including the growing adoption of for-profit business practices by nonprofits, rising demand for "proof" of results on the part of donors, and heightened emphasis throughout the sector on accountability and financial transparency. Influential board members may insist that a nonprofit be run “more like a business,” for example, and urge the hiring of a chief operating officer. Donors and government regulators require more rigorous financial reporting than part-time bookkeepers can provide. Nonprofits are becoming more aggressive in reaching out to potential funders, creating the need for experienced marketing, development, and communications executives. Efforts to recruit and retain front-line service providers and screen volunteers require professional HR expertise. In sum, as more attention is paid to strengthening the capability and performance of nonprofits, more is being demanded of their senior management teams.

Trouble ahead

Because we expect these trends to continue over the coming decade, we incorporated them into our base-case analysis of the number of new senior managers nonprofits would need through 2016. In particular, we assumed that the growth in the number of nonprofits in each revenue category would continue at historic 1995 to 2004 rates. We also assumed that retirement rates would remain constant throughout the 1996 to 2016 time period, save for an incremental 6 percentage point demographic boost from 2004 through 2009, attributable to excessive baby boomer retirements, and that rates of other forms of transition would be stable.[15]

Based on these assumptions, we project nonprofits will require 78,000 new senior managers in 2016, up from 56,000 in 2006 and more than a four-fold increase since 1996, as illustrated in Figure 4.[16]

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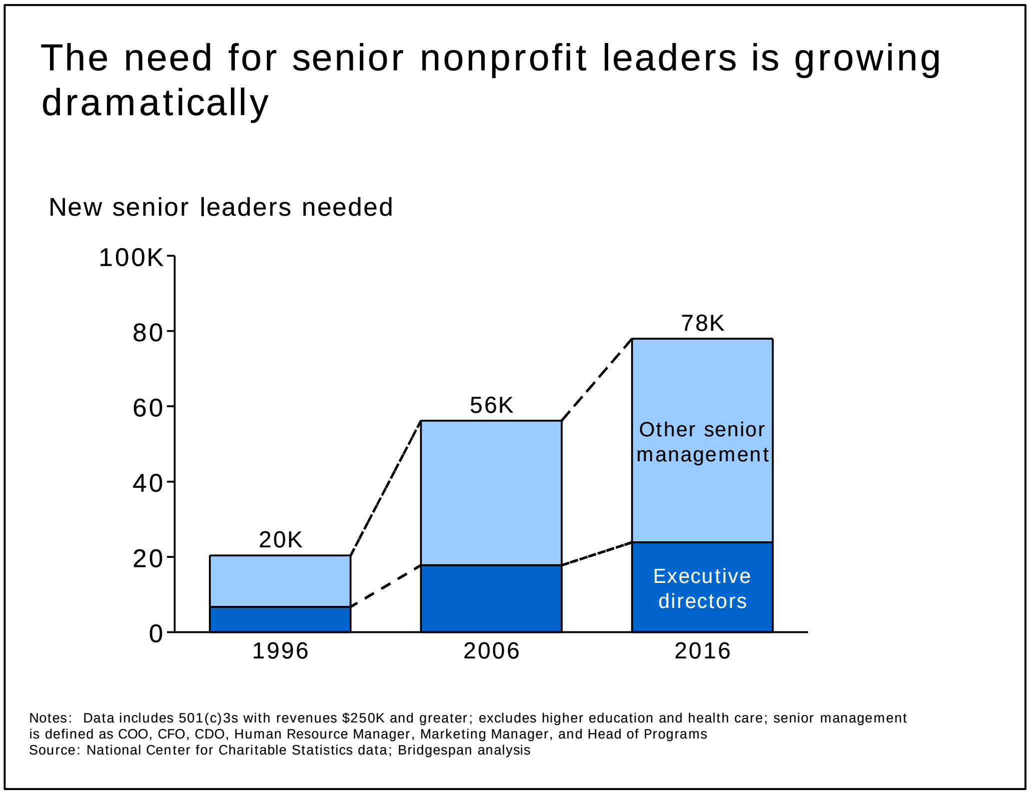
[15] See the appendix for a full explanation.

[16] We arrived at the number of senior managers that were needed in 1996 by using historical data for the number of nonprofit organizations and applying the same methodology we used to project the 2016 level from 2006. See the appendix for a full explanation.

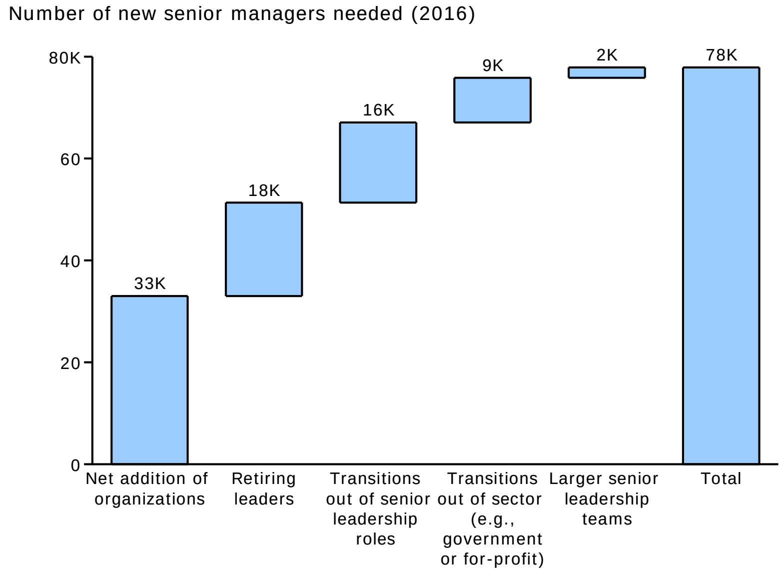
Figure 4



The projected increase in demand for new leaders can be traced to a number of sources, as illustrated in Figure 5. Growth in the number of nonprofits accounts for 42 percent of the increase, while leadership transitions (retirement or otherwise) represent 55 percent. The trend to larger organizations accounts for the remaining 3 percent. The combined effect of these dynamics is reflected in our base-case estimate that 640,000 new senior managers will be needed over the coming decade.

Figure 5

The nonprofit sector will likely need nearly 80K new leaders in 2016

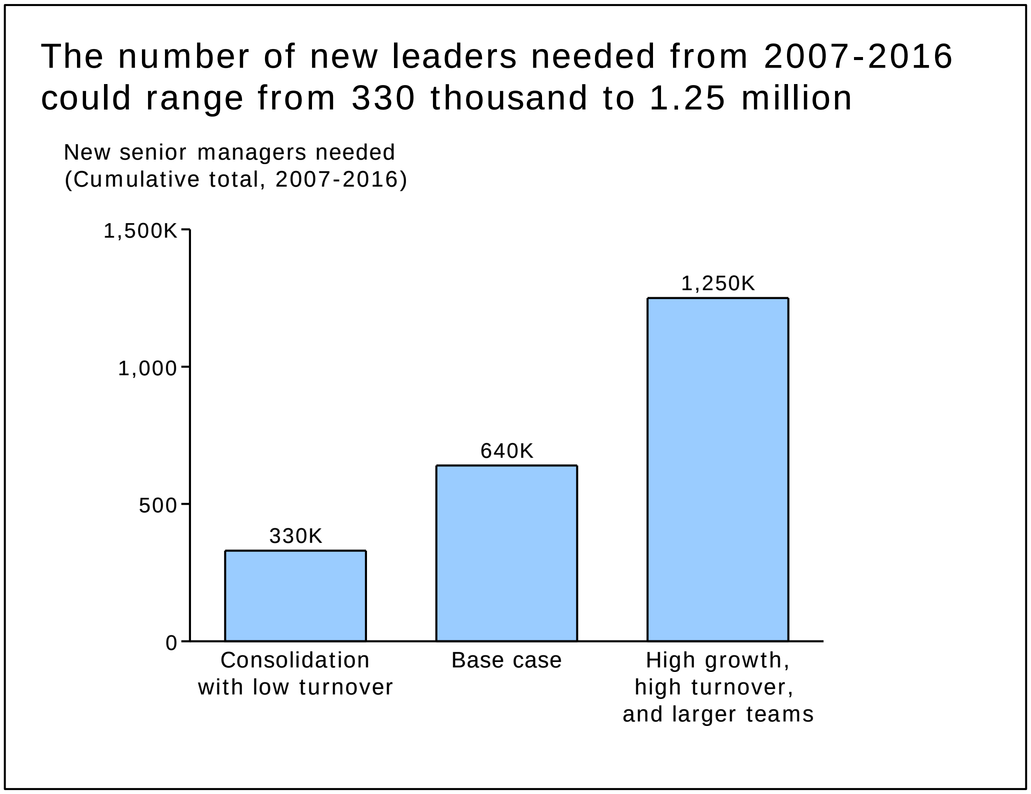


Note: Transitions out of senior management positions include EDs and senior managers that have left their current position to become a consultant or to take an unpaid volunteer or board governance role. Transitions out of the sector include EDs and senior managers that have left their current position for a job in the government or for-profit sector. Senior management is defined as the most senior tier of management that could include the COO, CFO, CDO, Head of Human Resources, Head of Marketing, Head of Programs.
Source: National Center for Charitable Statistics data; Bridgespan analysis

Suppose these assumptions are mistaken? For example, the growth rates in the number of nonprofit organizations might decline dramatically from historic levels, because of deliberate sector-wide consolidation, changes in the flows or magnitude of charitable funding, or even widespread failures of established nonprofits. In addition, future turnover rates might fall below recent projections if existing senior managers choose to delay retirement or turn down job opportunities outside the sector. Even with such conservative assumptions, however, the sector will still need some 330,000 new senior executives over the next decade. The leadership deficit might be mitigated or deferred; but it will not go away.

In fact, it is more likely that growth will accelerate, driven by current momentum, increased reliance on nonprofits throughout society, and the effects of the upcoming wealth transfer. It can also be argued that executive burnout and the war for talent will accelerate undesired turnover. If these more aggressive assumptions prove correct, the total need for new managers would increase from the base case of 640,000 to 1,250,000 (as illustrated in Figure 6).[17]

Figure 6



Forecasts are never perfect. Nevertheless, the message in these numbers is clear and unambiguous: In the decade ahead, nonprofit organizations will need an exceptional number of new leaders every year—numbers far greater than in the past.

[17] The Appendix details these scenario assumptions and calculations.

Finding the talent we need

The sector's challenge is complicated by the very nature of nonprofits. Unlike businesses, most nonprofits cannot address the leadership deficit by "growing their own" supply of future leaders. Successful companies routinely invest enormous amounts of money and time attracting talented junior managers and developing them into leadership candidates. They recognize that competency in developing talent is a potent form of competitive advantage. Most nonprofits (even the larger ones) are too small to provide meaningful career development opportunities for next-generation leaders, however. Nor can they afford to make the investment in recruiting and human resources that such development requires—especially in an environment that tends to view such expenditures as wasteful overhead.

Consequently, nonprofits are often forced to search outside their own organizations for new senior managers. The best available data indicate that, whereas businesses fill 60 to 65 percent of senior management positions through internal promotions, nonprofits seem to average much closer to 30 to 40 percent.[18] Unfortunately, external recruiting is almost always riskier than internal sourcing because organizations have to make hiring decisions without prior first-hand experience with candidates. External hiring is also more expensive, often entailing costly executive searches. As the war for talent intensifies and nonprofits have to fight more battles in the competitive labor market, the cost of diminishing the leadership deficit throughout the sector will likely escalate.

Nonprofits also lack the human-resources intermediaries that the for-profit sector relies on to train and recruit managers. Today, MBA programs alone graduate more than 120,000 managers each year (up from about 25,000 in the 1970s), a rich,

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[18] Ram Charan, "Ending the CEO Succession Crisis," *Harvard Business Review*, February 2005; Russell Reynolds Associates, "The CFO Turnover Study," May 2005; CompassPoint, "Daring to Lead: Nonprofit Executive Directors and their Work Experience," 2001.

concentrated pool of talent which is still largely focused on the corporate sector. [19] The executive search industry, which specializes in helping companies place the right executive in the right job at the right time, has grown extensively from its modest beginnings a few decades ago to become a multi-billion-dollar business.[20] Internet job-posting platforms like Monster.com also aid the flow of talent, as do human-resource organizations such as Hewitt Associates and Convergys that offer out-sourcing services along with their other human resource advising services. This entire infrastructure exists because there is ample money to be made in serving the leadership needs of profit-producing businesses.

Because the nonprofit sector offers no such "profit pool," there is no comparable infrastructure dedicated to providing a robust supply of leadership talent.[21] Most nonprofits lack the resources and experience to recruit effectively from colleges or graduate schools. The largest search firms devote only a tiny fraction of their staff to the nonprofit sector and typically focus on higher-profile, higher-paying executive director (CEO level) jobs—an entirely rational approach given their financial incentives. A handful of medium-sized search firms, such as Isaacson Miller, concentrate on nonprofits, yet even their business is disproportionately, and understandably, skewed toward larger institutions. (Approximately 60 percent of Isaacson Miller's current business is in health care and higher education.[22]) Hundreds, perhaps thousands, of freelance recruiters say they do at least some work in the nonprofit sector, and many of them are outstanding. Yet they are constrained by both limited resources and limited access to qualified talent. Internet-based organizations, such as Idealist.org, are emerging to help nonprofits find talent, but to date their scale is still tiny compared to the magnitude of the need, especially for senior management positions.

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[19] www.certifiedmba.com/cmba_about_overview.shtml

[20] Association of Executive Search Consultants

[21] Orit Gadiesh and James L. Gilbert, "Profit Pools: A Fresh Look at Strategy," *Harvard Business Review*, May/June 1998.

[22] www.imsearch.com

What we can do

Because the nonprofit sector's leadership deficit is a complex problem, born of many social and demographic changes, it does not lend itself to incremental solutions. But, although we cannot control the underlying trends, we can control how we react to them. The first imperative, for individual organizations and the sector overall, is to acknowledge and understand the enormity of the problem. The second imperative is to make this challenge a top priority, in nonprofit governance, in planning, and in day-to-day decision making. Ignoring the issue, or behaving as though it were a long-term problem to be solved by future generations, will almost certainly exacerbate the depth and breadth of the crisis.

Closing the gap will require action, as well as a willingness to innovate, experiment, and take risks at both an organizational and a systemic level. In individual organizations, board members, senior managers, and major donors must all commit to build strong and enduring leadership teams. At a sector-wide level, foundations, intermediaries, and associations need to collaborate to nurture the flow and development of a cadre of management talent that is as diverse as the country's population. In this context, three imperatives are salient: invest in leadership capacity, refine management rewards to retain and attract top talent, and expand recruiting horizons while fostering individual career mobility.

Invest in leadership capacity

Over the past decade there has been growing recognition of the central importance of enhancing nonprofit management. Sector leaders, including Paul Brest of the Hewlett Foundation, Michael Bailin, the former President of the Edna McConnell Clark Foundation, and Barbara Kibbe, formerly with the Packard and Skoll Foundations, have argued the point forcefully. Grantmakers for Effective Organizations (GEO) was created in 1997 to expand nonprofits' effectiveness in measuring results and in ensuring sound financial oversight and organizational management. The creation and expansion of management advisory services, such as those that the Monitor Institute, McKinsey & Company Nonprofit Practice, and the Bridgespan Group provide, and the burgeoning of venture philanthropists, such as New Schools Venture Fund, Venture Philanthropy Partners, and New Profit, signal increased attention to capacity building. In combination and because of the growing momentum they have, these developments bode well for the sector.

But they're not enough. To address the leadership shortfall, much greater attention to building management capacity is needed—and that will require a shift in investment. Only about 20 percent of all foundation funding in 2003 was dedicated to general operating support, or "overhead," with the remainder earmarked for specific programs.[23] The general view of donors, the media, and even many of the organizations that evaluate and rate nonprofits is that overhead is bad and therefore less overhead is always better.[24] Indeed, in assessing nonprofits, donors often focus on input measures (like overhead costs) as proxies for more-difficult-to-measure indicators of results. This view reinforces the belief that resources devoted to leadership capacity—recruiting expenses, training costs, salaries and benefits as well as the number of senior-level positions—should all be held to a bare minimum.

While understandable, such thinking is self-defeating—and it represents one of the major obstacles to remedying the leadership deficit. No business looking to deliver strong results would intentionally under-invest in the leadership team accountable for delivering those results. In fact, even in times of severe financial pressure, when general overhead costs are being cut ruthlessly, businesses usually shield the expenditures associated with developing and retaining talented managers. In other words, all overhead is not equal. Leadership capacity is what matters most to the long-run effectiveness of any organization, including nonprofits. As Jim Collins reminds us in *Good to Great and the Social Sectors,* "The number-one resource for a great social sector organization is having enough of the right people willing to commit themselves to mission."[25] Donors, board members, and executive directors

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[23] The Foundation Center, *Foundation Giving Trends*, 2003. (NB: to confirm)

[24] Stephanie Lowell, Brian Trelstad, and Bill Meehan, "The Ratings Game," *Stanford Social Innovation Review*, Summer 2005.

[25] Jim Collins, *Good to Great and the Social Sectors*, 2005.

need to embrace the importance of investing in leadership capacity, despite prevailing pressures to the contrary.

"Investment" includes time as well as money. It takes long, hard work to build an excellent leadership team. Many successful business CEOs spend well over half their time on people-related issues. In contrast, the executive directors of nonprofits tend to devote the lion's share of their time to fundraising.[26] While this is a rational response to real financial pressure, it also reflects the fact that nonprofit leaders tend to be more motivated by serving their cause than by performing day-to-day management tasks (or, as one executive director jokingly puts it, "administrivia"). As a result, nonprofits can give relatively short shrift to performance reviews, mentoring, training, succession planning, recruiting, and other human resource functions that are critical to effective management. Yet without significant investments of time on the part of executive directors and other leaders, it will be impossible to build stronger, higher-impact management teams.

Refine management rewards to retain and attract top talent

Talented managers don't join nonprofits to get rich. That doesn't mean, however, that compensation doesn't matter. There is inevitably—and properly—an economic component in a person's career choices, and, during times of increasingly intense competition for talent, even modest changes in compensation—whether up or down—can have a big impact.

Traditionally, nonprofit organizations have attracted outstanding leaders by offering a wealth of intangible rewards with a modest amount of compensation. But the old package may not be enough to close the leadership gap in the years ahead. As Paul Light, who studies nonprofit organizations and their employees closely, says,

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[26] Lawrence A. Bossidy, "The Job No CEO Should Delegate," *Harvard Business Review*, March 2001; CompassPoint, "Daring to Lead: Nonprofit Executive Directors and their Work Experience," 2001; David Whelan, "Exploring a New World," *Chronicle of Philanthropy*, January 23, 2003.

"Gone are the days when the nonprofit sector could count on a steady stream of new recruits willing to accept the stress, burnout, and the persistent lack of resources that come with a nonprofit job."[27] That unwillingness will likely become even more pronounced tomorrow. Nonprofit managers face increasingly complex challenges, both in fund-raising and in operations, and they are being judged by much more rigorous performance standards. Tougher, riskier jobs require appropriate rewards.

While intangible rewards will continue to be what distinguishes career opportunities in nonprofit management, organizations may need to offer higher pay, better benefits, and enhanced professional development in recognition of the new pressures being placed on their senior managers. Such an offer would speed the sector's migration toward more professional management, while also helping nonprofits attract, recruit, and retain the large number of talented leaders they will need to achieve their missions.

To some extent, this trend is already under way, with larger nonprofits recognizing the need to upgrade positions with both greater accountability and more pay. For example, Communities In Schools, the nation's leading community-based organization helping young people stay in school and prepare for life, recently added a full-fledged CFO to its management ranks. Similarly, a youth-serving nonprofit decided to look for a new executive director who could galvanize the organization internally and externally. The board had to be willing to pay more to recruit someone with the requisite expertise. But from their perspective it was an investment worth making: unlike his predecessor, the new ED has the experience to build and lead a high-quality management team.

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[27] Paul C. Light, "The Content of Their Character: The State of the Nonprofit Workforce," *The Nonprofit Quarterly,* Fall 2002. Paul C. Light, *Sustaining Nonprofit Performance: The Case for Capacity Building and the Evidence to Support It*. Washington DC: Brookings Institution Press, 2004.

In an era of increased competition for executive talent, these examples highlight a basic fact of life: even allowing for personal financial sacrifice, we generally get what we pay for. The short list of candidates attracted to a chief operating officer job paying $100,000 looks dramatically different from the one for the same position advertised at $70,000. The extra $30,000 not only attracts candidates with more years of experience but also candidates with experience running more complex organizations. It also attracts candidates with broad, creative vision who have the analytic and strategic talent to implement such vision.

Adopting a new approach to management rewards won't be easy. It raises complicated issues, ranging from legal constraints on nonprofits to perceptions of "excessive" compensation that will need to be addressed with care. Perhaps most daunting, it will require board members to change their ways—to stop hiring under-qualified candidates, to stop resisting paying qualified candidates well, and to stop leaving key positions unfilled in order to minimize overhead. While difficult to achieve, such changes in attitude may be the only way to solve many of the problems that now plague nonprofits: executive directors who burn out because they have inadequate bench strength; financial reporting that's sloppy and inaccurate because bookkeepers are hired where controllers are needed; and donors who complain privately about mediocre performance in the organizations they support while refusing to provide adequate overhead support. Without question, a new mindset among all the key players in nonprofit organizations will be crucial to closing tomorrow's management gap.

Expand recruiting horizons and foster individual career mobility

Greater investment in management and more attractive rewards for managers will not, by themselves, solve the leadership crisis. The nonprofit sector also needs to expand its recruiting pool—to reach out to talented individuals who, for whatever reason, have been excluded from consideration in the past—and to foster greater career mobility for the talented individuals already at work within the sector.

Up to now, nonprofits have tended to draw key managers from a small circle of friends and acquaintances. By commercial standards, even the largest nonprofits are relatively small, with limited resources and close-knit cultures. Those characteristics make them understandably cautious when it comes to recruiting new leaders. “Fit” matters enormously, as does a proven devotion to the organization’s mission. Jobs also tend to be less concentrated in a single functional skill set than they are in the corporate world; candidates not only need to possess technical expertise but also need to be coachable, flexible, and entrepreneurial. Factor in the sector’s fragmentation and nonprofits’ tendency to have strong local roots, and it is not surprising that organizations usually like to hire friends—or friends of friends. In fact, even when search professionals are retained, the final candidate is often someone previously known to top managers or board members and suggested by them to the headhunters.

While personal networking is an essential element of any recruiting process, it alone cannot serve to place the right leaders in the right jobs during the next decade. As competition for leadership talent continues to intensify, nonprofits will need to expand their recruiting horizons by looking beyond their immediate circles of contacts.

There are at least three significant pools of new leadership talent available. One is the baby-boomer generation itself. A recent study by the Metlife Foundation and Civic Ventures concludes that, contrary to conventional wisdom, many baby boomers want to work during their later years, primarily in jobs that serve society. Two-thirds of the 50-to-70-year-olds surveyed said they intend to continue working; fully half of them (and nearly three-fifths of those in their fifties) hope to work in organizations with social missions.[28] This group represents an enormous pool of experienced talent that nonprofits cannot afford to overlook.

In addition to the boomers, more and more people at the mid-point of their professional lives are thinking about “repotting” themselves. John Gardner wrote eloquently about the value of such career shifts in *Self Renewal*, published more than 40 years ago, as have authors such as Peter Drucker and more recently, Bob

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[28] Metlife Foundation/Civic Ventures, “New Face of Work Survey,” June 2005.

Buford.[29] By reaching out to mid-life career changers, the sector would both gain new sources of leadership talent and provide collegial resources for existing leaders.

The third untapped pool of potential leaders is young managers in training. In 1990 there were 17 graduate programs in nonprofit management in the United States. Today there are well over 90, and more than 240 programs offer nonprofit courses.[30] Even in the bastion of capitalism—Harvard Business School—11 percent of the entering MBA class comes from the nonprofit or public sector, and the largest industry-focused student club (with a paid membership of more than 300) is the Social Enterprise Club.[31] Similarly, at Stanford over one-quarter of Stanford Business School students graduate with a certificate from the Public Management Program, two-thirds of the student body sign up to receive the weekly PMP newsletter, and nearly every student participates in at least one PMP event or course.[32] One does not need to spend much time with them to understand the depth of their commitment to serving society during some significant portion of their professional lives.

Solving the leadership deficit will mean not only welcoming a variety of age groups into the sector. It will also mean being more aggressive in finding proven business managers, with appropriate skills but limited nonprofit experience, who can "bridge" into the sector. Strong and diverse candidates may also be found among civil servants with strong government experience, officers transitioning from military service to civilian life, and women who want to reenter the workforce after working at home to raise a family. Today, many qualified people from such groups are

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[29] John W. Gardner, *Self Renewal: The Individual and the Innovative Society*. New York: W.W. Norton & Company, Inc., 1995; Peter Drucker, "Managing Oneself," *Harvard Business Review*, January 2005; Bob Buford, *Halftime.* Grand Rapids, Michigan: Zondervan, 1994.

[30] Heather Joslyn, "Gaining Success by Degrees" and "Young People Fuel Demand for Nonprofit Study," *Chronicle of Philanthropy*, January 8, 2004.

[31] Harvard Business School Social Enterprise Club

[32] http://www.gsb.stanford.edu/pmp/about/faqs.html

systematically excluded from the recruiting process because they lack the right personal connections. They are cut out not because of who they are, but because of whom they know—or, more precisely, don't know. By changing their assumptions about recruiting, and by experimenting with part-time positions, innovative career paths, job-sharing, and training and mentoring, nonprofits and their boards could open up vast new sources of management skills.

In addition to attracting new talent, the nonprofit sector needs to build the infrastructure required to ensure that its existing talent is visible and mobile. The good news is that at least a handful of initiatives to mitigate this problem are under way. The Chronicle of Philanthropy's Philanthropy Careers section has a broad reach across the nonprofit sector. Community foundations in cities such as Chicago, San Diego, and New York are expanding programs to build local organizations' leadership capacity. Private foundations such as the Annie E. Casey Foundation are tracking and attacking specific issues such as executive director succession. The Forbes Fund hosts leadership roundtables, commissions research on nonprofit talent, and maintains a fund to support nonprofit leadership. American Humanics, a national alliance of colleges, universities, and nonprofits, aims to educate and prepare professionals to lead nonprofit organizations. Net Impact is a global network of MBAs, graduate students, and young professionals allied in a mission to nurture and strengthen leaders using the power of business to make a positive net social, environmental, and economic impact. CompassPoint has recently started an Executive Leadership Services and Executive Transitions division, which helps nonprofits prepare for executive transitions, recruit strong pools of candidates, and support and train executive directors. Idealist, a project of Action Without Borders, offers nonprofits and individuals opportunities to connect via job openings, volunteer opportunities, internships, events, and resources posted by organizations all over the world. Bridgestar, an initiative of the Bridgespan Group, collaborates with businesses, universities, professional associations, and nonprofit organizations to develop networks of management talent for leadership roles in the sector. In support of its mission, Bridgestar provides content and recruiting services, including an online job board, to help match senior leaders with nonprofits' needs.

In building the sector's management ranks, much will depend on how quickly and effectively these and similar infrastructure-related initiatives will be able to increase their scale. Timing is of the essence: Nonprofit leaders are retiring, organizations are growing, and the need for leadership talent is escalating. Without strong support and investment, the efforts may amount to too little, too late.

What if?

Money alone does not solve problems; people solve problems. Whether it is protecting the ecosystem of a trout stream, or providing after-school services to children in tough urban neighborhoods, money enables results, but leaders deliver them. To accomplish their missions, nonprofit organizations need both financial capital and human capital. But whereas financial shortfalls are easily measured, simply communicated, and impossible to avoid, leadership shortfalls can be hard to calibrate, awkward to discuss, and tempting to avoid. This is what makes the emerging leadership deficit so dangerous.

What if we fail to understand and acknowledge the escalating need for new leaders? What if, in aggregate, we under-invest in building leadership capacity and fail to create a mix of rewards that will attract and motivate talented managers? What if we cannot overcome the barriers and fragmentation that are likely to impede the flow and mobility of capable executives into and within the sector?

Practically speaking, it is not imaginable for over 600,000 (or even 300,000) senior jobs to remain unfilled—much less 1.2 million. If qualified candidates cannot be recruited and retained, these positions will either be filled by poorly qualified people, or the jobs themselves will eventually be eliminated. Search committees will convince themselves that a relatively weak candidate is "good enough," or that the organization really can do without a chief operating officer. In the short term, the consequences may seem tolerable; the staff will rally to support the cause, and attention will shift to ever-present external imperatives such as fundraising. Yet day after day the leadership deficit will take its toll, as organizations across the sector incrementally—and insidiously—fall short of their potential. Staff will become frustrated, donors discouraged, and reputations tarnished. And while the sector stumbles, the real suffering will occur among the millions of individuals who rely upon the services nonprofits provide and the social value they create.

There is another future—one in which a robust nonprofit sector effectively addresses society's needs and achieves ever-higher levels of performance. In this future, the leadership deficit never fully materializes. A new generation of leaders emerges from within nonprofit organizations, while recruiting horizons expand to attract senior talent from outside the sector as well. Competition among candidates for jobs intensifies, despite the war for talent, because nonprofits attract their share of the best and brightest. Charitable contributions escalate, as donors respond to the enhanced capability and demonstrated performance of nonprofit management teams.

Both futures are possible. Individually and collectively, we can use our unprecedented wealth to strengthen the sector's capacity to meet society's escalating demands; or we can allow its leadership deficit, with its debilitating consequences, to widen. We are at a crossroads. The choice is ours.

Acknowledgement

This paper has benefited from the insights of multiple individuals who served as sounding boards and thoughtful readers. In particular, I would like to thank Alan Abramson, Laura Arrillaga, Jim Collins, William Damon, Greg Dees, Joel Fleishman, Wallace Hawley, Carol Larson, Katie Smith Milway, Brian O'Connell, Judith Rodin, Richard Schlosberg, Ed Skloot, Lorie Slutsky, Robert Steel, and Kelvin Taketa. I would also like to thank my Bridgespan and Bridgestar colleagues, with a special nod to the research team of Ashford Bradly, Gail Fine, and Sarah Tudryn.

Appendix: Leadership Deficit Model and Analysis

MODEL SUMMARY

To calibrate the magnitude of the impending leadership deficit in the nonprofit sector, a Bridgespan project team developed a spreadsheet model that projects the number of new senior leaders needed from 2006 to 2016. This appendix provides a detailed explanation of the approach and the assumptions underlying the model. Our hope is that by making our methodology transparent, others interested in this topic will be able to continue to refine our collective understanding of the leadership deficit.

A brief overview of the model's parameters follows (see Figure A1 for a schematic representation):

- Organizations studied: We limited our analysis to 501(c)(3) organizations with revenues of at least $250,000, excluding those operating in health care and higher education.
- Leadership positions considered: We defined an organization's leadership as the executive director plus six roles that typically report directly to the executive director. We refer to these seven positions as "senior management."
- Key model inputs: We calculated the number of senior managers needed by taking into account (a) positions created as a result of the growth in the number and size of organizations and (b) openings in existing positions resulting from retirement and other turnover.
- Data sources: We sought out the best available data on the key model inputs. Our sources included the National Center for Charitable Statistics, CompassPoint, and GuideStar.

We conservatively projected that the number of new senior managers needed would rise from roughly 56,000 in 2006 to 78,000 in 2016, for a cumulative total of 640,000 from 2007 to 2016.

Figure A1: Leadership deficit model overview

Organizational growth

- Limited analysis to 501(c)(3) organizations greater than $250,000, excluding healthcare and higher education
- Used NCCS historical data (1995-2004)
- Conducted regression analysis to determine best fit growth rate for each revenue category:
  - $250,000 to 1 million
  - $1 to 5 million
  - $5 to 10 million
  - $10 to 100 million
  - $100 million and greater
- Projected growth over time (2005-2016) using best fit historical growth rate

Management team size

- Limited analysis to six senior manager roles beyond the ED: CFO, COO, CDO, Head of Programs, Head of HR, Head of Marketing
- Estimated team size in 2005 for each revenue category
  - Researched the management teams of 100 organizations (20 per revenue category)
  - Identified incidence of the six senior manager roles

Retirement

- Estimated retirement rates per nonprofit research studies (e.g., Nonprofit Quarterly) and for-profit analogs
- Held steady-state retirement rates constant over time (1995-2016)
- Applied additional demographic (baby boomer) retirement rates to 2004-2009 time period
- Differentiated rates by leadership level
  - Estimated senior manager steady-state rates to be lower than those of executive directors
  - Used the same demographic retirement rates for both levels

Non-retirement turn-over

- Based non-retirement turnover on CompassPoint survey of executives
- Accounted for executive transitions:
  - Out of executive level roles (e.g., consultants)
  - Out of the sector (e.g., for-profit, government)
- Used executive director data to inform senior manager rates

METHODOLOGY AND SOURCES

Universe of organizations studied

To capture those organizations most affected by the leadership deficit and to bound our analysis, we studied 501(c)(3) public charities with revenues of at least $250,000, excluding health care and higher education organizations. Our source for this information was the National Center for Charitable Statistics (NCCS).[33] Figure A2 lists the domains included in the analysis.

Figure A2: Domains included in the analysis

Domains
Arts, culture and humanities
Education (excluding higher-education)
Environment
Health (excluding health care)[34]
Human Services
International
Mutual Benefit
Public and societal benefit
Religion
Unclassified

Recognizing that growth rates and leadership team size vary by organization size, we segmented this universe of organizations into five revenue categories, listed in Figure A3.[35]

[33] www.nccsdataweb.urban.org

[34] The NCCS Health classification includes five categories of NTEE codes: (E) Health care, (F) Mental Health & Crisis, (G) Diseases, Disorders & Medical Disciplines, (H) Medical Research. We excluded (E) Health care (e.g., hospitals) from the analysis.

[35] We excluded hospitals and institutions of higher learning from our sample, because of their distinctive funding mechanisms, specialized pools of talent, and well-developed infrastructure for developing talent.

Figure A3: Revenue categories

Revenue categories
$250,000 to 1 million
$1 to 5 million
$5 to 10 million
$10 to 100 million
Greater than $100 million

Growth rates

Projecting the number of new seniors managers needed required us to develop a perspective on the sector's growth trajectory. Our approach to estimating future growth in the number of nonprofit organizations was to develop a base case that extrapolated from historical trends. More specifically, we projected that future growth rates would remain at 1995 to 2004 levels.

Using the NCCS Public Charities Table Wizard, we utilized data specifying the number of 501(c)(3) organizations by revenue category for the years 1995 to 2004. Within each revenue category, we ran linear regressions with the number of organizations as the dependent variable and the year as the independent variable to determine the best-fit line, from which we calculated the compound annual growth rate (CAGR). We then projected growth in the number of organizations for the time period 2005 to 2016 using the best-fit CAGR. Figure A4 depicts this analysis for the $5-to-10-million category, which resulted in a 7.4% revenue CAGR. Figure A5 shows the complete set of base-case growth rates that resulted from the analysis.

Figure A4: Growth projection methodology, organizations $5-to-10 million

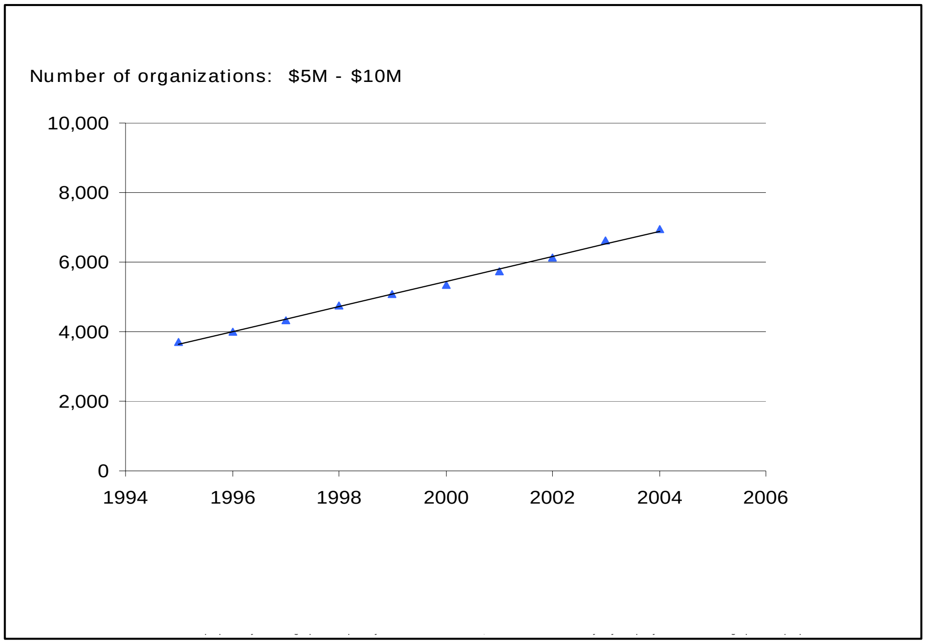

Figure A5: Compound annual growth rate in number of organizations by size category

Revenue category	Best-fit CAGR (1995-2004)
$250,000 to 1 million	5.4%
$1 to 5 million	6.2%
$5 to 10 million	7.4%
$10 to 100 million	11.0%
Greater than $100 million	13.0%

This approach to modeling the number of nonprofit organizations provided us with "net" growth rates—that is, growth rates that reflect the number of new organizations net of organizations that cease to exist. The NCCS data, which is based on IRS Form 990 filings, allowed us to calculate the net growth rates; since all these organizations are required to file Form 990s on an annual basis, those that fail to do so are automatically removed from the NCCS data set. In addition, because we looked at growth rates by revenue category, we implicitly captured the effects of organizations either growing into higher revenue categories or shrinking into smaller revenue categories.

Size of senior management teams

With the number of organizations established, we estimated the average leadership team size by revenue category to allow us to quantify the number of new leaders needed both as a result of estimated organizational growth and the already-established trend toward larger senior leadership teams. Approximating the number of senior management positions in the sector also provided the basis for our subsequent calculations of new leaders needed as a result of likely retirement and other turnover.

Beyond the executive director level position, we considered six senior management roles: chief operating officer, chief financial officer, chief development officer, head of programs, head of human resources, and head of marketing (under these specific titles or equivalents). While other leadership positions do exist, we chose to focus on the six to fulfill our objective of gauging leaders needed at only the most senior levels, and also for purposes of conservatism and consistency.

We estimated senior management team size in 2005 for each of the revenue categories by determining the incidence of the six roles across a sampling of organizations. Using the GuideStar online database of nonprofit organizations, we randomly generated a list of 100 organizations (20 in each of our five revenue categories).[36] For each organization, we researched the senior management team size by studying the organization's website and/or interviewing a representative from the organization itself. We took a simple average of the team size across the 20 organizations in each revenue category to yield the average team size by category. The results are shown in Figure A6. Lacking hard data on historical or future average team size, we conservatively assumed that it remained constant within each organization size category from 1995-2016.

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[36] www.guidestar.org

Figure A6: Senior management team size (including the executive director)

Revenue category	Senior management team size
$250,000 to 1 million	1.9
$1 to 5 million	2.8
$5 to 10 million	3.3
$10 to 100 million	3.8
Greater than $100 million	4.0

Retirement rates

We used multiple sources from both the nonprofit and for-profit sectors to estimate senior manager retirement rates. We considered two categories of retirement: steady-state (the average annual retirement in the sector) and demographic (the temporary increase in retirement due to the baby boomer generation effect). We assumed the steady-state retirement rate to be constant throughout the 1996 to 2016 time period and the incremental demographic retirement rate to be applicable from 2004 to 2009. We differentiated rates by leadership level (i.e., executive director versus other members of the senior management team) where appropriate and where data were available.

At the executive director level, we relied on a CompassPoint study, as well as a report on CEO succession by the for-profit consulting firm Booz Allen Hamilton, to calculate the steady-state retirement rate.[37] We derived the incremental demographic retirement rates from the Forbes Fund and the Nonprofit Quarterly.[38]

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[37] CompassPoint, "Daring to Lead: Nonprofit Executive Directors and Their Work Experience," August 2001; Booz Allen Hamilton, "CEO Succession 2004: The World's Most Prominent Temp Workers," 2005.

[38] The Forbes Fund, "Look Here: Attracting and Developing the Next Generation of Nonprofit Leaders,"2004; "Executive Leadership Transition: What We Know," *The Nonprofit Quarterly*, Winter 2002.

While we applied the same demographic rates for both leadership levels, we assumed steady-state retirement to be lower at the level below the executive director—roughly two-thirds of the executive director rate. This figure was informed by a study of transitions in three principal financial positions (CFO, Controller, Treasurer) among Fortune 500 companies conducted by Russell Reynolds Associates, a global executive recruiting and assessment firm.[39] Figure A7 summarizes the retirement rates included in the model.

Figure A7: Annual retirement rates

	1995-2003	2004-2009	2010-2016
Executive directors			
Steady-state retirement rate	5%	5%	5%
Demographic retirement rate	0%	6%	0%
Overall retirement rate	5%	11%	5%
Senior management			
Steady-state retirement rate	3%	3%	3%
Demographic retirement rate	0%	6%	0%
Overall retirement rate	3%	9%	3%

Non-retirement turnover

Beyond retirement, we also factored in other sources of turnover. Using data from the aforementioned CompassPoint study, we accounted for both in-sector transitions out of leadership roles (e.g., to consulting, volunteer roles, or board governance roles) and transitions out of the sector (e.g., to for-profit or government

[39] Russell Reynolds Associates, "The CFO Turnover Study," May 2005.

roles) at the executive director level. Lacking data for the other six positions, we used the executive director rates as a proxy. (See Figure A8)

Figure A8: Annual non-retirement turnover rates

	In-sector transitions out of leadership roles		**Transitions out of the sector**
	Leave position to become consultant	Leave position to take volunteer or board governance role	Leave position for job in for-profit or government sector
Executive director/CEO	2.1%	1.0%	1.7%
Senior management	2.1%	1.0%	1.7%

Sensitivity analysis

In addition to the base-case analysis, we also assessed the impact of variations in the growth in the number of nonprofit organizations, the size of management teams, and rates of retirement.

Scenarios:	**Consolidation with low turnover**	**Base case**	**High growth, high turnover, and larger teams**
Growth in number of nonprofits	Half as fast as 1995 to 2004 levels	1995 to 2004 levels	1996 to 1999 levels (the fastest 3-year period in between 1995 and 2004)
Senior management team size	Holds at 2005 level	Holds at 2005 level	Increases 50% by 2016
Retirement rates	Half as high as base case	Estimate based on multiple research studies	Twice as high as base case
New senior managers needed (cumulative total, 2007-2016)	330,000	640,000	1,250,000