The Bridgespan Group

Three Key Roles Funders Can Play in a CEO Transition

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Nonprofit leadership transitions, whether planned or unplanned, impact the organization's staff, its board, and potentially how the organization will achieve its goals in the future.

With so much at stake, it's important that funders work with their nonprofits to ensure a smooth transition—and help sustain the organization until a new leader is found.

Through our experience with executive transitions, we've identified the following areas where funders can play a key role in helping the nonprofits they support navigate this phase of their organizations' lives.

- Support leadership development for staff
- Help the board build succession plans for senior staff
- Support board development

Support leadership development

Historically, there has been a lack of funding for leadership development. Less than 1 percent of overall foundation giving went to leadership development between 1992 and 2011.[1] The corporate sector invests four times more in developing employees than does the nonprofit sector, yet nonprofit leaders consistently highlight the need for funding to support their development and the development of leaders in their organizations. Corporations have learned that investing in leadership can create long-term competitive advantages and increased financial gains. By developing leaders nonprofits can be better prepared for leadership transitions and provide for organizational stability. Funders should consider providing flexible funding to support capacity-building activities including training and board development.

[1] Ira Hirschfield, "Investing in Leadership to Accelerate Philanthropic Impact," *Stanford Social Innovation Review*, Sept. 11, 2014, http://www.ssireview.org/blog/entry/investing_in_leadership_to_accelerate_philanthropic_impact.

Furthermore, funders can support leaderful governance by engaging in dialogue with their grantees. Through this, they can better understand what support would best develop leadership capacity of the board and staff, and help grantees determine where investing in leadership development over two or more years would be most beneficial. Funders should ask open-ended questions to uncover areas in need of improvement, such as:

- Have the board and chief executive discussed leadership succession? Is there a plan in place?
- Has the organization created a vision for its future leadership team three to five years out? What skills and roles are needed to achieve that vision?
- Is the organization financially able to sustain a CEO transition?

Nonprofits are often afraid to ask their funders for support for anything other than programs, but they need to identify these as priority areas so their funders can also make them a priority in their grantmaking.

Build succession plans

Investing in leadership doesn't exclusively mean investing in a single individual. In fact, planning for an effective handoff from one leader to the next can minimize one of the biggest risks to organizational impact. Successful succession planning is not a periodic event triggered by an executive's departure. Instead, it is a proactive and systematic investment that builds a strong bench of leaders within an organization, so that when transitions are necessary, leaders at all levels are ready to act. An investment in good succession planning is a way for grantmakers to protect their previous investments and leverage their dollars.

Funders play a critical role in supporting succession planning. Our national study found that more than 50 percent of the 200 nonprofit CEOs, executive directors, and board chairs who responded reported that a lack of funding is a factor in preventing them from developing a succession plan, and 22 percent reported that it is a significant factor. Grantees should continue to advocate for this investment and grantmakers have an opportunity to support organizational continuity via strong leadership.

Specifically, funders could engage the board on this task by:

- Supporting training for board members on nonprofit sustainability to reduce the load on chief executives in the areas of fundraising and financial oversight.
- Supporting boards in their own succession planning (without term limits, a long-term executive may have long-standing board members exit in tandem with the executive).
- Supporting boards in conducting regular executive compensation assessments so that chief executive salaries are adjusting with market trends and a departure doesn't result in extreme financial hardship for the organization.

Support board development

Boards serve a critical function in nonprofits, yet they are so often ignored by CEOs and funders. Funders' grant review questions often don't go beyond the diversity of the board, whether there are terms, and whether every board member donates to the organization. They don't ask about governance, which frequently isn't well understood by boards.

One of the key governance responsibilities is to plan for the inevitable—a leadership transition. Boards, CEOs and funders need to do everything possible to ensure that a transition in leadership is minimally disruptive. Funders can play a role in supporting boards to be ready to manage a transition by:

- Establishing a relationship with the board chair to have another point of contact in the organization, and to encourage transparency and direct dialogue about what is happening in the organization.
- Encouraging the board to conduct an annual risk assessment to review known and potential risks, including finances and whether there might be imminent key staff departures.
- Paying for the costs of a transition and encouraging the board to be thoughtful about planning the transition, including whether to hire an interim CEO, engage a search firm, do an organizational assessment, or provide coaching to the board and senior staff.

There is a strong case to be made for funders to support their grantees during executive transitions. By helping them develop strong leadership pipelines through internal talent development, create realistic thoughtful succession plans, and evaluate the financial health of organizations to sustain a transition, funders can position the organizations they support to not only survive a transition, but thrive during and after it

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