

Succession Planning for Selecting the New CEO of a Non-Profit Corporation: An Essential Component of Sound Board Governance

A Webinar for the Irwin Siegel Agency
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Boards That Make a Difference

John Carver, 1990

“In my experience, most of what the majority of boards do either does not need to be done or is a waste of time when done by the Board.”

What is Governance?

Governance is about the
**choices we make to
create the futures** for
the community we serve.

Toward a New Governance Framework

“We need strong boards and we need strong executives as well; one of the key problems is that many boards are either too weak to accomplish anything or so strong they end up managing the organization.”

Robert Gale
Former President of the
Assn. of Governing Boards
of Universities and Colleges

Non-Profit Organizations

What are the roles and responsibilities of the Board of Directors of a Non-Profit corporation?

Legal Responsibilities of Non-Profit Boards: Standards of Conduct for Public Trust

- Duty of Care “that an ordinarily prudent person would exercise in a like position and under similar circumstances”
- Duty of Loyalty; a standard of faithfulness and undivided allegiance when making decisions
- Duty of Obedience; to be faithful to the organization’s mission

Basic Responsibilities of Nonprofit Boards from BoardSource

1. Determine mission & purpose
2. Select the CEO
3. Support & evaluate the CEO
4. Ensure effective planning
5. Monitor/strengthen programs & services
6. Ensure adequate financial resources
7. Protect assets & provide financial oversight
8. Build a competent board
9. Ensure legal & ethical integrity
10. Enhance the organization's public standing

Roles of Non-Profit Boards

BoardSource

- Determine mission and purpose that articulates the organization's goals, means and primary constituents served

Your Agency

-

Roles of Non-Profit Boards

BoardSource

- Select the chief executive
- Support and evaluate the chief executive;
- **succession planning**
- Ensure effective planning through active participation in planning

Your Organization

-

**“ No duty the
Executive had to
perform was so trying
as to put the right
man (sic) in the right
place.”**

Thomas Jefferson

Building Leaderful Organizations: Succession Planning for NPOs

“ We hope that you will see succession planning (as we do) not as something to be dreaded or ignored, but as **a significant, strategic, and exciting opportunity to increase your organization’s service capacity, program effectiveness, and long-term stability and sustainability.**”

Annie E. Casey Foundation, 2008

CEO Transitions: A Board Opportunity

- To have a lasting impact on the growth and success of the organization it governs
- To demonstrate to the community its public accountability by the quality of the CEO recruited and retained
- To plan for the inevitable & the unexpected transitions through the establishment of a sound policy and an ongoing, annual succession planning process
- To engage the CEO in the succession planning process

Five Key Planning Steps for the Board Prior to the Executive Search Process

1. Understand the job of the CEO
2. Develop an emergency leadership transition plan
3. Define the mutual expectations of the Board and CEO
4. Design and implement a constructive & humane process for evaluating the CEO's performance
5. Develop a productive process for Board Self-Assessment

Nancy Axelrod, 2010

The Role of the CEO in a Non-Profit Org.

- The CEO is expected to:
 - Play multiple roles;
 - Cope with complexity & uncertainty
 - Embody the organization's mission
 - Guide the organization's vision
 - Make tough & unpopular decisions
 - Understand the needs & concerns of a variety of organizational stakeholders
 - Model behaviors and values expected of others, including leading the staff
 - Be the public face of the organization

Board Source Survey Data; 1/2015

- 846 organizations
 - 45% health & social services
 - Range of all 846 budgets:
 - <\$ 1 M; 37%
 - \$ 1 M - \$10 M; 49%
 - > \$ 10 M; 14%

Leading with Intent

What percent of the 846 organizations had Succession Plans?

- 90%
- 75%
- 67%
- 50%
- 33%
- 25%
- 10%

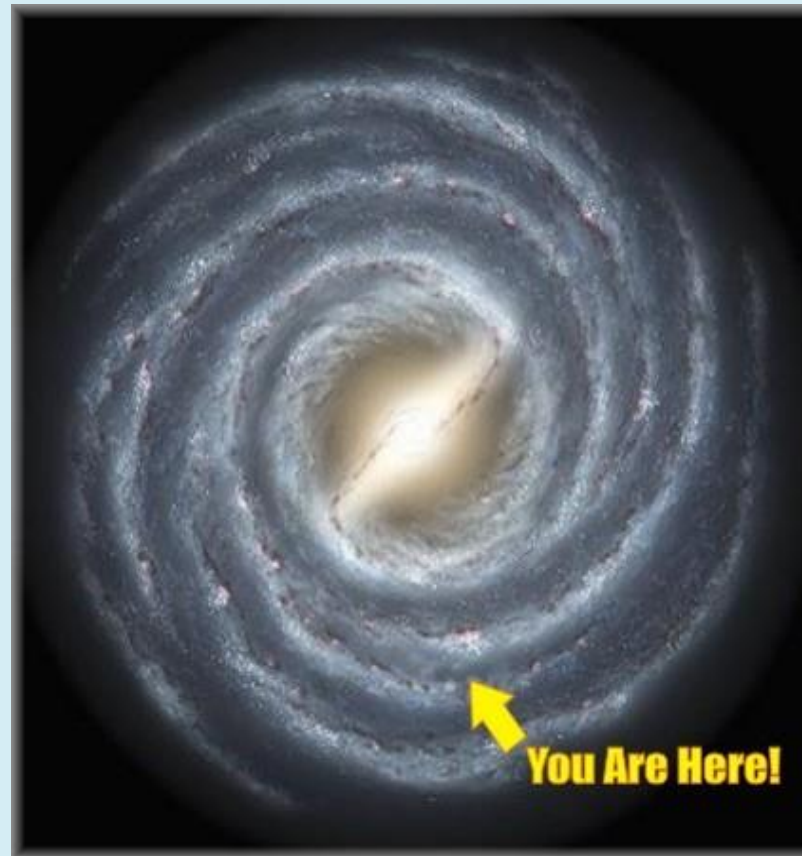
Leading with Intent Data, 2

Only 34% of Boards have a written
CEO Succession Plan

- Yet, 50% of boards will face replacing a CEO within 5 years
- 25% of CEOs intend to leave within 2 years
- 25% intend to leave in 3-5 years

Boards are under-planning & under investing in this critical process

**Without a Comprehensive
Succession Plan in Place, your
agency is sitting on a.....**



Why Does The Irwin Siegel Agency Care?

- **Succession Planning is a key element of risk management to ensure the viability of an organization...**
- Imagine what can happen to your organization if:
 - The CEO gets a better offer and leaves in 30-60 days?
 - The CEO underperforms and is terminated?
 - The CEO is hit by a truck and is out for a number of months?

Key Benefit of Succession Planning

“Succession Planning can strategically position an organization for **success** before an expected or unforeseen departure of the CEO.”

Board Source, 2016

“Effective succession planning increases the likelihood that a non-profit will have the strong leadership required to increase an organization’s service capacity, program effectiveness, and long term stability and sustainability. “

Federal Reserve Bank of Kansas City

The Essence of Strategic Planning

“Long range planning does not deal with future decisions, but with the future of present decisions.”

Peter Drucker



Planning

- Excellent planning is the key to stability and success in challenging times
- Develop a strategic framework with data and benchmarks; be creative
- Focus on the big issues that matter the most tied to vision and mission; Think creatively and entrepreneurially
- Beware of “sacred cows” or “dead horses”

“Leadership” Transitions are Inevitable

- **CEO Executive Succession Planning should be an organizational priority; and, it is an ongoing process**
- Boards and staff need to be prepared
- Stakeholders need to be assured that the organization will not falter (risk issues)
- Donors and government funders need an assurance of continuity of the organization’s work and fiscal stability

FUNDING:

Money Matters...and Drives Practice



Be Bold. Embrace Difference. Change Lives.

Three Ways to View **Succession** Planning: Be Proactive to Identify & Recruit Leadership You Need to **Succeed**

1. **Strategic leader development**; an ongoing practice; however, no guarantees to a potential successor.....
2. **Emergency succession**; to ensure key leadership and administrative functions, as well as services continue without disruption.
3. **Departure-defined succession planning**; planned retirement of CEO; start early

Vision.....

“The only thing
that is constant
is change.”

Heraclitis

Essential Elements of A Succession Plan

- Belief that the current CEO is capable of leading the organization to its expected level of performance
- Procedures for Acting CEO in the case of emergency leave
- Emergency measures for unexpected loss of the CEO
- Options for managing the transition period
- Process for recruiting and hiring new CEO
- Keeping the board united and focused on the future

Annual Succession Plan Components

- Create or update an emergency leadership transition plan
- Conduct a performance review of the CEO
- Assess the CEO's performance against mutually agreed-upon goals and expectations determined at the beginning of the year
- Implement a process for reviewing the CEO's compensation to conform to IRS form 990 & best practice requirements

Annual Succession Plan Components, 2

- Determine organizational goals and personal goals that the CEO will be accountable for during the next performance assessment process
- **Clarify expectations between the board and CEO**
- Ensure that the board and CEO have **shared goals & a collective vision of how the organization should be evolving over the next 3-5 years**
- Discuss the CEO's future plans re: term of office in the position

Annual Succession Plan Components, 3

- Review/update the CEO's job description
- Determine whether the succession plan needs to be created or revised/updated
- Conduct a board self-assessment
- Identify the board's strengths & needs
- Define goals the board is responsible for implementing
- Determine how well the board is working with the CEO
- Determine how the board will use its self-assessment data to strengthen its structure and practices

Getting Started on Succession Planning

- Immediately develop an emergency or contingency plan to provide guidance and continuity in the event of an unexpected absence.
- Develop a committee process for this work; possibly a role of the Governance Committee
- Establish organizational policy on succession planning, including interim management responsibilities and communicating with stakeholders
- Assure its continuous activities

Sample Executive Transition Policies

1. Reminds the board of its responsibilities for CEO succession planning
2. Gives the board chair the authority to form a search committee
3. Requires the CEO to identify other executives capable for carrying out critical duties in the event of an emergency
4. Incorporates succession planning into the CEO's annual performance review & assigns responsibility to both the executive committee and the CEO

Steps for an Emergency Succession Plan to Ensure the Organization is Competently Led

1. Identify the critical leadership & management functions of the CEO
2. Agree upon which functions should be covered by an acting CEO, extent and limitations of authority, & which functions a second manager should cover
3. Agree upon who has authority to appoint an acting CEO

Emergency Succession Steps, 2

4. Agree upon standing appointee(s) to the position of acting CEO, with back ups, and compensation for the acting CEO
5. Develop a cross-training plan for the back ups to ensure they develop their skills to carry on the CEO's key functions
6. Agree on how the board will support and supervise the acting CEO

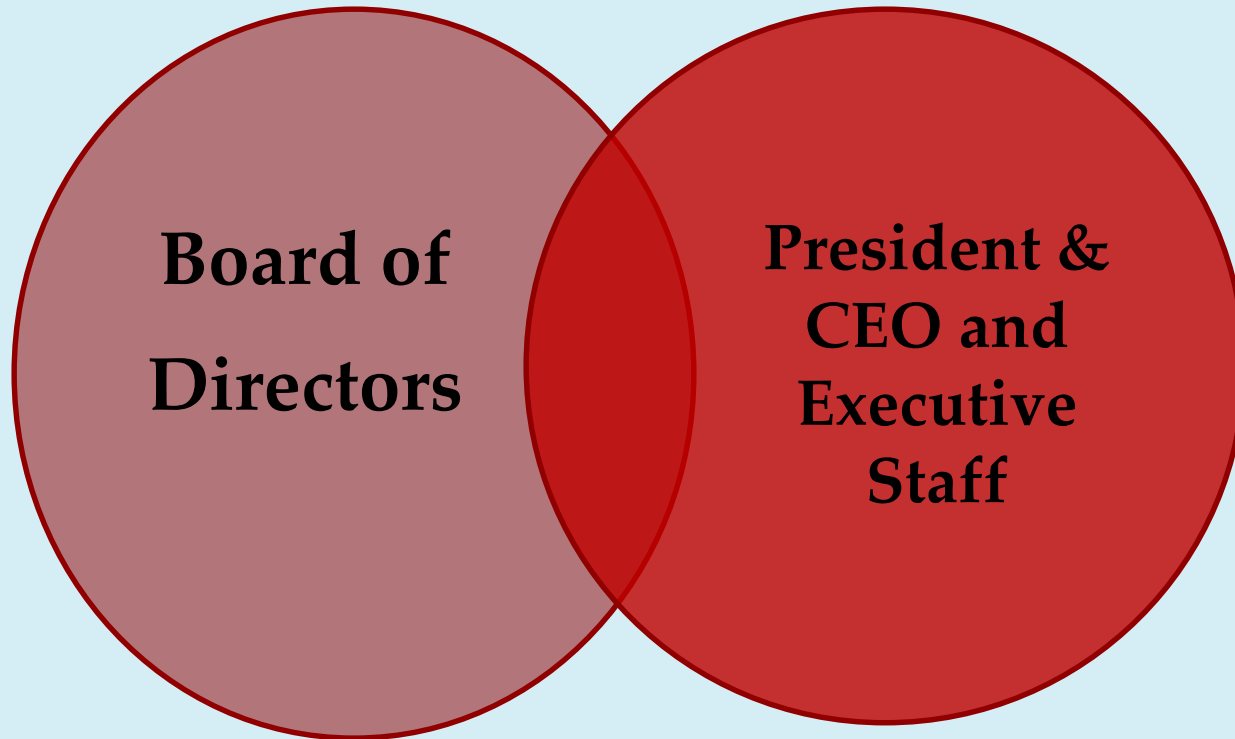
Emergency Succession Steps, 3

7. Draft a communications plan to be implemented on the event of an emergency succession (who gets notified and how)
8. Outline procedures to be followed in the event that an emergency absence becomes a permanent unplanned absence. (Be aware of ADA and EEOC legal issues here.)

Great Boards

**Great Boards are the
Key to Mission
Success**

Board of Directors & Executive Staff; 2013



Great Boards

- Have clear written job descriptions with duties and responsibilities
- Conduct effective orientation and statement of expectations & time required
- Understand purpose and activities
- Assure continuous learning environment with board development/education
- Conduct annual board evaluation; group and individual
- Conduct annual CEO performance review
- Revitalize through planned turnover, active recruitment and inclusiveness

The Best Boards:

- Keep their history & context familiar (well developed archives and manuals)
- Spend time educating board members in key areas
- Pay attention to the board as a team or cohesive group and incorporates social time for board members to get to know and trust each other.

The Best Boards, 2

- **Pay attention to succession planning and nurture future board leadership**
- Discuss the views of key stakeholders and create opportunities for board members and stakeholders to interact
- Ensure that most board meetings most of the time focus on strategic matters.

Cathy Trower, Ph.D., Govern More, Manage Less, Board Source, 2010

A Succession Readiness Checklist:

- A strategic plan in place with goals and objectives, including objectives for leadership talent development
- An annual, formal CEO evaluation process by the board on general performance and achievement of strategic goals
- An annual board self-evaluation to assure the board is fulfilling all of its governance responsibilities; financial oversight, executive support & oversight, policy development, and strategic planning

Succession Readiness Checklist, 2

- The CEOs direct reports, based on annual evaluations, are judged as well skilled for their positions **going forward**
- The top management group:
 - Has a solid team culture in place for support and group decision making
 - Shares leadership with the CEO, with input into all major agency decisions
 - Can lead the organization in the absence of the CEO
 - Has authority to make & carry out decisions within areas of responsibility

Succession Readiness Checklist, 3

- Another staff person or board member shares important external relationships (major donors, funders, community leaders) maintained by the CEO
- A financial reserve is in place with a minimum of 3 months operating funds
- Financial systems meet industry and audit standards. Timely financial reports are up to date & provide the data needed by the board & senior managers responsible for the organizations' strength & viability

Succession Readiness Checklist, 4

- Operational manuals exist for key administrative systems and are easily accessible and up to date
- Top program staff have documented their key activities in writing and have identified another staff person who can carry their duties in an emergency
- Ongoing staff development and education plans are in place as part of continuous quality improvement

Modified from Annie E. Casey Foundation

Be Passionate about the Mission

“Cowardice asks the question: is it safe?
Expediency asks the question: is it politic?
Vanity asks the question: is it popular? But
Conscience asks the question: is it right?
And there comes a time when one must take
a position that is neither safe, nor politic,
nor popular – but one must take it simply
because it is right.”

Dr. Martin Luther King, Jr.

Authentic Leadership, Bill George

**“ Authenticity
has become
the gold standard
for leadership.”**

Harvard Business Review, 2015

Authentic Leaders, defined, 2003

“ People of the highest integrity, committed to building enduring organizations...who have a deep sense of purpose and are true to their core values who have the courage to build their companies to meet the needs of all their stakeholders, and who recognize the importance of their service to society.”

Bill George

Authentic Leadership: Qualities

- Built on your **character**, not your style; **flexible** to meet situations; coach, mentor, dismissals in difficult situations
- **Real and genuine**; can't fake it; **trustworthy and willing to learn**
- **Constantly growing** from experiences
- Match behaviors to their context; self-monitoring; use EQ to communicate
- Not perfect nor do they try to be; **make mistakes, admit them & learn from them**
- **Sensitive to the needs of others**

Reflections from Mark Twain

“ It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so.”

Bottom Line – *The Train has left the Station.....*



Great Governance with Succession Planning

- ▶ We see what is on the horizon: CEO turnover is inevitable for multiple reasons
- ▶ Developing a Succession Plan should be on a fast track and requires ongoing tweaking & annual review
- ▶ Joint leadership of Board and the CEO are essential to survive & thrive; Start the process today.....

For Additional Information, to discuss or schedule consulting or training in developing a succession plan, strategic planning and governance training, please contact

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