

NPQ's Reader on

*Executive*  
Transitions



# Welcome

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ELCOME TO NPQ'S READER ON NONPROFIT EXECUTIVE TRANSITIONS. IT INCLUDES ALMOST A decade's worth of well-researched, insightful, and helpful articles on what can be a difficult and risky moment for many organizations. The sector has been blessed with a small but talented group of thinkers on this topic and most of them are published here.

How do I know how helpful they are? Because I just went through a transition of my own at NPQ. As we hired a publisher who will co-lead our organization with me, we used every bit of this information. We looked at what needs to happen when founders stay on after a transition, what works in dual leadership models, what I needed to consider in my own behavior, and what the board would need to understand and do in terms of preparing the organization and making sure that any and all "flying monkeys" were highlighted for the candidates. It was invaluable. Even if I were prone to acting badly during the process, any potential unfortunate behaviors would have been named somewhere in this literature.

So this is what I wish for you: that these articles are as useful to you as they have been to me and countless others over the years. And let us know what else we might want to include in the future. These readers are always a work in progress!

Ruth McCambridge  
Editor in Chief

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# Boards and Leadership Hires: How to Get it Right

by Deborah Linnell

**H**OW A BOARD HANDLES A LEADERSHIP TRANSITION can have powerful and long-lasting effects. This article discusses how the board's handling of this pivotal moment can result in long-lasting problems—and what your board can do to get it right.

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Consider this example. For three years, the board of an organization that promotes volunteerism has struggled with a lack of faith in its executive director. The mild-mannered director lacks personal energy and functions as a coordinator rather than as a manager. His leadership style creates a loss in momentum, although the organization's rates of volunteer participation are high. Made up of young professionals, the board has let its frustration build, prompting this executive to intuit that he has not met expectations and resign. The board decides it needs a real go-getter who will focus on fundraising, and it gets what it wants: a motivated, former junior staff consultant at a for-profit firm serving nonprofits, who drives ahead without consulting others. In fact, she often appears annoyed when others voice their opinions. Staff begins to filter out.

Always involved in setting the organization's

agenda, the board soon realizes that it has made a mistake. The problem is, its members have spent valuable social capital in promoting the new director as organizational savior. The director leaves within the year and the organization—now significantly weakened and disheartened—is consolidated into another. How do such things happen?

## Board Perceptions Inaccurate

By design, boards are often disengaged from the day-to-day work of an organization. This detachment means that boards do not understand an organization's cultural dynamics as its staff members do, and this lack of understanding can prompt a board to develop uninformed beliefs and make poor decisions based on those beliefs. In the above example, the board developed a narrative about its executive director but failed to recognize that the director's role as a coordinator encouraged the organization's numerous volunteers to step up and get involved in core functions. The new executive was given a "charge" by the board to take greater "executive" leadership, and her approach ultimately stripped the organization of what kept it alive during times of struggle.

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## Nonprofit Governance as Adaptive, Not Prescriptive

For several decades, nonprofit boards have adopted a prescriptive approach to governance. But given the variety and dynamism of nonprofit organizations, some of these prescriptions do not make sense. A primary consideration for recruiting board members should be their passion for organizational mission. Organizations should convince attorneys, accountants, and other experts to volunteer their time as needed. They should also create a fundraising committee that is not board-centric. Those who govern should focus on stewardship of the mission on behalf of the constituents in whose name the nonprofit holds its tax-exempt status.

This kind of stewardship requires ongoing learning—about the organization, its culture, the field in which it works, the field’s history and evolution, and the systems affecting constituents and the organization. It means adapting communication vehicles for this kind of ongoing learning and, most important, not relying only on the executive director to interpret the organization’s current situation. This requires attracting board members who are system thinkers rather than bean counters and who can hold current reality and future vision in their minds while also aligning with the best elements of the organizational culture. This requires a different kind of recruitment, orientation, and ongoing management of governance and a deconstruction of the sacred-cow notion that board members should talk only with the executive director.

### How Boards Can Get It Right

While the belief system of a board is developed upstream of an organizational transition, it flows down into the organization as a product of the hiring process. If boards want to do an excellent job at this powerful moment, they should take certain steps before a leader departs as well as once a leader decides to leave an organization.

#### *Boards should take these actions before a leader declares readiness to leave:*

- Board members should be recruited primarily for their commitment to the mission over skills, connections, or other characteristics.
- On occasion, have board members “intern” by taking part in the organiza-

tion’s core work so that they can familiarize themselves with the way the organization really functions.

- Create board/staff/stakeholder committees so that the board is integrated into organizational culture.
- Research nonprofit life cycles so that the board understands some of the reasons for an organization’s behavior.
- Ensure that the organization has depth or bench strength to prevent overdependence on a single leader.
- Solicit information formally and informally and listen to constituents, clients, community members, staff, and funders; ask them to tell the truth. If an executive director is in continuous friction with any or all of these parties, he does not understand leadership, and the board should act to move this person out for the health of the organization.

#### *Boards should take these actions once a leader declares readiness to leave:*

- Do an early exit interview to get perspective on an outgoing leader’s belief systems; style; and experience with board, staff, and other stakeholders.
- Assess the organization—its position in the field, its financial state, its relationships with stakeholders, its culture—any chronic problems and strengths and lay out a list of desired characteristics for a new director. It is almost always better for an external party to do this evaluation, but take the time to challenge your own assumptions about what the organization needs. Leadership transition consultants may be the best external candidates for this role.
- Create a position profile for the new executive based on internal and external assessments and a consideration of the organization’s needs relative to its life cycle over the next five to seven years.
- Involve the staff and, where appropriate, other stakeholders in hiring the new director.
- Create a set of interview questions that identify the leadership qualities that promote a healthy organizational culture and ensure that regardless of the skill or experience of a new hire that these qualities remain “the essentials” for executive leadership.

Anyone who spends a lot of time in nonprofit environments has seen a hundred variations on this theme. The board sincerely believes that it has taken the organization “in hand” even while it eliminates some of its most useful assets. Even if a board listens carefully to an executive director, it may get a distorted view of what an organization needs. For instance, a board may “know” from the organization’s executive director that the staff underperforms. But does it also know that keeping

your head down and “covering your butt” are the order of the day? Seeing the production problem as the result of recalcitrant staff takes you someplace quite different from seeing the problem as a combination of these problems: a lack of distributed accountability, a fear of stepping out to make suggestions, and the absence of a passionate shared sense of mission. Many boards get stuck on a superficial characterization of the state of an organization that falls short of real understanding.

Disconnection becomes particularly acute when board members make assumptions based on a narcissistic attachment to their own knowledge and experience. Some board members join a board with a “deficit attitude” and assume that nonprofits do not understand how to operate well and that they need a more business-like approach. Boards are attracted to such people for three reasons: (1) boards believe it is best to recruit members from a short menu of professions, such as human resources, accounting, marketing, and law; (2) boards want members who can build a bridge to the money, and (3) boards tend to reproduce themselves, recruiting like-minded people to replace retiring members. But if these board recruits have little knowledge of an organization’s history, context, or constituents and only the vaguest understanding of its programs, their conversations revolve around only what they know.

These misconceptions are not the fault of individual board members, whose orientation often does not require them to “live” in the organization’s core work for a day or two. Some consultants and executives, in fact, frown upon “normalizing” board members (i.e., having them take part in an organization’s day-to-day life), but the likelihood of board-staff misalignment increases when dialogue between board and staff members is discouraged. Lack of board-staff connection often occurs and is justified out of a fear of “inappropriate communication” between the bodies. The underlying thinking smacks of a fear of transparency and of a rigid organizational hierarchy that blocks board members’ understanding and can make board members truly dangerous in the hiring process.

### Defaulting to Individual Style

Over the course of three years, a large animal rescue league had two “unintentional interim” leaders after the founding director departed. The first was inexperienced and took all her direction from an overly involved board president who in essence ran the organization. Her inexperience caught up with her, however; the board of directors turned on the officious board president, and she was terminated. Another interim was hired who was extremely harsh on staff to the point of being disrespectful. The organization’s reputation was in tatters; staff and all-important volunteers were demoralized and left in droves; and the board

## Leadership That Promotes a Healthy Nonprofit Culture

While no leader is perfect, an effective leader maintains the essential qualities of a healthy organizational culture: that is, being purpose driven, transparent, and accountable; having a commitment to ongoing learning with and on behalf of constituents; and having sound management. These leaders can do the following and facilitate others to do so as well:

- *Partnership building.* Leaders who partner with and inspire the groups who make up the system to move together are able to leverage capacity toward achieving mission and vision.
- *Continuous learning.* These leaders actively seek constructive feedback to enhance leadership and professional skills and incorporate diverse opinions.
- *Analysis and synthesis.* Such leaders also analyze and synthesize historic and current patterns and systems affecting constituents or creating barriers to change. Recently popularized as “right-brain thinking,” this approach enables leaders to see the inter-relatedness of events and understand the impact of the community and constituents on the organization. Smart leaders enlist multiple perspectives to understand the current situation—its merits, flaws, and areas for change.
- *Whole-systems thinking.* These leaders understand that they are part of the system and organizational culture, not outside of it. Executive directors and board members often mistakenly believe that they are in charge. They can influence a system through their decisions, but those who make up the system affect it as well. Since no individual controls the organization, its members are in a continuous dance of influence with one another. Good leaders understand this and facilitate a mutuality of purpose and identify management disciplines that are most effective rather than exert individual mandates.
- *“Authentic” communication.* These leaders communicate authentically from their true selves and do so transparently with all stakeholders. Healthy, self-aware leaders who can communicate clearly and honestly enable organizational cultures to thrive. This means respecting confidence and boundaries, not hiding behind excuses like “The auditor says,” or by “gatekeeping” information from staff, constituents, and, yes, the board.
- *Understanding of cultural dynamics.* These leaders understand the dynamics of the dominant culture within the organization (and the systems in which an organization exists) and its impact on diversity and the inclusion of people, ideas, activities, and community impact.
- *Effective management.* Finally, these leaders manage well. They ensure that finance, fund development, human resources, and facilities management are attended to and done well. Many good leaders have the various skills listed above but are undone by an inability to accomplish and delegate important management functions in a timely, well-organized way.

supported the inappropriate interim, believing that standing behind the executive director was its role.

By threatening a union drive, the remaining staff forced the question and ousted the inappropriate interim. The organization lucked out with its next interim, who eventually became the executive director. He believed in supporting staff to become

Boards often hire a manager and allow him to manage in whatever way he wants—as if management style were value-neutral.

critical thinkers and reflective practitioners and asked for their opinions about everything. He also believed in stakeholder involvement and constituent voice and continuously surveyed for feedback on the organization's performance relative to its mission. In less than two years, the organization's operations had turned around completely.

But the executive director neglected one critical area: recruitment of board members who would align with the healthy culture he had built. Because he was a capable leader, he managed the board by producing excellence, good reports, good results, a good reputation for the organization, a rebuilt funding capacity, and even program innovation. But because of his lack of time, interest, or disbelief in the influence of the board of directors, he did not change board membership much. He did not ask board members to do what they had been required to do in the past: to volunteer for at least six months in the animal shelter learning the ins and outs of the business, getting to know staff and volunteers, and deeply understanding the culture of animal rescue work.

After seven years, the director decided to leave. He presented the board with materials on executive transitions, but board members decided to conduct the hiring process themselves. The next director they hired had an excellent fundraising résumé in a different field (social services) and had some experience as an executive director of a local affiliate of a national organization that had required a good deal of responsibility on the ground. But despite these experiences, the director came in and led hierarchically. Staff and volunteers who were used to a culture in which they were respected and their opinions were heard and most often acted upon, bristled under the directiveness of the new executive. Within a year, the director had undone the vibrant culture built by her predecessor over the prior seven years—and with the blessing of the board of directors, which was always slightly suspect of the former director's facilitative, flattery-based style of leadership but never questioned it given the unprecedented success of the organization under his leadership.

In a matter of months, a healthy organization became unhealthy. The former executive could have helped the organization he worked so hard to rebuild with one small point of leverage: by developing a board of directors aligned with the

culture of the organization he had built. If he had done so, the board would have understood that it would take a particular kind of leader to build on the success of the previous executive. And it might have prevented a new executive from managing based on her own dictates and without consideration for the organization's past, the field in which the organization was situated; or for staff, volunteer, and community needs. Four years later, this organization has lost more than 50 percent of its staff, and its reputation is once again suffering with funders and community partners.

In these situations, line staff members are often excluded from the process of selecting a new executive director. The expectation is that a new boss will “manage” staff, and boards fear self-interest will taint such participation.<sup>1</sup> But boards ignore an important perspective when they do so, since line staff tends to embody the culture of the organization. Rather than taking the time to hire a candidate who is a good match for the culture of an organization (someone capable of asking, “Does the organization need to be nudged in a new direction, or does it need its best characteristics reinforced?”), boards often hire a manager and allow him to manage in whatever way he wants—as if management style were value-neutral.

## Management Trumps Leadership

For years, boards have hired for management skills over leadership skills. This trend has increasingly placed a premium on the ability to manage finances and fundraise over competencies that reflect whole-systems thinking, such as the ability to build shared vision and facilitate the ongoing engagement of multiple stakeholders toward that vision. Management skills are important, of course, but they aren't the drivers of true “non-profit excellence.”

Still, hiring primarily for management skills is understandable. Many nonprofits have trouble finding a visionary leader and a supermanager in the same person. And when organizations move from the first, or “family,” stage to the second, or “improving management systems,” stage, a board often defaults to management attributes simply because it has experienced the fallout of inadequate financial or human resource systems. Again, this focus is not necessarily wrong in the moment, but it may stall the

organization for years to come by assuming that the preponderance of needs now (concerning policies and procedures, for instance) will remain the same over the next five or 10 years. Boards tend to hire based on their problems with a departing executive director. As a result, they often rush into the hiring process to “fix” those issues rather than take the time to reflect on where the organization is now, where it is going, and how to find the best leadership fit for the future.

When boards do not recognize problems as being related to a stage of development—and in particular, when an organization is making the transition from the first to the second stage—it can make common mistakes with predictable outcomes. For instance, if a board overcorrects and hires a rigid and controlling director, the organization’s staff, members, or constituents may revolt, spit out the newcomer, and return to the first stage.

Or if a board hires an operations person without strong leadership capacity, the organization may wander forward slowly without recognizing it has lost its potential for influence and excellence. Too many boards are satisfied with well-managed nonprofits and fail to question whether an organization has optimized its mission or validated its strategies through close engagement and work with constituents—even if the effort means the organization must reinvent itself to do so.

### Risk-Averse Managers as Board Proxy

Boards may hire risk-averse executives in reaction to a visionary but unstructured leader. Boards who see themselves as protecting an institution’s integrity often place a premium on financial and organizational stability over, say, fighting the good fight with the powers that be about an unpopular issue. Risk-averse hiring may also result in community institutions that feel more bound by their grants and contracts than by those they serve. In the end, this approach limits an organization’s appetite for organizing, advocacy, and innovation and diminishes its focus on community impact in favor of institutional security.

Ideally, board, staff, and other stakeholders weigh risk taking and risk management and tip the scales in favor of constituents’ best interests. This sometimes requires a willingness to choose the less secure path, but that choice becomes nearly impossible if a board hires a director who is more

interested in compliance or the organization’s image with corporate funders than in doing what is right on behalf of constituents.

### Leaders in Board’s Own Image

If a board ignores its organization’s constituents and its staff’s requirements of a leader, the hiring of a new executive can create a disconnect that rocks organizational culture. The mutual reinforcement of board members and executive directors concerning management style, choice of programmatic strategies, race, gender, and class creates a closed loop of people with the same attitudes, mental models, reference points, and blind spots. If they do not have a strong discipline of inquiry, a desire to challenge the status quo, and an ingrained curiosity about how best to serve constituents, this closed-loop system can’t align with the community it serves and organizational culture fractures. Soon, it becomes a requirement to “gate-keep” ideas and approaches that diverge from the norm and to support the board’s and the director’s perspective—even if this perspective runs counter to the truth. Creative disruption is neither understood nor welcome.

#### ENDNOTES

1. Ori Brafman and Rod A. Beckstrom’s book *The Starfish and the Spider: The Unstoppable Power of Leaderless Organizations* brings home the point that sustainable businesses and nonprofits rely on multiple leaders at all organizational levels rather than on one leader at the top.

Do you have an experience concerning hiring new leaders that you would like to share? Write us at [feedback@npqmag.org](mailto:feedback@npqmag.org). Reprints of this article may be ordered from <http://store.nonprofitquarterly.org>, using code 150103.

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# Departing? Arriving? Surviving and Thriving: Lessons for Executives

by Tom Adams

Think of the tension  
as a source of energy

**T**HE JOB OF THE NONPROFIT EXECUTIVE IS ONE of the most rewarding I know. It is also among the most challenging, requiring a deep passion for the work and the ability to juggle competing demands, sustain multiple relationships, and manage a very possibly under-resourced infrastructure.

The job of the nonprofit executive is one of the most rewarding I know. It is also among the most challenging, requiring a deep passion for the work and the ability to juggle competing demands, sustain multiple relationships, and manage a very possibly under-resourced infrastructure.

So it is not surprising that the point of transition is full of tension. Anyone who has replaced a leader knows the sense of excitement and trepidation you bring to the first day. What will you find and will you be able to handle it? On the other side, any departing executive who has made a difference knows the worry-filled nights just before leaving. Are you leaving any messes that will trip up your successor, tarnish your legacy, or in any way cause harm to this program about which you care so deeply?

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This article provides practical guidance to exiting and entering leaders, with a particular focus on founders and executive directors of long tenure. What follows is derived from my executive transition work with more than a hundred organizations, the research that flowed from some of this work, most recently with the Annie E. Casey Foundation, and my own experience as the first executive director of a neighborhood development organization.

## Seizing a Pivotal Moment

During the last decade, field research by the Neighborhood Reinvestment Corporation highlighted the risks of failed transitions to boards and organizations. They found that most transitions (as many as 70 percent) are “non-routine” and occur due to an organizational crisis or the departure of a founder or visionary leader. This research also demonstrated that poorly managed executive transitions incur high costs to organizations and communities.

Failed transitions often cause repeated executive turnover, loss of organizational focus and momentum, and extended periods of under-performance. In extreme circumstances, organizations enter a downward spiral, eventually going out of business and leaving in their wake a host of broken commitments and financial entanglements.

Unfortunate as this individual organizational failure might be, it's not the worst outcome. The costs of these very public failures do not accrue just

to the organization in question; they ripple out and can cause a loss of confidence in an entire field or in nonprofits in general.

Executive transitions generally work best when we approach them intentionally, when we consider the significant personal and professional challenges present, and when we understand that they represent what I like to call a “pivotal moment.” Think of the tension as a source of energy. When approached from this perspective, transitions present a unique and rare opportunity for significant shifts in organizational focus and major leaps in organizational capacity.

## Preparing to Leave

Three clusters of issues shape (and sometimes shake) all executive transitions, particularly as a founder or long-term executive decides to move on.

### Making a Decision

Founders are generally conflicted about whether and when to leave. In the Casey Foundation’s research on this issue, every founder or long-term executive studied experienced personal ambivalence and a period of indecision. If you are feeling a little wobbly in making this decision, you are not alone.

In one organization, where the executive/ founder is at least as recognizable as the excellent community organization he runs, close friends report that he has “been talking about leaving in five to seven years for more than ten years.” This public exploration is fairly common but, in most cases, probably something to avoid. It is, however, indicative of how difficult it is for highly competent—and highly invested—executives to make that final decision to leave.

There are two dimensions associated with making the decision to leave—the personal and the organizational. The personal decision usually needs to come first. This involves confronting tough questions, including:

- Do you want to keep doing this job?
- How well are you currently doing it? Have you consciously or unconsciously begun to disengage?
- Are you staying because you are not sure what else you might do, or because it is right for the organization and you?
- Are you financially ready to move on?

It may be too difficult to answer these questions without help from a relatively objective and wise friend. Choosing someone, or a few people, to help

you through these decisions can be invaluable to you and those around you. Remember that, as a leader, your actions or lack thereof affect individuals, the organizational culture, and the organization’s position as a whole.

The second aspect of the decision is what is right for the organization; it is a difficult question for any executive, especially for founders, to consider objectively on their own. The key question is: how ready is the organization for this transition?

Here are two sub-sets of concerns: first, what strengthening actions are needed before making a public announcement of a departure date? And then, can you identify the actions that need to happen and make sure they occur, or do you need help? Key areas to look at in determining organizational readiness are staff shortages in administrative support, systems, infrastructure (including technology), and board and staff development.

But there may be times when a leader—for whatever reason—cannot stick around to strengthen the organization because it’s just time to go. Such cases may call for an interim executive. (See below.)

To be fair to others, try to limit the effects of your own personal style of decision-making by reflecting privately.

## Considering an Interim Executive Director

An interim executive director can be a potent resource for an agency in transition, giving a board the time to conduct a thoughtful search and avoid rushing to hire an inadequate candidate. As an insider, a board member or senior staff manager is more likely to be an agent for maintaining the status quo than for growth and renewal; whereas a skilled and objective outsider will push the agency to take strategic advantage of the transition.

Skilled interims are scarce in many areas, but where you can find one, his/her job is to move staff, board, and programs to a healthy start with their next ED by:

- Expertly reviewing management systems and addressing any serious weaknesses. Are future finances projected to be stable? Are accounting practices and human resource systems functional and updated?
- Helping staff and board “let go” of the past—some will be grieving the departure of a revered leader, while others may be angry over perceived failings or abuse. And if the previous executive is moving into an emeritus role, the interim leader helps him or her to practice giving up control.
- Guiding future visioning. Interim leaders make agencies take a fresh look at their purpose, in the context of client needs, and at funding strategies.

When local funders and management support organizations help in the creation of an interim pool, it can be of great benefit to local nonprofits. For instance, Maryland Nonprofits and CompassPoint Nonprofit Services maintain pools of veteran nonprofit CEOs.

*Tim Wolfred, Psy.D., directs the Executive Transitions program at CompassPoint Nonprofit Services in San Francisco. He has been an interim executive director 16 times.*

Most of us are better served by developing an effective management team and infrastructure than by grooming a particular person as successor.

Your personality, way of handling tough and/or emotional issues, and departure timetable often determine how the ending takes place. To be fair to others, try to limit the effects of your own personal style of decision-making by reflecting privately, and then talking with some trusted allies, or an organizational consultant. Choose a consultant who can assist you and eventually the organization as a whole in reaching as clear a picture as possible of the health of the organization, how the transition process can add strength and capacity, and what role the executive should play during the transition and hiring.

### *Grooming Your Successor? Think Again*

A founder or long-term leader's passion for the cause often feeds a strong drive to pick or groom the successor. Unfortunately, I have seen few cases of the successful grooming of an internal successor. Some of the reasons for this may be:

- It's the board's decision. No matter whom you pick or how well you prepare them, even if the board is aware of your plan, it has a right and a responsibility to hire the executive.
- The skills needed in a deputy or associate director are often different from the skills needed in an executive, or are perceived that way by board and staff.
- Healthy boards often want fresh eyes and fresh perspective in a new leader, particularly following a founder or long-term executive.
- Internal successors to a founder have a better chance after someone from outside the organization is hired as an interim executive.

There are, of course, exceptions. Occasionally a board and founder agree, and a successor is identified and prepared. However, most of us are better served by developing an effective management team and infrastructure than by grooming a particular person as successor. This will provide your successor with a wealth of institutional memory and an effective management team. Your investment in consciously and continuously grooming new leadership ensures there is a diverse pool of potential executives ready to serve your community. Concerted action to expand talent development reduces the "no one available" challenge so many communities and organizations face.

### *Setting Boundaries for Your Role*

As private considerations about leaving have

personal and organizational components, your leaving strategy generally has a private and public phase. The private phase, described above, can begin two to three years or more before the actual transition. The public phase—after the plan to leave has been announced with a date certain—typically will last from four to twelve months. There are two key areas to pay attention to before departure: organizational strengthening and support to the transition management work. After departure, ideally you aren't paying attention to anything in the organization! (More on that below.)

### *Readying the Organization*

A useful way to think about the most needed organizational readiness work is to ask: What current conditions are most likely to derail or challenge the next executive? Unrealistic expectations by the board and staff for the next executive, the job being undoable because it is really two or three jobs, and lousy financial systems or technology are among the most common derailleurs for successors.

Executive directors often built networks of trusted relationships that are a key part of their ability to get things done. They use their charm and these relationships to manage cash flow and balance the budget. Besides doing what you can to lower expectations and address gaping problems, record for your successor the quirky

idiosyncrasies of what you do. Perhaps you address every direct mail letter by hand or you've learned the hard way the pet peeve of your largest donor's lawyer. Document what seems important, then trust that your successor will need to make her own mark and won't want to recreate herself in your image.

### *Supporting the Transition Itself*

Typically, some time four to twelve months before the desired exit date for the founder, the transition process becomes public. In most instances, the role and power of the executive begin to shift, often more quickly than expected.

There are three distinct ways you as an outgoing executive can assist the board with transition management:

Hands-on management: Here, you continue to lead the board in making key decisions. You decide if an interim executive is needed or if outside transition or search assistance makes sense, review

resumes, and recommend candidates. This approach may appear efficient, but generally does not leave room for the board to assume its full responsibility or increase its awareness and capacity. More than one departing executive who has tried to hold the transition process too closely has gotten feelings hurt when the board feels honor-bound to wrest away control. This can cause misunderstandings that may linger for years.

**On-call resource:** You defer to the board the key decisions about how to manage the transition process and the selection of a successor. You walk a fine line here, supporting the board when asked without reinforcing unhealthy dependence or maneuvering for a particular outcome. Usually some strengthening of the board, including increased involvement in details previously left to the executive, is required. Using the transition process to strengthen the board and its ownership is in the organization and founder's interest.

**Hands off:** This radical, “cold-turkey” strategy is foreign to most executives, but it is the best approach in some circumstances. Here, you conclude that the board, staff, and organization are best served by your total detachment from the process. You do private planning and improvements, announce your resignation and a date, and let unfold whatever unfolds. This works where there are sufficient board leadership and experience to guide the process or where the overwhelming need of the organization is to end dependency on a long-term executive and boldly reposition the role of the board and, in larger organizations, senior staff.

Any of these approaches can work. The key is intentional choice, and agreement between board and founder on what most strengthens the organization and is supported by the internal and external resources.

As departure becomes imminent, the question of involvement after resignation may be raised. (Sometimes it comes up much earlier.) It's normal for a founder or the board to want the involvement to continue. In a few instances it may even make sense. The big questions here are your motivation and your action's impact on your successor. If your involvement is designed to assist the successor and he wants the help, a short overlap period can be useful. Staying on the board, or similar longer-term involvements that delay closure, however, are usually not helpful or advised.

## The New Executive's Priorities

While the body of knowledge on founder successions is still developing, experience indicates that attention to the following three basic tasks is strongly recommended for any new executive:

### Getting Connected

Early, inquiry-focused, one-on-one meetings with board and staff are vital in the first month. Unfortunately these meetings are too often neglected or half done. Be aware that this can be your biggest self-imposed risk. In one situation I observed, when the executive committee completed the performance review of the successor to its founder, the executive was disappointed that some of the reviews weren't very positive and indicated a lack of understanding of what he had done. The executive had felt that being in meetings with the executive committee was enough to build the relationships. It wasn't.

Heller An Shapiro, executive director of a health-related association, describes a more productive inauguration: “My first board meeting was two weeks after I started, and the previous executive was long gone. There was a lot to do; I made it a priority to talk with every board member and listen to why they were involved, what they wanted to contribute to the organization, and what they expected of me. I used this information to do a report and draft a work plan for the board meeting. The board was really impressed; that positive beginning confirmed that I was headed in the right direction and has served as equity for me over and over again.”

There's an old saying, “The way things begin is often the way they end.” Getting started well means paying attention to key relationships—with board, staff, funders, and community stakeholders.

### Learning the Organization

Taking charge of your beginning means paying attention to the organization's fundamental realities. Look at key documents and talk to people in the know about the organization before accepting the position. If you haven't reviewed the budget, the audit, last year's board minutes, any contracts or grant agreements, the personnel policy, and the by-laws, you don't have the information you need to lead. Some of these may not exist or not be in very good shape. The goal at the beginning isn't to fix everything, but to take inventory. This is also true in terms of the

It's normal for a founder or the board to want the involvement to continue.

Leadership transition is a powerful opportunity to improve balance and strengthen the reach and power of an organization.

organization's position vis-à-vis its constituency, among its peers, and with funders.

This inventory, combined with relationship-building meetings, will give you a sense of the health of the organization and its vulnerabilities. Fully understanding the finances is the Achilles heel of many executives. If numbers aren't your "thing," get help. Charismatic founders often manage a very tight cash flow on the float from one grant or contract to the next. As the new executive, you will not "inherit" this talent or, importantly, these relationships. Taking a hard look at the budget, cash flow, grants, and contracts and fully understanding them are essential. Things are not always as they appear. Be prepared for surprises and take them in stride. But don't make the mistake of unnecessarily talking negatively about the exiting executive to give yourself more room or standing. This will always come back to haunt you.

### *Setting Direction and Priorities*

Building consensus on direction with a board and staff takes time. For most executives, it's an incremental process. It can take a year or more to fully understand your job and the organization. In the meantime, you are at risk of not meeting key expectations of the board, staff, or other stakeholders. The obvious yet often neglected solution is a written work plan.

Organizations that work with an executive transition consultant will generally receive a written document, prepared in planning the search, that lays out direction and major goals for the first 12-18 months following a transition. Paul Cypher recently gave up an exciting senior manager job at the Rochester Museum & Science Center to lead the Baltimore Museum of Industry. He's following a founder and interim executive, and the presence of a written priorities document influenced his decision to accept the position. "I was impressed and relieved in the selection process to see how much the board knew about the organization, and how clear they were on direction. Frankly, that clarity and their organized approach to selecting an executive gave me the confidence to move my wife and family and take this position."

If there is a written document outlining direction and goals for the organization, review and update it and convert it to a 90-day work plan. If there isn't one, create the plan with the board and staff. A lack of clarity ultimately puts you at risk of arbitrary

and changing expectations, unfair evaluation, and perhaps even dismissal. Developing a written plan and asking for feedback and a formal evaluation at six months and a year are insurance for you and increase the chances of organizational success.

### **Our Leadership Challenge**

Each executive and organization has its own definitions of a successful transition but, in general, a successful transition builds and supports organizational focus by ensuring that the leadership style, skill set, and personality are exactly right for the organization at that point in its development. Leadership transition is a powerful opportunity to improve balance and strengthen the reach and power of an organization. Seize the day and work the situation for all the richness it can provide.

It's hard to get there without a road map. For many first-time travelers, the road to new leadership looks obvious and the path clear. Research and experience indicate the opposite. Transitions are tough, and many embedded complications are less than immediately obvious. In my opinion, a good map and guide are extremely useful. The cost of getting help with transition planning and management is a lot less than the cost of a failed or flawed process and well worth your consideration. (See Resources for Leadership Transition Planning and Management, p. 31.)

For founders, paying attention to your transition is the best way to protect and nourish the legacy of your years of commitment and service. For other leaders and stakeholders, attending to leadership preparation and transition ensures the work you care about is sustained. Leadership transition can be a disaster or a terrific opportunity for strengthening organizations and the field. It's your choice.

# Flying Monkeys: Organizational Considerations in an Executive Transition

by Ted Ford Webb

A LOCAL ARTS ORGANIZATION HAD BEEN A VITAL part of the community for decades, providing inexpensive space and support for artists, opportunities for children and others to explore art, and a stage for local theater. A new chief executive was to be recruited, and the organization aspired to find someone who would revitalize the organization and its capacity to attract relevant and inspiring art. The major contribution this organization had to offer was space for artists and the community that grew in that space. However, the artists who had been present at the founding of the organization, twenty-five years prior, occupied over 90 percent of it. While a few were very active, the majority of them were semiretired or used their spaces sparingly, but were unwilling to give them up. The unspoken “plan” was for space to be occupied by new artists only as people died or retired fully. The rhetoric of the search was for a new vitality, but the reality was something else. The dynamic executive director who was recruited did not understand this, and she quickly was undone when she proposed a criterion that all resident artists must be accepted into at least three juried shows each year.

When embarking on the search, the board implicitly understood that the precious studio space was going to be defended by the founding artists. They imagined that this new executive director would

somehow find a way around this. The opportunity missed by the board was that it could have used the search, and particularly the conversation with top candidates, to explore the difficult question of how to revitalize the organization when the space was so jealously guarded. Assuming that the top candidates were the experts, the board had a chance to grapple with how the issue might be solved. Its members missed an important opportunity to come to terms with a new chief executive making the best case for how she and the board might overcome the barrier together.

There is yet a larger and more dramatic point here. The demon or “third rail” of this issue was powerful in part because it was only acknowledged offline and in whispers, although anybody familiar with the organization understood the circumstances.

How do these awkward realities get communicated to a candidate for an executive position?

Remember the scene in *The Wizard of Oz* where the all-knowing Oz is revealed to be an uncertain man behind the curtain? So often the instinct of organizations when embarking on a chief executive search is to remain behind that curtain and declare that all is as it should be—when it isn’t. Absent a Toto tugging

This is a plea for better storytelling from the people in clinics and classrooms, programs and public agencies, who have their hands on America’s future.

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on the curtain, the conversation with chief executive candidates often fails to address the most challenging and important issues in play. Is it any surprise that misunderstanding and conflict and bad executive choices result?

It is in the nature of every organization to struggle with contradictions. Anyone who is equipped to be a chief executive knows that there are myriad complications that are part and parcel of the role: board politics, destructive competition and conflict among silos or ambitious staff members, funding requirements that skew the original mission and strategies of the organization, and staff managing complex programs without proper training or supervision. These and other contradictions are often present and await the new chief executive.

The ideal forum in which to determine how difficult organizational issues will be solved and a promising vision fulfilled is in that space between the chief executive and the board. It is for the board, which governs the organization, to establish that space as one in which the critical issues will be faced head on—where all the sacred cows are brought to account and unacknowledged elephants (the unmentionables) named—because they will, at least in large part, define what is truly possible in the situation. There is no better time to address this than when searching for a new chief executive. A hiring process provides a discreet forum in which to address difficult, defining issues. It is, ideally, a forum in which the board can raise such questions in a constructive manner, challenging candidates to provide advice and insight. These open conversations often liberate the board from the burden of unspoken but critical issues. With this action, the board is establishing a critical standard: the challenges most material to the success of the organization are going to be front and center in the relationship between the board and the chief executive.

One would like to think that this is always the case, but most readers of this article will understand that, unfortunately, it is not. The board, which is the supervisor of the chief executive, often signals, intentionally or by default, that there are certain issues that the chief executive should not confront—even, as in the example of the local arts organization, when those issues are central to the rhetoric of the organization. The result is that the board, as it shapes its relationship with the new chief executive, begins

that relationship by being less than fully honest. This starts the cycle. Is it any wonder when board members later complain that their chief executive is not being fully open with them?

Dorothy could not get back to Kansas until she and the man behind the curtain together acknowledged the reality of their circumstances. After that revelation, they were able to solve the problem. Dorothy had spent most of her journey seeking the wrong source, and the man behind the curtain had spent his energy pretending to have the answer. Both would have gotten there sooner, and avoided that unfortunate incident with the flying monkeys, had Oz signaled that he was ready to deal with reality from the start.

## Back in Kansas

Hindsight is easy, and the examples in this article (above and in the sidebar, following page) become clearer with the passage of time. In real time, it can be very hard to recognize or give voice to an essential truth, especially when the organization has habits that block open communication—habits like excessive politeness or only third-party communication of concern. This is why for many organizations it may be worth the price to invite someone in to help map the landscape before the hiring process starts. There are relationships and friendships to weigh, and past challenges and successes that need to be remembered and respected. There is the push and pull of different and mostly well-meaning agendas. And even the right choice is not without its uncertainties. This is why I try not to be prescriptive. There is no one way forward. It always depends.

But there are at least two larger truths that always apply that can help a board navigate the endless complications of governance:

**Rule 1.** There is no substitute for honest dialogue.

**Rule 2.** No one is above the organization.

A founder, a powerful chief executive, a unified board, a dominant group of long-term board members, a major funder—or combinations of the above—often shape and control an organization. And usually they do so to good purpose: they overcome adversity; they find the resources to keep things going; they lead and inspire by example and hard work. If they are the founders, they had the vision, took the risks, and often worked without

pay or security. For all these reasons they should be honored and celebrated—but they are not above the organization. This point is important because this positive and creative intensity can have a downside, as it can also narrow the organization's field of vision. And, the power dynamics are such that it is difficult for those who are outside this circle to promote another perspective and be heard.

My experience is that those who are in this circle of leadership are usually aware of countervailing needs and issues, at least in the back of their minds. But they may need help to introduce those issues into the dialogue with top executive candidates, for it is in the exploring of these difficult or even conflictual spaces that the right next executive may distinguish him- or herself.

In the end, an executive transition is a rare opportunity to take an honest look at the organization. This allows the next leader to be presented with the truth and with that space between the board and the executive properly defined, so that his or her life is not filled with the scourge of flying monkeys.

To comment on this article, write to us at [feedback@npqmag.org](mailto:feedback@npqmag.org). Order reprints from <http://store.nonprofitquarterly.org>, using code 200307.

## More Flying Monkeys . . .

### The Founder's Board

A charismatic founder had built a national organization with the support of a generation of luminaries from the government, business, and entertainment spheres. Well past retirement age but still vigorous, the founder continued to support the organization by drawing from his fading network. Access and funding for the organization was almost entirely dependent on his connections and his promotion of the programs. While the mission was still vital and important, the staff and infrastructure necessary to facilitate succession was not in place.

The board was a founder's board—composed of longtime friends and supporters. To a person, the board members were concerned that the organization might not survive the founder's departure, absent a radical redesign of the entire enterprise. But they could not confront him. *They put the founder above the organization.*

### Living in the Past

An international development organization, with a board largely composed of those who had previously worked for the organization, had enjoyed the service of a dedicated chief executive for nearly twenty years. The organization had tremendous good will, both within its membership and in the countries where it did its work. The chief executive was deeply committed and hardworking, but his focus was entirely operational. He didn't fundraise, nor did the board. The strategy, such as it was, depended on generation after generation of volunteers to carry the organization. With bake-sale type activities and a modest tuition, and staffed by low-paid, young, energetic former volunteers, the organization lived hand to mouth.

With the chief executive's retirement, the realization was that the organization did not have the professional staff, infrastructure, board discipline, development, and financial resources to sustain itself over the long term. In the face of ever more strict regulations, growing risk-management challenges, and competition, it had to grow and improve productivity to achieve the economies of scale that would assure its financial stability.

The power of this example is that the organization was wonderfully successful by almost any measure. There was a strong and genuine sense of community among the board and staff. *Good work was being done—but it was not sustainable.*

# Exit Agreements for Nonprofit CEOs: A Guide for Boards and Executives

by Tom Adams, Melanie Herman, JD, and Tim Wolfred, PsyD

An unshakeable tenet of successful executive transitions is the following simple fact: to have a good beginning with a new executive, it is important to have a good ending with the departing executive.

**W**HEN THE FOUNDER OR LONGTIME executive of a nonprofit leaves an organization, the board often grapples with how to say goodbye and thank you.

This question is loaded with complexities—feelings and relationships come into play, as do financial, legal, and reputational risks and rewards. There is a range of motivations for considering an exit agreement, some quite compelling. The executive, for instance, may seek a financial acknowledgment that he or she has skillfully led the organization over a long tenure—and maybe for a salary well below market rate. Still, actions that might have strong support within the board and meet the needs and expectations of the executive might not play well with the IRS, a state attorney general, or in the court of public opinion.

This article is intended to offer readers a context and a set of choices in considering whether an exit agreement is needed and, if so, what might be included. Because this is a relatively new area of exploration for the sector, each situation brings unique features, and broad generalizations aren't possible. What we offer here is a framework for:

- Distinguishing between different types of agreements, and when and how they are best used (e.g., an employment agreement, a separation agreement, or an exit agreement);
- Sharing case experience about the presenting situations where an exit agreement may be appropriate and the key considerations in exploring and shaping such an agreement;
- Understanding the legal and risk management questions that require attention in considering an exit agreement; and
- Providing an introduction to additional resources that may be helpful in considering this topic.

Whatever elements you end up putting in your exit agreement, we must stress the importance of seeking legal review of any draft exit agreement by an attorney who is licensed in the state where your nonprofit is located and also well versed in nonprofit law and IRS regulations. As you will see below, it is no simple task to construct an agreement that meets the noble goals of the agreement, protects both parties, and conforms to the myriad laws and regulations governing its terms. Professional advice is recommended.

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## Separation Agreements: Different Purpose and Rules

An *exit agreement*, as explored in this article, differs in several key respects from what is called a *separation agreement and release*. The latter refers to a contract whose principal purpose is to limit the legal exposure of the employer to claims alleging wrongful termination, breach of an implied or written employment contract, and other claims from employees departing under less than ideal circumstances. A separation agreement and release is a legally enforceable contract that commits the organization to compensate the departing employee in exchange for a promise by the employee not to bring legal action against the employer. Typical separation agreements contain additional provisions beyond the promise not to sue. For example, a separation agreement may contain a non-disparagement clause and a requirement that the departing employee keep certain information confidential or return the organization's property.

Exit agreements (as discussed in this article) and separation agreements are consistently similar in several respects. First, if properly drafted, they are legally enforceable contracts containing obligations applicable to both the departing executive and the nonprofit. Second, both types of contracts include consideration: a sum payable to the departing employee offered in exchange for the commitments made by the executive in the contract. Lastly, neither form of contract should be executed by the nonprofit without first obtaining legal review.

The areas where these agreements are often decidedly different include:

- **Motivation.** The principal motivation to negotiate a separation agreement and release is the desire to reduce the likelihood of a legal claim against the nonprofit, whereas the motivation to negotiate an exit agreement is to reward a founding or long-term executive and ensure a fair and appropriate ending to a long-term employment relationship. Legal counsel to nonprofits often recommend that a separation agreement and release be used any time the risk of a wrongful termination claim is more than minimal, assuming the nonprofit has the financial wherewithal to provide the consideration required for the contract to be enforceable.
- **Required contract terms.** An exit agreement is likely to be enforceable as long as it contains the necessary component parts of any legally enforceable contract: an offer, acceptance, and consideration. In contrast, a separation agreement and release must contain additional sections to render it enforceable in a court of law, and additional requirements apply when the departing executive is over the age of forty. These latter requirements arise from the Age Discrimination in Employment Act of 1967 (ADEA) ([www.eeoc.gov/laws/types/age.cfm](http://www.eeoc.gov/laws/types/age.cfm)), as amended by the Older Workers Benefit Protection Act of 1990 (OWBPA) ([www.eeoc.gov/eeoc/history/35th/thelaw/owbpa.html](http://www.eeoc.gov/eeoc/history/35th/thelaw/owbpa.html)). Those laws require that when the separation of an employee over the age of forty is governed by a release, certain procedures must be followed to ensure that the employee wasn't coerced into signing the release. The ADEA, as amended by OWBPA, sets out specific minimum standards that must be met for a waiver to be considered *knowing and voluntary*, and, therefore, valid. Among other requirements, a valid ADEA waiver: (1) must be in writing and be understandable; (2) must specifically refer to ADEA rights or claims; (3) may not waive rights or claims that may arise in the future; (4) must be in exchange for valuable consideration; (5) must advise the individual in writing to consult an attorney before signing the waiver; and (6) must provide the individual with at least twenty-one days to consider the agreement and at least seven days to revoke the agreement after signing it.

## Perspectives on Exit Agreements

Our writing team comes at this article from two perspectives. Two of us are leaders in developing an approach to successful executive transitions for the sector, and one of us is a thought leader in the field of nonprofit risk management, helping boards and executives better understand the consequences of risk taking and the legal and other risks that arise from governance, strategy setting, and operations.

An unshakeable tenet of successful executive transitions is the following simple fact: to have a good beginning with a new executive, it is important to have a good ending with the departing executive. Too many transitions become strained because of lack of attention to what comprises a good ending for an executive— particularly a founder or long-tenured leader.

Clients regularly ask us for help in drafting

An exit agreement can address both historical catch-up and the terms of any service beyond the start date of the new executive.

exit agreements with departing executives. (For purposes of this article, we will use “founder,” “CEO,” and “long-tenured executive” interchangeably, to mean an executive who has had a major role in shaping an organization, either in its founding and long tenure or through leadership during a long tenure.) An exit agreement, as discussed in this article, differs in several respects from a separation agreement and release. (For information on the latter type of contract, see the following page.) How many departing executives receive an exit agreement, and what the terms are generally are unknown. The terms of these agreements are considered confidential, and unless a party to the agreement intentionally or inadvertently violates the confidentiality provisions in a typical agreement, they are not available for inspection. In our experience, only a small percentage of CEO departures are governed by the terms of an exit agreement. The use of exit agreements occurs most often under circumstances that we will describe below. Most are drafted by an attorney working with an executive, a few board leaders, and perhaps an accountant who specializes in nonprofit compensation and law. In some cases, the CEO and the nonprofit retain separate legal counsel during the negotiation of an exit agreement.

### Presenting Circumstances

The following are the presenting situations where, in our experience, exit agreements are most common:

1. *A long-tenured executive or founder has accepted a below-market salary for many years. Or, he or she has received minimal or no retirement benefits from the organization and is playing catch-up to prepare for retirement.* Sometimes the conversations about these dilemmas start one or two years before the hoped-for retirement; more rarely, three or more years in advance. The point at which this situation is addressed dramatically impacts options, as we will discuss below. The more years there are before exit, the more options there are to address past inequities.
2. *The board wants to motivate a valued executive to stay for a defined period of time.* For instance, an organization may want its executive to remain in place to complete a capital campaign or to be part of winning a major multiyear government contract. The organization

may use an exit agreement with certain defined benefits as an incentive for the executive to stay longer than planned or to clarify the commitments of the executive and board as to how long the executive will serve.

3. *The board makes an agreement with a departing executive that combines catch-up and fee-for-service after leaving his or her position.* In some instances, the succession plan and transition to a new executive involves an internal successor. An extended overlap period or consulting contract for defined services is deemed mutually desirable by the departing and arriving executives and the board. An exit agreement can address both historical catch-up and the terms of any service beyond the start date of the new executive.
4. *Sometimes an executive has been appropriately compensated, including salary and retirement. However, the board and/or the CEO want clarity and comfort with respect to the CEO's legacy, the CEO's continued involvement in any organizational activities, and/or the CEO's availability to help on an as-needed basis.* In this case, such a document might be a simple one- or two-page letter of agreement about things important to the CEO and the board.
5. *Even when none of the above circumstances applies, an honorific for a long and successful tenure seems in order in the view of the board and/or the executive.* The executive has received a decent salary, has adequate retirement savings in place, and will not be providing post-retirement services beyond orienting the new executive. But, as part of the process for bringing a healthy closure to the CEO's productive tenure, a monetary gift seems to be an appropriate and customary element.

There are many other ways to say thank you to an executive who has served an organization well. You may conclude that an exit agreement is not appropriate. (For other ideas on how to say goodbye and thank you, see the sidebar on p. 50.)

### Exit Agreements: The Four Types

There are typically four reasons boards and executives explore the possibility of an exit agreement. These reasons correspond to the “type” or focus of an agreement. This section takes the four general

types of presenting scenarios for exit agreements and explores each in more depth through case examples. The cases are fictional and represent a random compilation of multiple situations.

1. **Catch-up.** A monetary package acknowledging the executive's salary has been significantly below market for a long period and/or the organization's retirement contributions have been low or nonexistent:

*James was the founding executive of a human services organization, and built it from two staff and a \$50,000 budget to a 130-employee, \$5-million-net-worth leading service provider in his community. He served as executive for thirty-two years, and wanted to retire and move closer to his grandchildren when he reached age sixty-six. At age sixty, James recognized he had a problem. He had kept his salary below market for his position and region intentionally in order to hire more program staff. The organization had begun paying into his retirement account only five years earlier at a rate of 4 percent of salary per year. Even though his wife had a more generous retirement benefit, James faced the reality that he would need to work until age seventy-six to meet his personal retirement savings goals. Reluctantly, James raised this concern with the board chair, who agreed to convene the executive committee to consider what might be done.*

2. **Incentive to stay longer.** As an incentive to encourage the departing executive to remain as executive for a defined time for purposes important to the organization's welfare:

*Irene was the founder of an environmental organization, and served as its CEO for twenty years. She informed the board of her intent to retire in six months' time. During this time, the organization was in the middle of negotiating a multiyear grant with a large institutional funder. When the board chair learned from the staff that the funder's confidence in Irene's leadership ability was fundamental to the successful completion of grant negotiations, he moved quickly to begin discussions with the executive committee about an arrangement whereby Irene would stay on past her intended departure date.*

3. **Post-retirement services.** Essentially, a

contract for services to be provided after the leader moves out of the executive role:

*Maybelle was the twenty-five-year founder of a child care center that served low-income families in an inner-city neighborhood. She had been tireless and highly successful in pursuing funding from foundations and from upscale donors who were attracted to her vision and tenacity for improving conditions for children and families in her center's environs. Donors spoke of her "special gift" for moving them to want to partner with her in her work. As she was preparing to retire, she told her board she wanted to stay involved with the child care center. It was agreed that she would move into a role as "ambassador" for the program with a core focus on major donor acquisition and retention. The board agreed to pay her a retainer of \$3,000 per month for her services.*

4. **Honorific.** A memorial, in writing, recognizing or honoring a departing founder:

*Arturo was for thirty years executive director of a multiservice community center that had received numerous awards for its innovative programming for the neighborhood's immigrant populations. After he gave his board eighteen months' notice of his impending retirement, he and the board engaged in extensive planning to prepare for the handoff to his successor. A goodbye dinner that had city leaders and appreciative neighborhood residents in attendance fulsomely celebrated Arturo's achievements. But a month after his departure, Arturo approached the center's board chair to say he was seriously disappointed that the board had not given him a monetary gift in acknowledgment of his tireless service to the neighborhood. He said such gifts were traditional, and had been given to departing executives he knew. The chair then sought advice from the search consultant they had used as to what was proper and customary.*

## Key Considerations in Drafting Exit Agreements

As intimated in the prior description of the four common reasons for negotiating an exit agreement, there is no doubt that many boards and executives find value in these agreements as

The decision to provide exit compensation for a long-term executive typically arises from a board's desire to do something good and right.

Make certain that the full board is aware of the details of the exit agreement, including the financial terms and research/basis for determining that the payout will not be considered excessive compensation by the IRS.

elements important to successful CEO transitions. There are, however, some considerations worth addressing to increase the benefit and positive aspects of an exit agreement while diminishing the potential negatives. In this section, we will explore some of the important issues that should be considered prior to finalizing an exit agreement. After presenting each issue, we offer a series of key questions and tips for reflection.

- **Financial capacity.** The decision to provide exit compensation for a long-term executive typically arises from a board's desire to do something good and right. Many departing CEOs hope to be able to continue to serve the organizations they founded or nurtured even after their departures as full-time employees, so exit agreements are optimistic by nature. Among other things, they assume that the organization will continue along its current financial trajectory or even improve. In reality, the capacity of both parties to live up to the commitments in an exit agreement may change over time. The organization must have the reserves or ability to raise designated funds for this purpose so as not to impede future capacity to carry out its mission.

For example, the commitment to make periodic lump sum payments to a departing executive may be in jeopardy if the nonprofit suffers a decline in unrestricted funding. Or, the assistance the executive was contracted to provide the organization under the new CEO turns out not to be needed.

To appropriately consider issues related to financial capacity as it relates to the exit agreement, ask:

*What is the likelihood that a change in capacity could impair the nonprofit's ability to provide the compensation, benefits, or other resources/support promised in the agreement?*

*What steps can we take now in drafting the agreement to account for any changes in capacity (e.g., provide a single lump sum now rather than payments over an extended period, or include an "escape clause" that will enable the nonprofit to terminate the agreement in the event of a financial catastrophe)?*

*Does the agreement provide for any opportunity to renegotiate its terms should either*

*side be unable to live up to the commitments contained therein?*

- **Private inurement risk.** Tax-exempt organizations must operate in a manner consistent with their charitable purpose. "Private inurement" refers to the impermissible transfer of assets from a charitable organization to insiders or disqualified persons who have significant influence over the organization. One example of impermissible private inurement is the payment of more than reasonable compensation to a CEO of a nonprofit. If payments to a CEO are beyond what the market calls for, CEO compensation may be deemed to be excessive compensation, thereby putting the nonprofit at risk of IRS-imposed fines and penalties on the organization and the individual board members who approved the payment of excessive compensation. The penalties tend to be levied first and foremost on the recipient of the excessive compensation (e.g., the CEO). In extreme cases, the IRS may revoke the tax-exempt status of the organization that has violated tax law by transferring the assets of an organization operating in the public interest to a private individual. The risk of IRS action over impermissible private inurement only applies to 501(c)(3) and 501(c)(4) organizations under the Internal Revenue Code.

Consider the tips below to weigh the potential that payment(s) to a departing executive could trigger fines or penalties under IRS rules related to excessive compensation:

*Give careful consideration to the basis for determining the amount of the payment. Use the "measure twice, cut once" rule of thumb before approving the payment.*

*Ensure that the board is independent, or that an independent committee is authorized by the board; the group will deliberate and vote on the decision about whether and how much to pay an outgoing executive. To prevent bias and preserve independence, the individuals on the board or committee should not be related to the CEO, nor should they have significant personal relationships with the CEO.*

*Carefully document the steps taken to*

*determine the amount of exit compensation to be given, and evaluate its reasonableness, including the use of surveys, salary studies, or other compensation data that was obtained and relied on. If your nonprofit hasn't recently purchased a salary study or undertaken a compensation review, consider doing so before finalizing an exit agreement. This action affirms the reasonableness of the exit compensation by supporting it with comparable market data.*

*Make certain that the full board is aware of the details of the exit agreement, including the financial terms and research/basis for determining that the payout will not be considered excessive compensation by the IRS. Document the board's action taken to approve the final exit agreement.*

- **Stakeholder dismay.** News reports of “golden parachutes” paid to outgoing corporate CEOs are rarely if ever met with thunderous applause from anyone other than the executive’s immediate family. Although after careful deliberation a nonprofit board may decide that providing a one-time lump sum or series of payments to the outgoing CEO is the fair and appropriate thing to do, the stakeholders of the nonprofit may see it differently.

To manage the potential that internal stakeholders (staff and volunteers) or external stakeholders (clients, funders, regulatory bodies, or the public) may be concerned when they learn of the payment to a departing CEO or the terms of an exit agreement:

*Negotiate the terms of the agreement with an expectation that the executive's compensation will be known to stakeholder groups. The latest IRS Form 990 requires all types of nonprofit executive compensation to be reported. Form 990s are available for public inspection.*

*Draft talking points about the board's process and rationale for offering the benefits in the agreement in order to have them on hand in the event they are needed.*

- **Contractual considerations.** The risk of a breach of contract claim arises any time an organization enters into a contract with another party. Breach

of contract claims brought against a nonprofit are typically excluded under nonprofit liability insurance policies, which means that the nonprofit will not have insurance to cover the cost of defending such a claim.

To minimize the risk that a former CEO will bring a claim for breach of an exit agreement:

*Use clear and unequivocal language in the exit agreement. The deliverables should be easy to understand by both parties as well as any dispassionate, third-party reviewer.*

*Make certain that the promises made in the agreement are ones that the nonprofit is confident it can fulfill.*

*Don't include an alternative dispute resolution (ADR) option in the contract unless you have a clear understanding about what is involved, including the cost. Although ADR methods (e.g., arbitration and mediation) are generally seen as less expensive than litigation, the cost of using these methods can be substantial.*

*Include an “escape clause” that specifies under what circumstances the agreement, or components of it (such as the obligation to pay a consulting fee), will be void. For example, the nonprofit may have grounds to stop paying a consulting fee to a former CEO if the departing CEO fails to take direction from the successor or is unwilling or unavailable to live up to the terms in the contract.*

*Always obtain legal review of a draft exit agreement before executing the agreement or asking the departing CEO to sign. Both parties, not just the nonprofit, should have legal counsel review the agreement.*

- **Disclosure to incoming CEO.** The terms of an exit agreement with a departing CEO are likely to be negotiated before the new CEO begins his or her service at the nonprofit. Nonetheless, the new CEO will likely become aware of all contracts, including any contracts with the departing executive. Therefore, one of the risks is that the new CEO will expect a similar set of benefits and compensation when he or she departs the nonprofit. We encourage boards to disclose the terms of an

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immediate family.

## Ideas for Saying Thank You and Goodbye

Planning a farewell for a revered leader is personal. Each departing executive has preferred ways of giving and receiving recognition, praise, and goodbyes, as do the board members and staff who will organize the goodbye events. The planning requires sensitivity, skill, and, often, patience. And if the executive happens to be the founder—or founder-like in tenure and transformational impact—the stakes can be especially high.

**Organizations that have successfully paid tribute to their departing executives tend to work from the following principles:**

Consult the executive in the planning and define a comfort zone that is win-win for the executive and the organization.

Involve in the planning people from the board and staff who communicate well with the executive and understand the conditions for success from the executive's perspective.

Brainstorm creative ways to make the farewell memorable, fun, and meaningful for all parties—the executive, his or her family, the board, staff, and other celebrants.

**A typical goodbye or thank you involves one or more events. Here are some examples:**

Organization A held three events for its outgoing executive: a small dinner with past board chairs with whom the executive had worked over two decades; a staff event organized by the management team; and a community-wide party where funders, government officials, clients, and their families could all come and say thank you.

Organization B, a community development organization, had both a staff-only event for its longtime leader and a Saturday picnic to which the whole community was invited. The large public party had been specially requested by the community-focused leader.

Organization C had a more traditional dinner and reception, with speakers who were meaningful to the executive and participants.

In selecting a gift for a departing executive, boards pay attention to what he or she enjoys and does for fun. Luggage for traveling, a cruise, and season tickets to a sports or arts series are examples of thoughtful gifts.

Departing an organization is a challenging and emotional event. Executives leave behind people they have enjoyed working with for many years. A well-planned farewell and thoughtful gift are often important contributions to a positive separation experience.

exit agreement to an incoming CEO.

To manage the potential of false expectations:

*Disclose the terms of the agreement with the departing executive with the new CEO and explain the rationale behind the exit agreement, such as the role of the departing leader as the founder of the organization. Stress the unique nature of the agreement.*

*Avoid a replay of the scenario that necessitated an exit agreement by addressing the compensation conditions in the organization that resulted in, for example, an executive paid below market value and underfunded for retirement.*

- **Internal equity.** Another important consideration is whether the proposed agreement with

the departing executive is so different and out of character as to raise serious internal equity and morale issues. If the purpose is retirement catch-up, for example, what is the organization able to do to improve employer-paid retirement benefits for all managers and staff?

### Examples of Approaches to Exit Agreements

Because exit agreements are confidential, it is difficult to provide many details and examples. The following are examples of exit agreements as reported secondhand from knowledgeable consultants and attorneys. Not every example follows all the guidance above. There is no one, rigid guideline, so there exists a wide range of examples in most communities. The best way to learn more is to request an informational meeting with an attorney or tax accountant who specializes in deferred compensation and/or exit agreements for executives in the nonprofit sector.

#### Example 1: Catch-Up

A long-serving executive worked without pay for a number of years. Her financial situation changed as she approached retirement age. The board increased her salary within the limits of reasonable compensation, provided the maximum retirement benefit allowable under pension law, and agreed to retain her for five years after retirement as a consultant to advise on specific areas where she had expertise.

#### Example 2: Incentive to Stay Longer

At the request of the board, a long-serving executive agreed to continue to serve until age seventy-three, four years longer than his original retirement plan. The organization's primary funder had been awarding major contracts through a request-for-proposal (RFP) process every four years. The current RFP process had been delayed twice, thus delaying the executive's departure. In exchange for these additional years of service, the board agreed to continue to pay health insurance costs and make an annual payment for five years past retirement.

#### Example 3: Post-Retirement Services

After twenty years, the founder of a regional clean water agency dedicated to removing all pollutants from the area's streams and lakes had grown weary of the fundraising and administrative duties that consumed most of her time. But, her passion for

pursuing the agency's mission was undiminished. She asked to become a half-time lobbyist for her agency in the state legislature. The board agreed to move her into that position, with the stipulation that she would be supervised by her successor. They set her salary at \$40,000 per year.

#### Example 4: Honorific

Aware that their retiring executive and his wife were avid travelers, as a departing gift the board of directors gave him a \$5,000 "voucher" for use with the travel agency of his choice. The board paid for the voucher with funds donated by board members and a few longtime individual donors.

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An exit agreement with a departing nonprofit executive is a tool that can bring clarity to uncertainty about the departing leader's post-CEO role with the nonprofit. In other cases, an exit agreement can be a tool for providing a catch-up financial contribution that recognizes, in part, the achievements and service of an undercompensated leader. Or, it can be a tool for saying thank you. But whatever the purpose or motivation behind the agreement, there are important considerations that must be examined in order to make certain that the final agreement is fair, appropriate, and legally defensible.

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Another important consideration is whether the proposed agreement with the departing executive is so different and out of character as to raise serious internal equity and morale issues.

# Preparing an Organization to Sustain Capable Leadership

by Karen Gaskins Jones

**E**FFECTIVE ORGANIZATIONAL LEADERS ARE LIKELY TO possess deep knowledge of issues in and around the organization. For instance, they will know the full range of players in their environments as well as the dynamics between them, and their tenure, influence, and reliability as partners. They are likely to know what long-term funding sources are thinking about doing in their program area and, for that matter, what those contributors like to eat at lunchtime and by whom they might be influenced. All of this knowledge is colored by their personal perceptions; and it is all grist for the mill in the stakeholder balancing act that is part and parcel of the job of a nonprofit leader. This is part of the reason executive departures can be so disruptive: if the executive is the sole holder of the organizational reins (or if too much is invested in that one position), it can cause the organization to stagger.

Of course, there are alternatives to leaving our organizations vulnerable to lurching from one leader to another. We could fill the organization with leaders (with and without positional power)

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who are effective, knowledgeable, and aligned around the organization's mission and strategy. What are the stakes—the risks—involved with not doing so?

Try this exercise in projection. What do you think happens next?

- The executive director has been exhausted by the demands of her job. She had planned to stay five years but leaves after two, saying she wants to spend more time with her family. At a meeting of the United Way's review committee, her departure comes up as an issue that argues against the agency's already tenuous position (the United Way is cutting its affiliate agency roster). A local foundation officer sits on this committee and wonders what this means for the agency. Should she delay the review of their grant?

- A small organization attracts young and enthusiastic staff people but there is little room to exercise their intelligence because the executive likes to hold decisions closely. Suggestions for changes in the way they do business are met with a glazed look, and there is a good deal of turnover. The leader, although not the founder, is well known as a passionate advocate—the board defers to him. He becomes seriously ill and is ordered by his doctor to leave.

- An executive director leaves unexpectedly, and a board member who has been involved with the organization for some time takes on the role of interim executive director. Once he is in the position, it becomes clear that the new ED cares for

the organization and its mission but lacks some vital skills. When some of the board members become aware that the health of the organization is eroding, they begin to panic. Others defend the interim, lauding him for his self-sacrifice.

When such things happen in nonprofits, it usually means that attention to leadership development (and its impact on sustainability) has been inadequately addressed. The often unseen and unintended consequences may include a host of missed opportunities and organizational missteps. Hence, when the pool of capable organizational leaders is not continually nurtured, the organization may stagnate in the short term and become vulnerable in the long term.

### Leadership Change Means a Change in Perception & Practice

The mental model that predominates nonprofit succession planning might be likened to the transition of one head of state to another. Nonprofits can end up with a new cabinet (middle management and board), a new fiscal policy, and even an entirely new program as a result. No wonder the simple act of replacing one person is so charged. Consider further whether this is a legitimate approach in an organization that is supposed to be the expression of collective values and intent.

One philosophically different approach to single-leader succession planning involves the continuous cultivation of leaders among staff, board members, and volunteers in order to have a cadre of people prepared to fill different leadership roles.

An investment in leadership development entails inviting and building talent at every level and sharing expertise, contacts, and decision-making authority. In this way you create a depth of institutional will, knowledge, and memory that can survive the transition of one individual, however remarkable. Not only will this benefit your single organization, but the broader cultivation of diverse and talented leaders will enhance the non-profit sector's influence and effectiveness within communities served and within our society.

### The Leader Development & Succession Landscape

If your nonprofit organization clings to a one-leader model, it risks enormous disequilibrium in the loss of the nuanced understanding of and

influence on the environment that was referenced earlier in this article. Suddenly you could experience a cascade of events: funders falter waiting to see how the new executive works out; productive partnerships are neglected and lost; cash flow tenuously managed hits the skids.

How do you avoid these setbacks? Below are three strategies that can provide equilibrium during leadership changes and, in general, grow the leadership capacity of the organization over time.

### Risk Management

If a leader is lost on a fairly abrupt basis, the immediate questions within the organization are often:

- Who knows how to do that function?
- Who understands what the immediate organization/program needs are—and how to meet those needs and commitments?
- If someone else on staff takes on these additional responsibilities, what other parts of the organization may suffer?

The proposed risk management strategy for dealing with the unplanned absence of a leader is to create an emergency succession plan. This is a plan that can be implemented when there is the temporary absence of a person in a key position on staff or on the board. For example, if there is only one person who deals with a program or fiscal responsibility, what would happen to the organization if that person were unexpectedly unable to perform that function for one month? For three to six months?

An emergency succession plan is the minimum level of investment in a *leader development approach* to protecting your organization and cultivating talent. With the discussion of how to cover key positions (e.g., executive director, program director, comptroller, other important administrative positions), issues of cross-training, development, and growth opportunities become a part of performance management conversations and of the strategic goals for the organization.

To ensure the organization can operate effectively during times of unplanned change, plan for the change to occur. Build a strategy to ensure that there is some redundancy in the organization and that people with the right knowledge and skills are ready to assume responsibility if key leaders leave unexpectedly.

## A Strategic Approach to Leader Development

Once this minimal risk prevention step has been taken, the next level of investment is to think about the longer-term cultivation of the staff and board. This cultivation can be keyed to strategic and business plans. Even if such plans do not exist, the organization generally will have some method to determine its focus, goals, and its strategies for accomplishing those goals. Make sure that you have taken this trajectory into account when you think about leader development:

- What kind of competencies will staff need in the near and far future?
- What talents and capacities are there among staff and board members that might be further built for the good of the organization?

Then consider again the function of teams and cross-training to create redundancies of skill, knowledge, and relationships.

With clear intention to cultivate a pool of board and staff leaders with diverse talents and experience, the organization becomes more deliberate in creating opportunities to educate, train, or expand the awareness of individuals for different aspects of the work. It becomes a cultural norm to expect curiosity, engagement, and excellence from every leader in the organization. What can aid in this?

- Policies and practices designed to link people's work directly to the organization's mission and vision, and to increase their ability to fulfill increasing levels of responsibility to sustain the organization.
- Excellent information flow that provides open access to information about the organization's position in the community and with funders, its financial realities, and its benchmarks, as well as its strategic questions.
- Opportunities for people to exercise their leadership in ways that are challenging.
- Individual and collective behavioral norms to foster mutual respect, as well as recognition of their talents and experiences.
- Behaviors and practices to reinforce mutual accountability for the outcomes of their work together.
- A willingness to experiment and learn together—to seek better ways of delivering services and products—and heighten their effectiveness in working together.

Leader development is woven into the infrastructure of the organization's systems, policies, and day-to-day practices. Having a budget allocation and other resources earmarked for leader development is another indicator of being intentional about the development of leaders as a core value and practice in the organization. However, the lack of a discretionary budget for outside training should not be considered an insurmountable barrier to development.

To garner broad support for and understanding about the need for a "leader-full" organization, talk it up with internal and external stakeholders. This will help educate stakeholders and motivate their investment in this new direction.

## Managing Leadership Transition from a Position of Strength

Even when an organization makes the previous two levels of commitment, and the departure of a leader is planned, there is still some risk of losing equilibrium during a leadership transition. The board, departing leader, and staff must think carefully about what knowledge, skills, and relationships may still be held by the leader alone and plan to transfer those capacities to other members of existing staff if at all possible. If the new leader comes from outside the organization, she will need time to understand the complex realities of the internal life of the organization and its external influences. The new leader (whether from the outside or promoted from within) will need to depend on a deep and broad array of aligned leadership while her feet are getting wet; this will allow her to get and stay ahead of the curve.

## The Bottom Line

It is important for organizations to prepare for leadership transitions well before they occur. Regardless of the size, age, or type of organization, leader development and succession planning should be linked. Being intentional in the creation of specific leadership goals and strategies to cultivate the talent within an organization often happens in incremental ways that can be transformative over time. Being intentional in the development of an organization's leadership supports its sustainability and, not coincidentally, the collective intelligence it brings to its work.

# The Importance of Linking Leadership Succession, Strategy, and Governance

by Thomas Gilmore

**Editors' Note:** This article has been adapted from a Center for Applied Research (CFAR) briefing, and was previously published on the Nonprofit Quarterly's website on September 26, 2012.<sup>1</sup>

**M**ANY WRITINGS STRESS THE IMPORTANCE of a board's thinking about leadership succession as its most critical task.<sup>2</sup> Yet, too often we frame succession as foreground without fully tending to the related background. Succession is often wickedly intertwined with the state of the board's functioning and the enterprise's strategy. Similarly, working on governance is often triggered by succession and linked to strategy in terms of new competencies that need to be on the board. It is rare that one of these three can be the sole focus without consideration of the other two areas, but their segmentation is clear in the three different professional groups that offer services in each of these areas:

- **Strategy:** Strategy consulting firms;
- **Governance:** Organizational development and process consultants; and
- **Succession:** Executive recruiters and search firms.

There have been some recent incursions of each of these professional groups into the others' business: big search firms are moving into onboarding and coaching, and strategy firms are beginning to address governance issues in the wake of new attention to boards.

The optimal sequence of the above three key processes would be excellent, up-to-date governance

approving a strategy that informs the selection of a great leader who executes and leads strategic renewal—as the environment demands—under the board's ongoing oversight. But organizations cannot count on taking up developmental issues in the optimal sequence, especially in today's fast-changing environment. This article offers an overview of the challenges of sequencing these intertwined issues, and the imperative that they be thought of in a woven, recursive way across time rather than a simplistic, linear sequence.

## Three Common Dilemmas in Leadership Succession

The three processes of strategy, succession, and governance are linked in ways that often create the following three dilemmas:

*Misalignment between the board's readiness and leadership succession.* Often, a long-tenured leader leads to atrophy of the board's vitality and increases its dependency, especially when the leader

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Whether focusing on strategy, governance, or succession, one issue cannot be disengaged from the others. The author lays out a step-by-step process to help nonprofits link the three areas in support of an organization's performance.

is successful. So, when that leader leaves (on his or her own, or upon being invited to step down), a key support to the board is missing as members think about strategic shifts and the implications for succession. Leaders are often in denial about when their effectiveness is losing its edge and when is the appropriate time to leave. Ken Olsen, the legendary founder of the Digital Equipment Corporation, said, “There’s only one measure of success and that is, five years after I’m gone, how is the company doing. I will accept no accolades until five years after I’m gone. I may avoid that by not going.”<sup>3</sup> Yet boards grow dependent on the CEO and often find it difficult, with a long-tenured leader whose earlier work boards greatly value, to have the conversation about leaving.

*Misalignment of the strategy with succession.* In facing leadership succession tasks, a “good enough” strategy is essential for a board to define the scope of the leadership role and to make a high-quality selection of a talented organizational leader. Yet, if there are major strategic dilemmas, an outgoing leader—especially if the departure is based on performance or a conflicted working alliance with governance—is not in the best position to support the board in working through its vision. This dilemma may be heightened if the leadership search is caused by major differences in opinion about the strategic direction of the organization among board members; candidates may be reluctant to apply under such conditions, and the board may have difficulty reaching a choice and supporting the new leader. In one organization studied by CFAR (the Center for Applied Research), the successful applicant made it clear to the search committee that he would only accept the position under the condition that they support a new direction. Yet a key board member had told the current staff that “we put the ship in dry dock, lifted up her skirts, and pronounced her shipshape,” communicating to them his commitment to the current strategy. For several years, the new leader struggled with the splits in the board until a new chair brought in a third party to work through differences and align the board with the chosen leader.

*Mismatch between the board’s capabilities and strategic development.* A board’s membership and tenure, often a valuable source of institutional memory, can be ill suited to its role in oversight of significant strategic change that its CEO is driving. In professional associations, people often rise to

governance as an honorific for long, distinguished service. Yet, when facing significant changes in the environment—such as new technologies, new delivery mechanisms, and different preferences in younger generations—the board may lack members with sufficient experience with these new phenomena—work that requires “generative” thinking.<sup>4</sup> Strategy work involves thinking about the future threats and opportunities and the needed core competencies for the organization to succeed—what Peter Drucker has termed “the theory of the business.”<sup>5</sup>

- Assumptions about the environment of the organization;
- Assumptions about the specific mission of the organization; and
- Assumptions about the core competencies needed to accomplish the organization’s mission.

If the CEO is driving this work, he or she may find splits in the board that hurt the working alliance with the leader. Sometimes, this work is taken up in conjunction with succession. But often search consultants do not have the depth of experience to staff good high-level strategic thinking or, especially, to work through significant differences that may have triggered the succession.

The corporate-sector case of Home Depot illustrated the interdependence of strategy, governance, and succession. The flat performance of the stock suggested questions about the strategy. This, combined with the high compensation of the CEO, led to the loss of his dominant coalition on the board, and he stepped away. This triggered a second order change, with four members of the board stepping down. The incoming CEO (an insider) put in play a significant shift in strategy. Let’s look at some other cases that illustrate the intertwining of these three related processes and how different sequences play out.

## Intertwining Strategy, Governance, and Succession: Three Case Studies

### 1. When Strategy Leads

The board chair and CEO of a professional society initiated a strategic planning process. Believing that the field was changing dramatically, they collaboratively created an ad hoc committee deliberately dominated by Young Turks and with only a few current board members. They crafted a strategy process as a Trojan horse for working on board changes

by creating the visibility needed for these younger leaders to become board members. There were several important interactions with the board along the way, and a few key overlapping members prevented an unproductive split. Toward the end of the process, the CEO surprisingly announced his intention to resign for his own career reasons. At the final retreat, where the strategic committee engaged the board to get the plan adopted, the committee linked the strategy going forward to the key competencies that guided the job description for a new leader. An executive search firm found a new executive director with the competencies to fit the strategy, and the board supported transition work with the new leader to ensure good working alliances with the board, staff, and members. After a year with the new leader, the chair of the strategic planning process—now on the board—was charged with leading a yearlong board development process.<sup>6</sup> The process focused the new leader and the board on the issues in implementing the strategic plan. As board members became more actively engaged, they realized that they needed more protected time for strategy. They committed to a two-day summer retreat during which they began to reshape the strategy of the organization with the active support of the new leader and her reconstituted top team.

## *2. When Board Development Leads*

The leadership of a freestanding hospital during the peak of the managed care era realized that the organization needed to align with one of the big systems in the city for bargaining power with insurers. The CEO realized that the board was neither knowledgeable enough nor strong enough to navigate the issues—likely to be highly complex and possibly divisive—in choosing a system to join. He hired an expert with deep knowledge of the significant trends in health-care to brief the board, and engaged CFAR in facilitating histories of future scenarios<sup>7</sup> that challenged the board members to best fulfill their stewardship role by looking back from a decade hence at each of the two alternatives to explore. The board was able to come to a decision (by one vote) on which system to join. Leadership changes followed, in the wake of this decision, as the hospital became one of several in a system. A new strategy to take advantage of its system membership also followed.

Of the three issues discussed herein, board development is the least amenable to being addressed in

isolation. An encapsulated “board development” frame often labors mightily to shuffle structures and process with little progress in actual results. Talented people have very limited time, and the most powerful way for the board to develop is via strategy conversations or leadership search work. One organization was able to make significant changes in governance (smaller size, true corporate board versus representation of member hospitals) because it looked deeply at future challenges and saw the need for the changes. At another institution, when a new leader was appointed, the board chair invited the new CEO to propose to the board nominating committee some people who would bring strengths related to the directions that she and the board had agreed to in the succession.

## *3. When a Leadership Transition Leads*

An advocacy policy institute had hired a leader who left within a year when both he and the board realized the misfit. A second search, shaped by insights from the failed succession, yielded a new leader who was charged by the board with developing a new strategy. This individual came in, engaged the staff, and selected board members in crafting a new strategic direction that ended up consolidating some programs and adding new competencies in communications and development to the organization. In the wake of the new strategy, especially with regards to development, the board took on new challenges. In hindsight, it seems that this effort would have been more powerful if the leader had built his team before undertaking the strategy work (perhaps six months to a year after taking over). We often see a new leader taking up strategy in compliance with the board’s request, rather than within the rhythms of his or her transition and understanding of where the organization is in its annual cycles (of budget, planning, work, and so on).

In each of the situations presented above—whether the entry point is board development, leadership succession, or strategy—there are inevitably developmental pressures on the other two areas. Thus, one might see a sequence that begins with a board undertaking a quick reconnaissance into the strategic landscape to get a sense of what is likely and what is ruled out. This can inform a leadership search, which is also a learning process, like taking a product (in this case, the posted job opportunity) to the market and seeing what the response is. One

gets enormous insights from interviewing people and hearing their ideas and reactions to the presenting challenges.<sup>8</sup> Once a new leader is hired, work has to cycle back, with the new leader diving deeper into the strategy. This process may take a year, and its outcomes may in turn shape both membership and process changes in governance.

### Tips for Navigating These Interdependent Processes

Once one recognizes the intertwined nature of these issues, how should one go about navigating them? Below are some tips based on lessons learned:

*Go as far as you need to inform the next step, but value incompleteness and retained flexibility.* The concept of “minimum critical specs” has been used in emergent redesign of work processes.<sup>9</sup> This concept states that one should only develop the minimum specifications necessary to take the next steps. In that way, an organization acts into its future—it values the retained flexibility at each stage to adapt to what it has learned and ways the environment may have changed. Thus, the strategy might be broadly directional, perhaps with a few options left open as the context for a chosen leader who can then join and take the next steps in fleshing out the strategic implications. Once those are underway—possibly linked to a change in board leadership—there might be implications for the board in terms of membership, committee structure, and working processes.

*Never take up one of these tasks without using the occasion to reflect on the other two.* For example, in working on a leadership succession, ask questions about the state of the board’s functioning and dynamics, and the connections between board turnover (especially the chair) and the leadership transition. If the work is board development, ask questions about issues related to strategy, such as splits on significant issues that may be sending mixed signals to the CEO. If the foreground issue is strategy, is the board too dependent on the CEO who fills the time with excessive PowerPoint briefings instead of enlivening conversations about the tough choices facing the organization and engaging the diverse perspectives of the members? Another case study—this one a warning—may be useful here: one innovative, newly appointed president was deeply driving an effective strategy process, yet failed to pay enough attention to keeping the board’s support. He changed a member of his team without realizing the depth of

a long-working alliance of this individual with the board. As his strategy work was nearing completion, he was asked to step down over “strategic differences in the direction of the university.”

*Actively manage the transitions from one phase to another.* Boards that have been overly involved in a leadership search often pull back in relief too quickly once the candidate is named.<sup>10</sup> Yet, a good search surfaces many more insights than may be used in the act of choosing. Furthermore, much of that learning needs to be shared constructively with the successful candidate. Upon completion of the search, creating a “lessons learned” or “after-action report” with the search firm, the governance leadership, and the successful candidate can be a major contribution to a successful transition. This provides a mechanism for setting expectations, flagging early concerns, discussing key stakeholders and their values, and surfacing key strategic choices. All of these can help the new working alliance of governance and leader get off to an effective start.

One transition issue is the relationship of the outgoing leader to the new leader. This relationship is often under-managed. Sometimes the former leader goes on the board or is retained in some consulting transition capacity. This can be developmental or can serve as a hedge if the new appointment stumbles, but it can often inhibit the new leader from fully taking up the role.<sup>11</sup> It is more useful to ensure a rich exchange of information from the former to the new leader as background, not as covert influence. By not having the board leadership change at the same time as the CEO, the chair can be a link across the discontinuity in executive leadership and can host some of these conversations linking past, present, and future.

*Respect the time needed for different phases.* Too often, a board charges a new leader with “doing a strategic plan,” or the new leader too quickly decides to use a strategy process as his or her entry process. This may be necessary if the organization is in crisis; however, the new leader often just needs to listen, learn, and build his or her working alliances before jumping into strategy.<sup>12</sup> We have seen several situations where a strategy process undertaken by a leader immediately upon taking over was hampered by too much influence from some holdover staff, and not informed by a few key hires that came on too late in the strategy process to both influence and be influenced by it. Furthermore, a new strategic

direction might benefit from some key changes in board membership first.

*Respect that people may be in different places in all of these processes.* During the intertwining of these three related strands, different stakeholders are likely to be in different places on these issues. Some board members who are new may be arguing against a coalition of the “old guard” and a long-tenured executive for new strategic conversations. The new leader may bring a much sharper sense of new realities and may have to develop data to break through board complacency while also worrying about long-tenured staff’s relationships with board members. Searches often create tensions stemming from who was involved in the search and who was not, and these tensions surface—especially if the newly chosen leader begins to experience difficulties. By being alert to the intertwining of the three areas of governance, succession, and strategy, one can better trace what often surfaces as interpersonal conflicts back to the important substantive stakes that the organization faces and to different players’ bases of experience. Stakeholders never say they are “resistors to change” but, rather, see themselves as champions of core values that the Young Turks might put in peril. In fact, these two groups represent different ends of an important polarity between change and tradition that needs to be engaged.<sup>13</sup>

## The Recursive Linking Challenge

The interdependencies of board development, leadership succession, and strategy suggest that we should think of each as strands in a tapestry that have to be taken up in related ways—with one often being figure, and the other two background and context, respectively—and then the “good enough” work in one area becomes part of the context for the focus on another strand. This often repeats in a deepening spiral.

For example, an arts organization board had a daylong retreat with the artists, the top staff, and a board delegation to work on their relationships in anticipation of a search for a new president. The board development and relationship work was done via discussion of the strategy and the implications for hiring a new president. When the recruiting firm began the search, there was an explicit exchange of insights from the board retreat to jump-start the recruiting.<sup>14</sup>

Likewise, a university president—even though

chosen from within the institution—spent the first year getting on top of the organization and its challenges, then took on governance changes on the occasion of a new board chair. With revitalized board processes, the president then took up a creative mode of strategy that linked it to fundraising and board and faculty development via intensive, well-staffed working sessions on critical issues that had been identified by the board. This created excitement and learning among both board and faculty.<sup>15</sup>

Lastly, consider the experience of William G. Bowen. A year into his presidency of the Mellon Foundation, he learned that the board chair, with whom he had a strong working alliance, was retiring. Bowen anticipated difficulties in his collaboration with the individual expected to succeed as chair. He took a risk and discussed the issue with a few trustees, and with their support he reached outside of the current board to recruit a new chair. He notes, “It would have been easy for me to simply let nature take its course in the selection of a chairman following the retirement of Baker [the former chair]—and it would have been a huge mistake.”<sup>16</sup> This is the action of a leader who knows the value of linking succession, strategy, and governance in the service of an organization’s performance.

The world comes at us in complicated ways that challenge us to make this same link rather than segmenting these issues into separate (perhaps horizontal) silos.

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# Rediagnosing “Founder’s Syndrome”: Moving beyond Stereotypes to Improve Nonprofit Performance

by Elizabeth Schmidt

**Editors’ note:** This article was originally published on NPQ’s website in July 2013.

**F**RANCINE FOUNDER IS A VISIONARY WITH A CONCRETE and unique approach to solving a problem in her community. She hopes to start a new 501(c)(3) organization to implement her ideas. What can we tell her about the journey upon which she is about to embark?

Like all entrepreneurs, she faces an uphill battle. She will risk time, money, relationships, and reputation to get this idea off the ground. Unlike most entrepreneurs, though, she has no financial upside to balance the risks she will take—a lesson she will learn quite quickly from anyone working in the nonprofit sector. What Francine is less likely to learn, however, is that once she gets the organization off the ground, she will likely be considered the root of all present, past, and future problems in the organization.

This is because it has become fashionable in governance literature to assume that a disease called “founder’s syndrome” can explain every challenge that nonprofits face once their founders have done the heavy lifting. This literature diagnoses founder’s syndrome in four different situations, which I have dubbed the “four symptoms” of founder’s syndrome. This article will begin by examining these so-called symptoms and explaining why they lead to a harmful

misdiagnosis. It will then suggest that, instead of pointing fingers, a board should address each of these symptoms, if they exist, from a mission-centric point of view. This approach will lead to a better result for all involved.

## The Symptoms

The literature uses the term “founder’s syndrome” inconsistently, but a common thread is that this is a psychological illness, and the blame for this illness falls squarely on the shoulders of the founder. The label seems to be applied if one or more of the following symptoms are present: The first is a sense of *grandiosity*—that the organization is the founder’s, and it exists to serve his or her ego (or pocketbook); the second is an *inability to delegate*—poor management on the part of the founder; the third is an *inability to make a smooth transition* from the founder

Founders are the very soul of this sector. They are people who envision a change vividly enough to place much at risk on a personal level. They gather people of common cause, attract financing, and risk being laughed out of whatever rooms they are in. But be careful: all of that leadership will likely later be diagnosed as “founder’s syndrome.”

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Transitions from a founder to a successor may present unique challenges, but it is inappropriate to label these problems as “founder’s syndrome” when they are prevalent throughout the business world.

to new leadership; and the fourth is an *unwavering dedication to the original vision* for the organization.

Each of these four symptoms can, of course, be harmful to an organization, but they are hardly confined to founder-led organizations, nor are they universal. Most accounts of the Smithsonian crisis in the mid-2000s paint Lawrence Small, secretary of the institution at that time, as exhibiting the first two symptoms of founder’s syndrome: grandiosity and an inability to delegate. He was neither the founder nor such a long-term manager that he could be considered “founder-like,” however. In fact, the accounts of this crisis indicate that the imperious style showed up as soon as he took the helm. A nonprofit with a founder at the helm who exhibits these two symptoms is in the same situation as the Smithsonian was, and this pejorative label does not help it address its personnel or governance issues.

The third symptom, a failure to make a graceful exit when others think the founder should leave, also obscures the real problem, which is an organizational failure to create and implement a transition plan. Transition difficulties are hardly restricted to organizations with founders as managers or board chairs, however. Bank of America was caught flat-footed in 2009 when its president announced his retirement, and a 2010 survey by Stanford University found slightly more than half of all companies would be unable to name a successor if they needed to do so immediately.<sup>1</sup> Transitions from a founder to a successor may present unique challenges, but it is inappropriate to label these problems as “founder’s syndrome” when they are prevalent throughout the business world.

The final symptom, a founder who clings to the original vision of the organization when others are ready to move on, also hides the real issue and fails to recognize that non-founder-led organizations also face internal discord about the future direction of the organization. This symptom is particularly disturbing, however, because it has the potential to squelch necessary dialogue among the stakeholders of the organization. To say, as soon as a disagreement arises, that the party who conceived of the initial mission suffers from founder’s syndrome, severely handicaps that party’s standing in the discussion.

The literature about these four symptoms also implies that all founders have psychological problems. Admittedly, it usually gives lip service to the idea that some founders escape this problem, but the rest of the work tends to undermine this message. My favorite

quote is from a booklet on the subject, with a title that includes the term “founder’s syndrome.” The authors promise to avoid the term because it suggests a clinical disorder, a mere two sentences after the following statement:

The world of executives is filled with founding chief executives whose domination, petulance, stubbornness, shortsightedness, and other flaws are routinely overlooked because, well, most of the time they’re right. That doesn’t make their exasperating style or puzzling choices defensible.<sup>2</sup>

Among the many ironies in this type of thinking is the widespread belief that denial is a major part of founder’s syndrome, much as it is with alcoholism. This belief makes it almost impossible to defend oneself without simultaneously exhibiting a symptom of the disease. As Henry Lewis wrote in an article for *CharityChannel Press* in 2002: “I would be remiss not to say . . . that there can be exceptions, but the exceptions are so rare that anyone assuming that their situation is different is most likely wrong.”<sup>3</sup>

Such hyperbole would be less offensive if empirical evidence backed it up, but I have found only one study that has sought empirical evidence of founder’s syndrome in the nonprofit sector.<sup>4</sup> The authors of that study asked Colorado nonprofits about their organizations’ governance practices and attitudes, and then compared the results between the founder-led and non-founder-led organizations. I believe their results were inconclusive. The survey discovered the following:

- Founder-led organizations tended to have smaller budgets.
- Term limits for board members existed in 31 percent of founder-led organizations and 49 percent of non-founder-led organizations.
- Eighty percent of founder-led organizations held at least quarterly meetings, compared with 87 percent of non-founder-led organizations.
- Three-fourths of the respondents in both groups thought either the executive director or the board chair was the most influential person during a board meeting, but founder-led organizations were more likely to say the executive director was the most influential.
- On the other hand, founder-led organizations were more likely to have reviewed the mission in the past year than were organizations led by

non-founders; they were more likely to attract full board participation at meetings; and they were more likely to set and mail the board agenda ahead of time.

Plenty of conclusions could be drawn from these survey results, but one conclusion I find unsupported by these data is the authors' contention that they found "considerable truth to some of the rumors and stories about founder's syndrome."

One does not always need empirical evidence to draw conclusions, of course, and the founder's syndrome literature draws from common-sense notions and anecdotes. At the beginning of an organization, the founder and the organization are, by necessity, so closely aligned that some founders may be psychologically unable to see that they are separable from the organization. Common sense also tells us that the early boards, which are chosen by the founder, could have a tendency to defer too much to the founder, and that the first leader may not be the person who is able to lead when circumstances change. As with all stereotypes, some founder situations will fit the diagnosis. Even in those situations, however, the organization will have multiple stakeholders who have played and will play a part in the organization's successes and failures. Once again, the founder's syndrome diagnosis is so overly broad as to reach the level of stereotype.

The simplification, exaggeration, and blame that result from thinking in stereotypes can be harmful to the individuals and institutions involved. The founder's reputation is sullied, even if he or she has none of the symptoms. If any of those symptoms is present, none of the other stakeholders is asked to share in the blame. And virtually no one questions whether one or more of these symptoms could actually be strengths. The institutions suffer as well, because stereotypes allow them to avoid addressing real problems by placing blame on the founders. And this distrust discourages—and sometimes prevents—founders from implementing ideas that could solve society's most intractable problems.

## Nonprofit Governance as the Issue

The common element in each of the symptoms described above is a breakdown in governance. The authors of the founder's syndrome literature recognize this breakdown at some level, but their focus on

blame prevents a more nuanced view of governance. In my opinion, their thinking reflects two worrisome trends in modern nonprofit governance: a "one-size-fits-all" mentality, and blindness to the importance of the mission in nonprofit governance. An emphasis on the mission instead of on blame could cure the symptoms we are discussing without adding the harm of a founder's syndrome diagnosis.

Nonprofit governance has received much emphasis in the last few years. Recent surveys of nonprofit practices show that boards are increasingly implementing and making changes to a variety of governance policies, including investment, records retention, conflicts of interest, whistleblowing, gift acceptance, and Form 990 review.<sup>5</sup> Unfortunately, revised policies do not necessarily lead to better governance, as some boards spend so much time on administrative reforms that they forget they must also actually govern the organizations.

Compounding this trend is the emphasis on "best practices," which often translates to a "one-size-fits-all" assumption. That assumption underlies the founder's syndrome literature, and it can paralyze an organization when the facts do not fit the assumption. It can be especially damaging if these "best practices" translate to the "ordinarily prudent person standard." In other words, a board that does not look at its founder with suspicion may well be violating a standard of care.

## Focus on the Mission

The governance emphasis, in my opinion, should instead be on the mission. The primacy of the mission should, at the least, be a large part of the board's fiduciary duties of care and loyalty. I would also recognize the board's fiduciary duty of obedience to the organization's mission.

With this approach in mind, let's reexamine the four symptoms described in the founder's syndrome literature. First, some founders do place their personal agendas ahead of the mission. The most appalling recent example of this is Jerry Sandusky, who started the charity The Second Mile in order to "protect" at-risk youth, and is now serving a thirty-to-sixty-year sentence for child molestation. The sooner the board or the authorities recognize such a situation and remove the founder—or anyone else who is taking advantage of the organization—the better.

Most founders are dedicated to the mission and vision of the organization, however. After all, they

As with all stereotypes, some founder situations will fit the diagnosis. Even in those situations, however, the organization will have multiple stakeholders who have played and will play a part in the organization's successes and failures.

Most founders are dedicated to the mission and vision of the organization, however. After all, they conceived of the idea and found a way to implement it in an ongoing venture.

conceived of the idea and found a way to implement it in an ongoing venture. A board that focuses on this mission will realize that one way to further it is to determine how best to use the founder's visionary skills.

If the founder does not, for example, have strong managerial skills (the second symptom we discussed earlier), a mission-centric board will hire people to fill gaps in the founders' skills. It will also institute financial and other controls to protect the organization, because the leader may be concentrating more on the mission than the details. This is counter to the founder's syndrome approach, which would automatically remove the founder, and it leaves open the possibility that the organization can retain the inspiration and vision that energizes the organization.

By all accounts, Greg Mortenson of *Three Cups of Tea* fame made a huge contribution to educating girls in Pakistan and Afghanistan through the organization he founded, Central Asia Institute (CAI). In 2011, however, allegations of financial irregularity at CAI surfaced. Although Mortenson was required to repay one million dollars to CAI, the evidence suggested that he was a poor manager, not a criminal. If that is the case, the board did a disservice to both him and the organization by not determining how best to complement his skills before the scandal erupted. Instead, both Mortenson and CAI suffered nearly irreparable damage—a tragic outcome for a worthwhile cause.

Mission-centered governance will also make a difference if the transition from one leader to another is difficult, as in the third symptom described above. Transitions are never easy, but if all parties recognize that they have the mission in common, the emphasis switches from blaming individuals to reaching a common goal, and thus increases the chances of reaching the goal.

A mission-centered approach will also lead to a better conclusion when controversy arises over the direction of the organization and the mission itself. This final symptom is the most dangerous, in my opinion. Although organizations do need to react to changing realities, and missions should not be static, the founder's opinions will not be heard if the founder's syndrome label is automatically attached when controversy arises.

Silencing the person with the original vision is counterproductive, even if that person's vision is

no longer that of the other stakeholders. Nonprofits are not immune to mission creep. In fact, the Smithsonian's unraveling began when the board hired Lawrence Small to make the institution more businesslike. If Mr. Smithson were still alive, my guess is he would have pointed out this divergence from the mission. In today's world, he would probably have been accused of founder's syndrome.

This hostility to founders is not without ironies. Much of my current research concerns social enterprises, those entities with a social or environmental mission as well as a profit motive. Legal scholars are searching for ways to preserve the mission when the profit motive is also in play. Ironically, they tend to assume the founder will protect the mission and worry about what happens when new ownership takes over. Why for-profit social enterprises trust founders to protect the mission but nonprofit social enterprises distrust them is beyond my understanding. It is also ironic that donor intent has been accorded so much legal protection over the last few years, but founder intent is ignored.

The biggest danger of this type of thinking is that the founder's influence will disappear too early, before his or her vision is ingrained in the organization. Although founder's syndrome literature implies that founders usually outstay their effectiveness for the organization, I suspect the opposite may well be true.

Can you imagine what the world would look like if Steve Jobs, who fit every stereotype of founder's syndrome and was in fact fired in 1985 for these qualities, had never returned to Apple? As *Time* magazine noted after he died:

Jobs was so obviously fundamental to Apple's success that many feared the company's amazing run would end the moment he was no longer calling every shot. Instead, Apple prospered during his illnesses and absences. By 2011, the vast majority of its revenues came from products that hadn't existed when Jobs took his first medical leave. He had accomplished one of his most astounding feats: teaching an entire company to think like Steve Jobs.<sup>6</sup>

We need this in the nonprofit sector, too. We need to keep founders with a true and workable vision in place until they have taught the entire organization

to think like they do. In my opinion, we have allowed the pendulum to swing so far in the direction of preventing founders and others from taking advantage of an organization's nonprofit status that we have lost sight of the equally strong need to encourage people to take the risks necessary to solve seemingly intractable problems. We need to stop paying lip service to innovation in the nonprofit sector and start thinking of ways to encourage it.

In the words of Steve Jobs, "Don't be trapped by dogma."<sup>7</sup> Let's allow Francine Founder to risk her time, money, relationships, and reputation on her new venture. But let's also give her the possible upside of receiving credit for her success, instead of the blame for everything that goes wrong. Tossing out the concept of founder's syndrome and focusing instead on the mission should give her that opportunity.

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Can you imagine what the world would look like if Steve Jobs, who fit every stereotype of founder's syndrome and was in fact fired in 1985 for these qualities, had never returned to Apple?

# Founders and Other Gods

by Deborah Linnell

These are the no-barriers type people whose righteous passion often catches others up in their beliefs. They take a cause, turn it into a mission, and build the people support and basic nonprofit structure to hold the flame of their passion.

**F**FOUNDERS—YOU CAN'T LIVE WITH 'EM, YOU CAN'T live without 'em; or sometimes you die in the process of trying. What makes founders of nonprofit organizations some of our greatest leaders? And what also makes them the demon in many nonprofits' most turbulent and dramatic chapters? Why are founders so often our greatest inspiration, while so susceptible to an Icarus complex—sometimes even bringing down an entire organization with them?

In a fury and a zest about a cause, a mission, an idea, and who (unlike most of the population) have the energy and the wherewithal to do something about it—are typically incredible people. Not only do they see an injustice and feel inspired to fight it, but they almost always think they can win. These are the no-barriers type people whose righteous passion often catches others up in their beliefs. They take a cause, turn it into a mission, and build the people support and basic nonprofit structure to hold the flame of their passion. By nature, these are people with strong mental models of what's right and what's wrong. But it is these strengths of character—insight and vision, a sense of justice, a hopefulness, an ability to take risk, determined purposefulness, and the ambition to succeed for mission's sake—that can also be their downfall.

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In 1972 Larry E. Greiner published an influential article on organizational life cycles in the Harvard Business Review entitled “Evolution and Revolution as Organizations Grow.”<sup>1</sup>

In 1982, Susan Gross, Karl Mathiasen, and Nancy Franco of the Management Assistance Group (MAG) built a description of life cycles for nonprofits based on Greiner's earlier work. This was updated in a 1996 white paper entitled “Organizational Life Cycles: Revisited,”<sup>2</sup> in which the authors helped many to understand, for the first time, that the sometimes strange or seemingly self-destructive ways in which many nonprofit organizations, boards, and staffs act are associated more with the phase of development they are in than with any perverseness on the part of a particular player during a particular effort. What a relief this would have been had most of the nonprofit world known about it! Because, as with parenting, it's important to know the common phases of development so you can plan for them and not overreact.

While the ways in which organizations develop, and the forms they take, have changed somewhat as we transitioned from the industrial to the knowledge era, the first few “evolutionary” phases and the “revolutionary” transition between them is still pretty common.

The first phase of nonprofit development, according to MAG, is characterized by the organization's intense focus on cause and mission. An informal organizational structure tends to link the parties involved, and roles are largely interchangeable. There is a natural attention to outcomes because the organization measures its success by the results of its work.

It is in this stage where founders have flourished, and organizations have flourished because of them.

The flexibility and informality of the first stage are critical factors in organizations that are young and under-resourced financially because they allow people to bring the full force of their personalities, passion, and creativity to bear on the situation. Some small organizations can stay in this phase for decades, retaining their “management by relationship” style and attracting others to them through the strength of their unified beliefs and combined energy level.

As Gross, Mathiasen, and Franco write, “Founders are usually highly entrepreneurial and passionately committed to the organization’s goals. They attract a few other highly committed people who jump into long hours of work, rewarded not by status or money but by satisfaction of advancing the cause.” Organizational structure and management style are often driven by individual preferences and personality traits that complement the way the founder likes to work. Roles and responsibilities between all of the committed players are loosely defined and often overlap simply because that is the way things work best. Communication between staff is frequent and fluid, and they often will talk about feeling like “one big family.”

But for many organizations, success in a first stage will produce growth and investment, and these, in turn cause staff to experience a natural push/pull between attention to the cause and attention to the systems needed to manage a larger organization. According to the MAG authors, “As the organization grows, informal, sporadic communication becomes inadequate”. Very often you will begin to hear calls from newer staff about the lack of clear and fair personnel practices, or complaints from funders about grants being misspent or unauditable. Staff and board will begin to ask why problems show up repeatedly—why questions go unanswered and gaps remain unfilled in management.

Founders do not always understand that these questions are the start of an important and somewhat inevitable transition to a more systems-focused stage. They may resist the questioning due to disinterest or because they see all such challenges as malicious or wrongheaded or an abysmal waste of time in the face of the real (mission) work of the organization. This can lead to all-out battles between the champions of mission and the champions of systems.

This is where the highly dramatized organizational passion play finds its stage—and typically there is quite a bit of sound and fury (think Macbeth). How many wonderfully energetic visionaries have we seen forced out of their organizations as a result of this crisis? Conversely, how many original founders have literally drowned their own organizational baby by resisting the need for change or the call for a change in the power structure? These battles can be bloody and brutal and, in the worst cases, go on for a decade.

Part of the problem is that many organizations do not understand that they are playing out a highly painful archetypal moment. After all, it feels so intensely personal to the situation. Most organizations cannot identify the fact that they are making a life passage. Often the passage is actually held on the cusp of some other crisis. Staff, boards, volunteers, the founder—all will find one reason or another to bring the issue to a head, and what happens is some of the cruelest “kicking to the curb” that people will ever experience. It is particularly galling, considering the level of personal effort founders have given over the years, that they often go out with a whimper as the door hits them in the backside. (No this has not happened to me, yet!) But if a skilled outsider asks “the survivors” to tell the story a few years later, it will have all the earmarks of a growth stage in which the entire system did not have the wisdom to see all the various roles being played out, often to the bitter end. The “system” did not have the system-awareness and the leader did not have the self-awareness to step outside of the maelstrom and actually begin to describe “a shift in process.” Understanding that growth and shifts are inevitable would help ameliorate these times of crisis and allow for shifts to occur in a safer, gentler way.

Think of it; each of us has a story of the fair-haired founder who fell out of favor for :

- calling his or her own shots for one too many years;
- not empowering the (fill in the blank) board, staff, constituents;
- not putting in systems the board has requested or even formally voted on;
- losing ground to an emerging (and often opposing) power group (typically a staff-led revolt of some type);
- going too far out on a limb with a promise that was unable to be fulfilled;

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These struggles between founder, board, and staff . . . often go on for several years, until finally with pride and prejudice, the founder leaves.

- not dotting all the “i’s” and crossing the “t’s” on a major contract or a public event (detail is not a founder-personality’s strength) and losing face or embarrassing the organization;
- blaming people around them when the chips were down or simply not allowing the “baby” to grow and walk on its own.

Founder madness finds its end in some of the crises mentioned above, but most typically it starts with the staff circumventing the leader by going directly to board members to report “stuff” (that they originally suggest be kept “confidential”). The boards they are complaining to are often young, inexperienced, and used to following the founder, but board members eventually look into the allegations and find that the organization needs stronger management at this point in its growth. However, “creative founders classically are neither interested in nor temperamentally suited to provide this kind of managerial direction,” according to MAG. By the same token, founders do not want to let go of the “baby” they have toiled so hard to birth—sometimes over a period of many years. These struggles between founder, board, and staff—with people taking all sorts of sides and playing many major and supporting roles in the drama—often go on for several years, until finally with pride and prejudice, the founder leaves.

And while some founders are near saints whom normal people feel quite a bit of sympathy for as they limp away, other founders have left terrible legacies, and there is good reason for them to go. I worked for a founder who proceeded to bankrupt his own community organizing group rather than to adhere to some rules and systems, and to be accountable to those citizens in whose name the nonprofit did business. The bankruptcy also severely damaged several small businesses, and for several years his staff had been in one uprising after another over issues that had much to do with the ethics of how the organization operated.

“Bad” founders could be summed up as the types who really, when all is said and done, put themselves before the organization. The list goes on: their egos are huge, they do not feel accountable to anyone but themselves; they cannot plan in a strategic fashion and run their now million-dollar organizations by the seat of their pants like they did ten years ago when the budget was \$200,000. They get bored easily

and move onto the next entrepreneurial program adventure without having completely stabilized the last venture, often leaving staff with a great idea, but no solid plan for implementation. They work eighty hours a week and don’t get why everyone else doesn’t have the same level of commitment.

Some cultivate chaos and disorder for a couple of reasons: one it provides the illusion that they are needed to “solve issues, problems, and crises.” More cynically, I believe that some people operate out of chaos as a way of creating near total control; if there are no standards or systems or organizational norms for communication, leaders get to control and change the rules as it suits them. The worst of founder-type personalities bully others under the guise of the mission/cause; political rightness or simply thinking their way is the right way. The very worst drag their organizations down as their leadership flame flickers into obscurity. Allowed to stay, they become more and more entrenched, not allowing for innovation that they do not understand and/or control. Many sadly become legends in their own minds based on some early-on success or achievement. They do not have the self-awareness to see how they only seek out those (staff, board, friends) who support their internal story about themselves, and they tend to turn away truth tellers or anyone who has a different idea of how the organization might be.

On the other hand, we could not live without the best among our founders. Nearly every great cause was started by a visionary, risk-taking, no-barriers, basically very courageous human being. But good founder or bad founder, the collective nonprofit story is this: Eventually the founder leaves. The leaving is often disruptive for the organization and emotionally charged for the people involved; and the founder’s qualities are lost to the organization as it moves on without him or her, closing the door on what now gets told and passed down as one of the organization’s old war stories.

This has been an observable trend for many years (since people like Gross, Mathiasen, and Franco first made us aware of it). “Founderitis” has become a word to describe any leader in the throes of any part of what is described above. But founderitis isn’t just about individuals or their individual organizations. The founderitis phenomenon also has to do with the maturity and life stage of the nonprofit field as a whole. While nonprofits or “charities” have existed for many years, the first wave of the modern,

cause-related nonprofit (not focused on higher education, the arts and culture, or health and sciences) began in the 1960s. This wave has been characterized by literally millions of start-ups of cause-related organizations. You might call this the “founder stage” of the nonprofit sector, as we know it today.

For some years now we have been in reaction to the individual nonprofit founder/leaders, and have built an industry around pushing the nonprofit sector into sound management practice—or its second stage. We have turned our backs on our flaky founders (but at least they have passion!) only to embrace, too fully, “management” and second-stage managers who excel at administrative systems development as the be-all end-all to the effective nonprofit organization. The industry supporting nonprofits (nonprofit support centers, foundation- and United Way- sponsored management assistance programs, management consultants, university nonprofit centers) have played their part in helping the nonprofits to see the “error” of their first stage/founder ways, and they have ground in second-stage lessons ad nauseum for the last 20 years. It has gotten to the point that the “fix” for sound second-stage management has created a bit of a beast—an era in which second-stage management is the zenith for thousands of organizations, and where outsiders, including some foundations, benchmark a group on how well it fundraises or markets or manages (constrains) its staff versus how well it is meeting its overall mission.

The entire sector—nonprofit, philanthropist, and capacity builder—have contributed (as we co-shaped this second stage of development together) to the era of “institution building” and “right management.” The intellectual and capital investment in the second stage has been so forceful, it is hard to imagine the level of leverage and shift that will be required to drive the sector both backwards to its creative roots and forward to a new style of connectedness, crossing boundaries and reaching constituents in an effort to achieve our missions, regardless of the fancy institutions we build.

Nonprofit founders and second-stage managers are only human, as are the boards and staffs that surround them. They are also terribly under-resourced and doing more with less than any other sector (business or government). In some organizations the story of how the founder went away is the source of the group’s deepest collective pain. In others, the revolt against the “my way or the highway” second-stage

manager without a heart is the most painful story. It is time we stopped pitting the two “eras” within the nonprofit against each other and find more holistic responses to the positive tension that arises within all organizations as a result of growth and change. In fact, there is so much growth and change happening so rapidly—and so much more accountability demanded of both the first- and second-stage types—that we are, as a sector, already rewriting how founders will found and how organizations will grow.

Hence, there can be a different story—with new descriptions of organizational growth that tell how people found organizations. We can learn from the thirty to forty years of “founderitis” methods, and the twenty years of excessive emphasis on “the right management” and the right tool; we can identify the best and worst of both extremes—and chart a middle course.

In order to do this people must conspire positively to push the sector to:

Help leaders, boards of directors, and line staff understand that shifts will occur and that different phases in an organization call for different kinds of leaders, flexible governance models, and different types of skills and competencies among staff. If the people in the system are given the heads up that the whole system will constantly shift and change, they can become generators of the change (story writers) versus reactors to the change (characters in the story).

Undo the stiff boundaries and sacred cows defined by the second stage of organizational development. Do all founders or past executive directors really have to “completely” leave an organization in order to allow the next leader/executive director to flourish? In some immature organizations with founders who lack self-awareness, this is called for; but can we be a bit more situational for those more mature organizations and leaders, so that the qualities of the founder are not entirely lost to the organization? Who are our role models for the new roles that founders can play in organizations when they let go of day-to-day control? (See sidebar at [www.nonprofitquarterly.org/founders](http://www.nonprofitquarterly.org/founders)).

Support personal growth in leaders. No one human being can know him- or herself completely, but with founders who tend to have large egos tied up in the success and failure of their organization, it is even harder to let them know their weaknesses or to offer constructive criticism. There is enough

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literature now on the pitfalls of founderitis for seasoned board members, consultants, and even foundation staff to start talking directly to founders about the classic patterns that might emerge, and about ways in which others have managed them.

Help founders and leaders to harness their strengths and identify and build support around their deficits. Give them guidance as to what signs to look for as an indication that the organization is beginning to move into another stage of development. Ask them honestly if they have the wherewithal to become a truly “situational” leader, able to emphasize sound management practices over vision and program, for a period of time, in order to steer the organization to another level of needed strength and capacity.

Tell the truth about “bad” founders, and move them out quickly—not over several years and not through a histrionic, damaging process of hand-wringing, accusation, and blaming. This story (like the bad office gossip) simply should not be given countenance anymore by the broader nonprofit system. This means the difficult work of getting the people in the organization to change from dwelling on the more negative (and albeit more fun) founderitis stories to collectively building a book of positive stories on how to navigate leadership challenges, growth, and change in first-stage organizations.

There is emerging literature on what constitutes effective nonprofit organizations. Themes that run through this literature include the ability to remain focused on mission, focused on clients (customers), and the ability to adapt in the “information age,” or a time of continuous change. These are competencies for which many founders are naturally suited. But they will also have to know how to manage change at multiple levels and create a shared understanding of both current reality within the organization and a preferred future reality as defined by many stakeholders, not just one leader.

For those organizations that swing radically away from the informality of the founder stage to the excesses of the second stage, they too need to blend emerging leadership theory into the old “control and compliance” management style. Organizations will simply not survive (or will be in continuous staff turnover and diminishing returns on mission) with leaders who dictate to paid employees what their jobs are and how to do them from a top-down perspective.

People who choose to work or volunteer in the many domains within the nonprofit sector typically

do so with a passion to make a change in the lives of other people and in our society. Organizational systems should harness the gift of the founder and each subsequent leader's energy by facilitating them to their own (and the organization's) highest expectation. Expectations need to be evolving and raised up as the whole field of nonprofits also learns, reflects and grows. We have enough lessons now to know, at least for this time in the sector's history, what those expectations should be. The best leaders now and the leaders of the future will be facilitative by nature.

Some founders—particularly those who are self-aware and challenged to grow personally—will make the transition from the essential and still-needed role of start-up/founder, risk-taking “holder of the whole” to the role of “facilitative sharer” of vision and the whole. For those who cannot or do not want to make the transition, the nonprofit sector system needs to describe and articulate, coach, and teach (wherever and however it can) that change will happen—and that it presents an opportunity. We need to move away from transition as crisis and go forward to a time of both predicting transition that is about to occur and leveraging it to the organization's best advantage toward fulfilling its mission. Our best founders and leaders will understand how to build, maintain and transition, both personally and organizationally, and these will be core leadership competencies.

The story of a founder's passage may still be dramatic in the future; but let's make it less hurtful to the individuals involved, and to the organization. In fact, founderitis is a disease we can work together to cure. The story of the founder should be of the challenge well met; and when the need for change emerges, there should be understanding, resulting in a more intentional, thankful, and where possible, celebratory transition of some of the sector's greatest contributors—our founding leaders.

#### Endnotes

1. The article was published in the Jul / Aug 1972 issue and later updated for republication in Harvard Business Review 1998.

2. For the full texts of these article go to: [www.managementassistance.org](http://www.managementassistance.org); or contact MAG at 1555 Connecticut Avenue, Third Floor, Washington, DC, 20036; (202) 659-1963.

# A Table for Two: Founders and Successors in the Same Shop?

by Mark Leach

**Editors' note:** This article is based on Table for Two: When Can Founders and Successors Co-exist So Everyone Wins? by Mark Leach of the Management Assistance Group (MAG).<sup>1</sup> The study profiles six nonprofit organizations whose founders were retained in a permanent new role or to overlap for a period with a recently hired successor (to see the study, go to [www.table-for-two.net](http://www.table-for-two.net)).

Organizations that face an impending transition but are hesitant to lose relationships because of a leadership change can learn from some of the approaches described here. In this article, we focus on the roles of retained founders and how to make these leadership approaches successful.

EXECUTIVE TRANSITIONS ARE PIVOTAL moments in the lives of many nonprofits, particularly when organizations make the shift from a founder or long-term leader to a successor. Founders can be powerful organizers of the culture, direction, and developmental progress in an organization. Many are emotionally attached not only to the work but to the way the work is done.

So it is not surprising that much of the existing literature, prevailing wisdom, and professional guidance on executive succession counsels that a founding executive should have little—or no—ongoing relationship with his former organization after he steps down as chief executive. In most cases, this guidance is the best course. But is the need to purge the founder so absolute?

To the contrary. There are instances in which—if steered in the right direction—former executives' experience and institutional knowledge can be a valuable asset during leadership transitions. The key is to harness this power correctly and create clear lines of authority between the old and the new guard.

Until the recent publication of Jan Masaoka's *The Departing: Exiting Nonprofit Leaders as Resources*

for Social Change, only a few would suggest that keeping a founding executive on in a substantive role is worth the risk. In 2004, Deborah Linnell courageously asked whether all "executive directors really have to 'completely' leave an organization" for an incoming leader to flourish and offered a successful example where the executive stayed on.<sup>2</sup> Masaoka advances the conversation greatly by identifying various options for founders who remain at an organization in a modified role such as a project director, fundraiser, or board member.

The for-profit sector has time-tested ways of keeping founding leaders constructively involved in key aspects of the organization's work (such as the "of counsel" role for ex-senior partners in law firms). These for-profit sector examples and MAG's successful experimentation prompted us to identify other nonprofit organizations that had successfully transitioned into new leadership while

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This is a plea for better storytelling from the people in clinics and classrooms, programs and public agencies, who have their hands on America's future.

retaining the founder on staff. MAG's study is based on six such organizations. Here we describe founders' dos and don'ts during the succession that enabled successful transitions.

### Founders Dos during Transition

In our study, most founders continued in several important functions they held previously as CEO. But their organizations set clear boundaries on what they would be involved with and took steps to ensure that governance and management systems reinforced appropriate lines of authority. Typically the board and founder negotiated these boundaries prior to the leadership transition, usually with the agreement of the successor. The successor had the power to terminate or change that relationship. In the six examples of leadership transition, some themes for success emerged:

- Half the former founders continued leading substantive program work in one or more areas in which they were the undisputed content experts and had significant relationships. They did so with reduced freedom to act independently and understood that they served at the pleasure of the new CEO.
- Half the former founders played significant, ongoing leadership roles in funder cultivation, organizing fundraising, and making "asks." (As in a typical "graceful exit" transition, all the founders in this study helped transfer funding relationships to their successors and provided advice on managing these relationships.)
- Half the former executives continued to speak and appear on behalf of their organizations at various events. They mainly did so when asked by the new CEO, and were disciplined about reviewing positions and talking points with the CEO or other relevant senior program manager beforehand.
- After stepping down, most former founders took part in activities in which they had never been involved, including the following:
  - special project work, often to launch new initiatives under their watch;
  - high-level organizational problem solving (managing growth or restructuring, for example);
  - writing to benefit their field or to document their knowledge and experience; and
  - coaching, advising, or mentoring a successor and staff.

### Founders Don'ts during Transition

Additionally, in terms of what founders did not get involved with after stepping down as CEO, some trends emerged:

- Most founders became less—or not at all—involved in setting overall organizational strategy, particularly during the first year or more after stepping down. This helped address concerns about inhibiting the successor's expression or development of new ideas and took several forms, including the following:
  - the founder did not attend strategic planning sessions for a year or more following the transition;
  - the founder shared ideas on strategic questions only with his successor and left it to the successor's discretion as to whether to insert these ideas into the planning process.
- After stepping down, four of the six founders did not attend board meetings or did so only to participate in specific presentations or discussions at the invitation of the board or new CEO. Two founders either retained their previous board membership or joined the board for the first time as a voting member. In both cases, the board or successor set limits on the founder's board involvement, including permissible committee assignments and a waiting period before reengaging with the board.
- Founders stayed out of certain leadership activities, including the following:
  - program strategy, except in areas where they were designated leaders;
  - commenting publicly on board-staff relations; and
  - commenting publicly on staff management issues.

### Clarity Creates Continuity

MAG's report discusses individual and organizational characteristics and practices that can make executive succession successful. But we conclude this article with a few words of advice to boards: (1) no board should consider such an arrangement as the result of feeling coerced or held over a barrel by a founder; (2) organizations should consider this kind of a transition only when its board concludes that the benefits greatly outweigh the costs; and (3) overdependence on a founder is not a good practice, nor is it a reason to attempt this type of

leadership transition.

That said, the study indicates that these arrangements can work well under certain circumstances and can be responsibly considered by nonprofit boards. While the presence of former executives can create confusing lines of authority between former and current leadership, some organizations have proven the benefits of transitional periods or continued roles for a former CEO. These approaches can create continuity of leadership, bolster institutional knowledge, and empower a successor in his decision making.

#### ENDNOTES

1. Mark Leach, *Table for Two: When Can Founders and Successors Co-exist So Everyone Wins?*, Management Assistance Group ([www.table-for-two.net](http://www.table-for-two.net)).
2. Deborah Linnell, "Founders and Other Gods," the *Non-profit Quarterly*, vol. 11, no. 1, 2004.

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