



## **Capturing the Power of Leadership Change**

*Using Executive Transition Services  
To Strengthen Organizational Capacity*

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The period of executive leadership transition—the departure of a current, and the hiring of a new executive director or chief staff officer—is fraught with risk. Board leaders, in particular, fear transition because of the uncertainty it brings, the increase in their responsibility and the challenges of identifying and hiring an appropriate successor. Poorly managed, these transitions too often occasion a crisis, leading to decreased organizational efficacy and even failure.

The Annie E. Casey Foundation’s research and experience with executive transitions, however, suggests this need not be the case. We have found that transitions are powerful opportunities to strengthen nonprofit organizations.<sup>1</sup> Properly managed, and supported with expert executive transitions services, they can serve as “pivotal moments,” enabling organizations to change direction, maintain momentum, build or rebuild its infrastructure, and clarify its mission and vision.<sup>2</sup>

### ***Change is coming***

Executive leadership transitions are and will increasingly impact the effectiveness of organizations throughout the nonprofit sector. For example, a survey completed by 130 executive directors of Casey’s community-based grantees reported that 85% of executives will likely leave their position over a seven-year period.<sup>3</sup> The Casey survey—supported by similar findings from two other studies of nonprofit executives—affirms that transitions are regular occurrences.<sup>4</sup> In the next decade, this turnover will likely increase in frequency.

National demographic trends are in part behind these data. As baby boomers retire, leadership change in all sectors will intensify. A smaller workforce and fewer managers groomed for nonprofit service will likely make the passing of the leadership mantle more challenging.<sup>5</sup> This change, however, brings with it some important, under-realized opportunities. A new generation of leaders will bring fresh energy and ideas to the sector. If proactively addressed, this generational change also offers an opportunity to increase the representation of leaders of color and those with demonstrated cultural competence, critical to serving increasingly diverse communities.

### ***Change is hard***

During the last decade, field research by the Neighborhood Reinvestment Corporation has highlighted the risks of failed or unsuccessful transitions. This work has found that most transitions (as many as 60%) are “non-routine” and occur due to an organizational crisis or the departure of a founder or visionary leader. This research has also demonstrated that poorly managed executive transitions incur high costs to organizations and communities. Too frequently, there is repeat executive turnover and extended periods of under-performance. In extreme circumstances, organizations go out of business, leaving a wake of broken commitments and financial entanglements.



While all executive transitions are challenging, research in this area has identified several distinctive types of transitions with different levels of risk and opportunity.<sup>6</sup> Transitions involving the departure of the founder (or long-term executive with many similarities to a founder) are the most perilous as key internal and external constituencies (employees, funders, etc.) tend to identify the organization with its first leader. This is particularly important in the Casey network, where one out of every three community-based grantees are led by its founder. “Startup” transitions that occur as organizations formalize their operations, and “turnaround” transitions in response to crises, are stressful in different ways with their own distinct organizational challenges as well as opportunities for growth.

### ***Prepare, “pivot” and prosper***

Casey’s review of existing executive transition services and its experience to date indicate that well-managed transitions result in more effective organizations and in some instances major organizational transformation.<sup>7</sup> Properly managed, leadership transitions provide a “pivotal moment.” Faced with a (sometimes disconcerting) pause in “business as usual,” current organizational practices, positioning, even mission, direction and vision can be re-examined. Boards, with expert support from executive transition services providers, can assess the situation, work through the hiring process, and put in motion steps that enable the organization not only to survive a transition, but to prosper from it.

The early results and outcomes from the use of a developing executive transitions services model demonstrate the potential to reduce risks and proactively sustain and improve organizational health and effectiveness during transition. Neighborhood Reinvestment’s pioneering work resulted in significant increases in executive tenure (from 4.3 to 5.7 years), organizations ranked “healthy” (from 67% to 89%) and direct investment in communities served (from \$146.7 million to \$418.9 million) following a five-year initiative to increase attention to executive transition and other capacity building.<sup>8</sup> More recent assessments of the services of CompassPoint Nonprofit Services and the Maryland Association of Nonprofits point to similarly high satisfaction with executive transitions services.

We believe these services offer great potential as a capacity building strategy, as well as an entry point to a broader set of capacity building efforts. In addition to the outcomes described above, transition services have supported the development of new Board leadership, increased focus on strategic directions for organizational growth, improved financial management, accessed new funding, and promoted thoughtful approaches to organizational restructuring and mergers.

### ***Developing and testing executive transition services***

A small, but growing number of management support organizations and a few independent consultants have developed an emerging practice that demonstrates the promise of investment in executive transition services as a capacity building strategy.<sup>9</sup>



Until quite recently, executive search firms, however, were the sole service providers, with a focus on finding the next executive, not building organizational capacity. Search firm fees were prohibitively expensive for all but the largest organizations, and especially those with operating budgets under \$5 million. Thus for 90% or more of nonprofit organizations, transition services were not accessible.<sup>10</sup>

During the last decade, a number of national and local organizations have pioneered a more cost-effective approach to executive transition services. Neighborhood Reinvestment Corporation, CompassPoint Nonprofit Services, and the Maryland Association of Nonprofits, with support from a number of national and local foundations, have developed and tested a comprehensive menu of executive transition services. This work has resulted in an in-depth understanding of several transition scenarios (including start-ups, turnarounds, and founder departure) and how these contexts affect transitions. It has also led to the development of a full menu of transition services (see below). Finally, it has enabled the creation and testing of a process or model of executive transition services that consists of:

- **Assessment** of the type of transition (e.g., founder, start-up, turnaround) and key issues to be managed, such as the size and health of an organization, and the conditions under which the executive is leaving;
- **Service planning** based on the factors above and the needs and desires of the Board; and
- **Service delivery** that employs a capacity-building approach designed not only to find and hire the new leader, but to strengthen the organization and maximize its ability to fulfill its mission. These services include:
  - o Interim executive referral/placement;
  - o Transition coaching to Board leadership;
  - o Comprehensive transition and search consultation; and
  - o New executive director installation, training and support, including executive coaching and/or new executive peer networking.

Building our knowledge base, Seeking partners

In 2000, the Casey Foundation launched an effort to better understand the frequency and issues of executive leadership transitions in nonprofit organizations and explore the Foundation's role in assisting grantees to move successfully through the organizational challenges of leadership transition. The Foundation commissioned an 18-month research process that has included a literature review, a national and three-city scan of available transition services, a grantee survey, 11 consultative sessions with nonprofit leaders and capacity building practitioners, case studies of founder executive leadership transitions and hands-on practice with two management support organizations.



Based on the findings of this research, the Casey Foundation is now:

- Developing a service delivery mechanism to pilot executive transition services to selected mission-critical grantees;
- Documenting its learnings on the transitions of founders and long-term executives and how the coming, sector-wide generational change will affect the recruitment and development of new leaders;
- Sharing its lessons with other funders with an eye to identify collaborative strategies to expand the supply of needed executive transition services; and
- Investing in evaluating this strategy and its potential to increase organizational effectiveness.

The Casey Foundation invites funders, researchers, management support organizations, leadership development programs, and others to join us in this important work by:

- Raising awareness about the power and potential of executive transition services;
- Reducing cost and other barriers to executive transition support;
- Building the capacity and availability of local or regional service providers of these services;
- Supporting the dissemination of best practices and other learnings from research in this area; and
- Articulating a set of measurable results to provide a foundation for ongoing research on the impact of executive transition services.



## Endnotes

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- <sup>1</sup> One of the first to observe that leadership transitions were pivotal times for nonprofit agencies was Tom Gilmore. Gilmore, T. 1988. "Increased Leadership Turnover: Problem or Opportunity." In *Making a Leadership Change: How Organizations and Leaders can Handle Leadership Transition Successfully*. San Francisco: Jossey-Bass.  
Others making similar points include:  
Farquhar, K. 1995. *Special Issue on Leadership Transitions, Human Resource Management* 34, No. 1.  
Hesselbein, F. 1997 Fall. The Challenge of Leadership Transition. *Leader to Leader* No. 6.
- <sup>2</sup> Burkhardt, J. and Adams, T. 2000. Improving Executive Tenure and Organizational Effectiveness: The Potential of Executive Transition Capacity Building Services. Unpublished paper.  
Allison, M. Summer 2002. Into the Fire: Boards and Executive Transitions. *Nonprofit Management and Leadership* 12, No. 4.
- <sup>3</sup> Annie E. Casey Foundation. 2001. Community Based Organizations and Executive Leadership: A Survey of Annie E. Casey Foundation Grantees. Baltimore.
- <sup>4</sup> Peters, J. and Wolfred, T 2001. *Daring to Lead: Nonprofit Executive Directors and Their Work Experience*. San Francisco: CompassPoint. This survey of executives in 5 metropolitan areas showed that 35% of executives planned to leave within 2 years and 75% planned to leave within 5 years.  
Maryland Association of Nonprofit Organizations. 2001. Nonprofit Executive Leadership in Maryland: A Survey. Baltimore. This survey shows that in Maryland, 28% of executives planned to leave their current positions within 2 years and another 23% planned to leave in 2 to 3 years.
- <sup>5</sup> The impact of generational change on nonprofit organizations is only just beginning to be discussed. One of the first published discussions of the probable impact is Joslyn, H. Oct. 10, 2002. Employers, Grant Makers, and Policy Makers Need to Face Shrinking Nonprofit Labor Pool. *Chronicle of Philanthropy*. In addition there is a recent report to the Annie E. Casey Foundation Kunreuther, F. 2002. Generational Changes and Leadership: Implications For Social Change Organizations.
- <sup>6</sup> Executive transitions have been categorized by several authors including the following:  
Redington, E. and Vickers, D. 2001. Following the leader: a guide for planning founding director transition. *Leadership Report No 1*. Columbus: The Academy for Leadership and Governance.  
Smith, S. and Goldstein, M. 2001. Theory and Practice of Transition Management. Unpublished paper.
- <sup>7</sup> Allison, M. Summer 2002. Into the Fire: Boards and Executive Transitions. *Nonprofit Management and Leadership* 12, No. 4.
- <sup>8</sup> National Center for Nonprofit Boards. May 1997. Crisis or Opportunity. *Board Member* 6, No. 5.
- <sup>9</sup> Annie E. Casey Foundation. 2002. The State Of Executive Transition Services. Baltimore.
- <sup>10</sup> Weitzman, M. Jalandoni, N, Lampkin, L. and Pollak, T. 2002. *The New Nonprofit Almanac and Desk Reference*. New York: Jossey Bass. 73% nonprofits reported under \$500,000 in expenses; 43% have expenses under \$100,000 and only 18% reported expenses over \$1 million.