# Daring to Lead 2006

## A National Study of Nonprofit Executive Leadership

A Joint Project of
CompassPoint Nonprofit Services and
The Meyer Foundation

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# Introduction

FOR ANYONE WHO BELIEVES THAT COMMITTED AND TALENTED EXECUTIVE directors are critical to the success of nonprofit organizations, this report offers sobering news. Nearly 2,000 nonprofit executive directors in eight cities completed the survey for *Daring to Lead 2006*. Three quarters don't plan on being in their current jobs five years from now, and nine percent are currently in the process of leaving. Frustrations with boards of directors and institutional funders, lack of management and administrative support, and below-market compensation add stress to a role that can be challenging even in the best circumstances.

**Three quarters of executives don't plan on being in their current jobs five years from now. And most don't see themselves leading another nonprofit organization.**

Some data from this survey confirm findings of the first *Daring to Lead* study, conducted by CompassPoint five years ago, and reinforce other regional and national survey results. Other findings are unique to this report. The data raise important questions about the future executive leadership of nonprofit organizations and suggest the need for boards of directors, grantmakers, and other nonprofit sector stakeholders to focus on supporting and sustaining the best current executives, developing the next cohort of leaders, and preparing for inevitable executive transitions.

**major findings summary**

A growing mix of leadership programs and services — from peer learning circles to coaching to executive transition consulting services — are building skills and lessening the isolation of nonprofit executives. An increasing number of grantmakers believe that strong executive leadership is essential to the effectiveness of their grantees and are searching for ways to strengthen and support current executive directors and to nurture new leaders.

Recognizing this growing interest and the need for more complete and timely information, CompassPoint and the Meyer Foundation conducted this survey as a follow-up to *Daring to Lead*. Both organizations wanted to understand how executive leadership had changed over the past five years, whether executive turnover was escalating, and what factors contributed to executive director success, failure, and burnout. We also hoped to expand the geographic scope of the survey and to engage a larger group of partners and advisors.

A distinguished national advisory committee provided feedback on the survey design and helped interpret the results. Five management support organizations and two foundations joined Meyer and CompassPoint in distributing the survey, resulting in 1,932 respondents from eight cities: Boston, Chicago, Dallas, Los Angeles, Minneapolis/St. Paul, Sacramento, San Francisco, and Washington D.C.

CompassPoint and Meyer approached this project with respect and appreciation for community-based organizations and their talented and visionary leaders. We've tried to listen deeply and to report what we heard — even when it conflicted with our own expectations or what we thought our audiences would like to hear. Some of the survey responses confirmed our predictions and reinforced the findings of other studies; others challenged our assumptions. This report is organized to highlight findings in five areas.

## 1 Executives plan to leave their jobs — but not the nonprofit sector — within five years

Three quarters of survey respondents — exactly the same percentage reported in Daring to Lead in 2001 — plan to leave their jobs within the next five years; 9% were already in the process of leaving. Despite the large number of executives contemplating transition, less than a third had discussed succession planning with their boards. Small organizations with fewer than 10 paid staff are more likely to experience transition in the next five years than larger, more established nonprofits.

## 2 Boards of directors and funders contribute to executive burnout

Negative perception of the board of directors is strongly associated with executive director turnover. Although a majority (65%) of executives feel personally supported by their boards, most don't appear to be experiencing a strong strategic partnership. Fewer than one in three executives agree strongly that their board challenges them to be more effective. An overwhelming number of executive directors (73%) identified fundraising as the most desired area of board improvement. Many focus group participants expressed deep dissatisfaction with institutional funders and discussed many ways in which grantmakers make their jobs more challenging. Increased general operating support and multi-year support were cited as the two funder actions that would help executive directors most.

## 3 Executives believe they make significant financial sacrifices to lead nonprofits

About a third of respondents were dissatisfied with their compensation, although executives who plan to leave within a year are nearly twice as likely to be dissatisfied as those who plan to stay longer. Despite dissatisfaction with compensation, only 26% of executives have ever asked for a raise. Women, who are twice as likely as men to lead a nonprofit, lead less than half of nonprofits with budgets greater than $10 million and make less than their male counterparts in nonprofits of every size.

## 4 Concerned with organizational sustainability, executives seek new skills and strategies

Executive directors recognize the need for new sources of income, improved fundraising and financial management, and long-term sustainability. Executives cited fundraising and finance as their least favorite aspects of their job and the areas in which they most needed to build their skills. Ninety percent of executives are accessing professional development of some kind. Nearly one in five have enrolled in a nonprofit management degree or certificate program. A quarter of respondents said they'd used an executive coach; eight percent said they currently had a paid executive coach.

## 5 Bench strength, diversity, and competitive compensation are critical factors in finding future leaders

The nonprofit sector — like business and government — will face increasing competition for talented leaders over the coming decades as the baby boomers retire and the labor market tightens. Data from this study raised several points of concern: Many small and mid-sized nonprofits lack the staffing depth to develop leaders inside the organization; only half of executive directors say they're actively developing a future executive director. Racial and ethnic minorities represent a rapidly growing segment of the population, but executive directors are overwhelmingly (82%) white. Younger executives were just as likely to be white as their older colleagues, and newly hired executives were only slightly more likely to be people of color than the overall sample. Finally, current executives believe that their successors will require significantly higher salaries, which may pose a challenge to small and mid-sized nonprofits.

This report concludes with recommendations to help executive directors, board members, and grantmakers strengthen and support current executive directors, build a pipeline of future leaders, and increase their overall understanding of the strengths and challenges of a group of leaders whose work is essential to changing lives and transforming communities.

# Methodology

CompassPoint and the Meyer foundation developed the survey with input from a national advisory committee. (To download a pdf of the survey, visit www.compasspoint.org.) The nine participating organizations invited constituents — via U.S. mail, email, and/or website homepage placement — to access the web-based survey during the spring and summer of 2005. CompassPoint and the Meyer Foundation chose partner organizations that fund and support community-based nonprofits and that share with us an interest in nonprofit executive leadership. As a result, we do not have as many very small organizations as the IRS master file; and hospitals, universities, and large national organizations are not represented in the sample. For the most part, our interest was not in exploring regional differences (indeed there are very few in the topic areas we report upon here), but in achieving a national sample with representation from key regions of the country. Responses from 1,932 executives were collected and analyzed by CompassPoint in San Francisco.

### About the Sample —

### Mission Area

| | |
|---|---|
| Human service (non-health) | 38% |
| Health/mental health | 15% |
| Education | 15% |
| Arts | 13% |
| Advocacy | 10% |
| Environment | 4% |
| Other | 5% |

### Paid Staff Size

| | |
|---|---|
| 0-4 Paid Staff | 26% |
| 5-10 Paid Staff | 22% |
| 11-20 Paid Staff | 18% |
| 21-50 Paid Staff | 17% |
| 51-100 Paid Staff | 9% |
| 100+ Paid Staff | 8% |

### Annual Budget

| | |
|---|---|
| $0 –100,000 | 8% |
| $100,001-500,000 | 30% |
| $500,001-1,000,000 | 19% |
| $1,000,001-3,000,000 | 24% |
| $3,000,001-7,500,000 | 10% |
| $7,500,001+ | 9% |

We also conducted seven focus groups as part of this research, six with executives and one with board members. In total, 60 leaders from the Bay Area, Chicago, and Washington D.C. participated in a *Daring to Lead* focus group in the fall of 2005. Their responses are critical to telling the full story of the data collected by survey and they are quoted liberally throughout this report. The executives and/or board chairs of the following nonprofits participated in a focus group:

Art Resources in Teaching
Asian Neighborhood Design
Atlas Performing Arts Center
California Poets in the Schools
California Wilderness Coalition
Center for Human Development
Center for What Works
Cerqua Rivera Art Experience
Chicago Women's Health Center
Chicagoland Project With Industry, Inc.
Child Family Health International
Childhood Matters, Inc.
The Children's Health Council
The Children's Law Center
The Children's Museum in Oak Lawn
Community Breast Health Project
Community Ministry of Montgomery County
Computer CORE
Cornerstone
Covenant House Washington
Cultural Development Corporation of the District of Columbia
Cystic Fibrosis Research, Inc.
DC Appleseed
DC Primary Care Association
DC Scores
Design Response
Diabetes Society of Silicon Valley
DiversityWorks
EARN
Foundation for Autistic Childhood Education and Support
Foundation for Osteoporosis Research and Education
Friends of Fort Dupont Ice Arena
Imagination Stage
IMPACT Silver Spring
Industry Initiatives for Science and Math Education
Institute of Computer Technology
Interages
Jubilee Enterprise
LIFT3 Support Group
Lincoln Park Community Shelter
Lincoln Theatre
Martha's Table
Museum of Children's Art
National Multiple Sclerosis Society, Silicon Valley Chapter
NeighborSpace
NPower Greater DC Region
Obsessive Compulsive Foundation of Metropolitan Chicago
Ombudsman, Inc.
Richmond District Neighborhood Center
RotaCare Bay Area
Shalom Bayit
StepAfrika!
Tahirih Justice Center
Teen Living Programs
USA KIA/DOW Family Foundation
The Watershed Project
World Arts Focus

# Findings and Commentary

FINDING
1

## Executives Plan to Leave Their Jobs — But Not the Sector — Within Five Years

*Daring to Lead 2001*[1] AND SUBSEQUENT STUDIES HAVE established that nonprofit executives — of all ages — typically say they will leave their jobs within five years. Anticipation of a large wave of leadership transition has raised concern in the sector, and led funders and capacity builders to focus on nonprofit preparedness. A new field, executive transition management, has emerged to help nonprofits navigate transition more strategically. This field has developed strategies and tools in succession planning, transition consulting to boards, interim executive placement, and more. In 2006, it remains true that 75% of executives say they plan to leave their jobs within five years. While this is not a longitudinal study, it is worth noting that the sector has not experienced inordinate disruption due to the executive departures that were anticipated in 2001. Good news for retention of leadership is that only 17% of our respondents said retirement is their ideal next step; and among non-retiring executives, nonprofit sector retention could be as high as 85% when current executives leave their jobs. On the other hand, the low levels of succession planning reported by today's executives — especially given the aforementioned development of executive transition management methodologies — is disconcerting.

### Key Findings

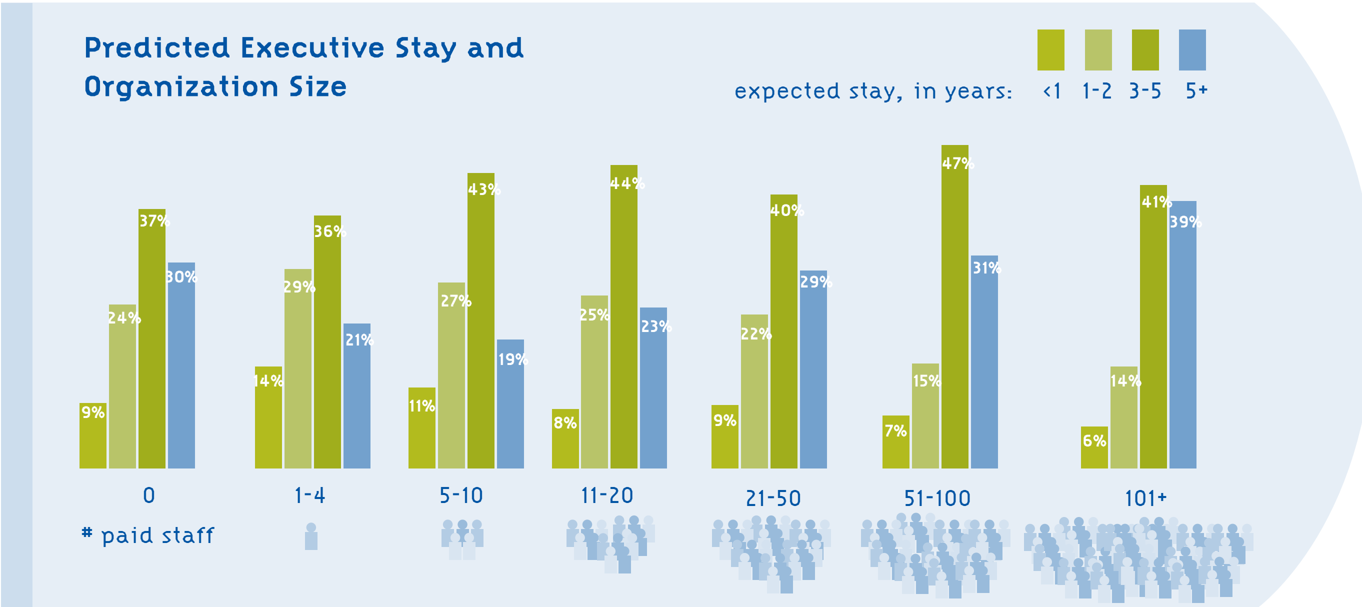
- **Annually, 9% of executives leave their jobs.**
- **Three out of four executives expect to leave their current jobs within five years.**
- **One in three executives is eventually fired or forced out of the job — an unexpectedly high percentage.**
- **Just 29% of executives have discussed a succession plan with their boards.**
- **Even when executives do leave their jobs, most will stay in the nonprofit sector: 70% say that another nonprofit, a grantmaking organization, or consulting is their ideal next job.**

This study looked deeper than *Daring to Lead 2001* at a variety of indicators related to upcoming departures. First, we asked: "How much longer do you imagine that you'll stay in your current position?" Ten percent (10%) of respondents answered "less than one year." This is slightly higher than the 7.1% reported to be leaving within one year in the Annie E. Casey Foundation 2004 report "Change Ahead," which had a similar sample size and makeup.[2] Most of these exiting executives — 91% of them — are not retiring but choosing to leave their jobs and work elsewhere. Because anticipated departure is inherently more imprecise than transitions in progress, we next asked, "Are you in the process of leaving your job right now?" Nine percent (9%) answered "yes."

> "I've come to terms with the fact that I don't want to be the executive director of a small organization again. To have some time to step back and be able to do a senior management position in a larger organization—to be able to focus—that's my long-term goal."

[1] Jeanne Bell Peters and Timothy Wolfred. et.al., "Daring to Lead 2001: Nonprofit Executive Directors and Their Work Experience," CompassPoint Nonprofit Services, 2001.

[2] Paige Hull Teegarden, "Change Ahead: Nonprofit Executive Leadership and Transition Survey 2004." Managance Consulting in collaboration with TransitionGuides.

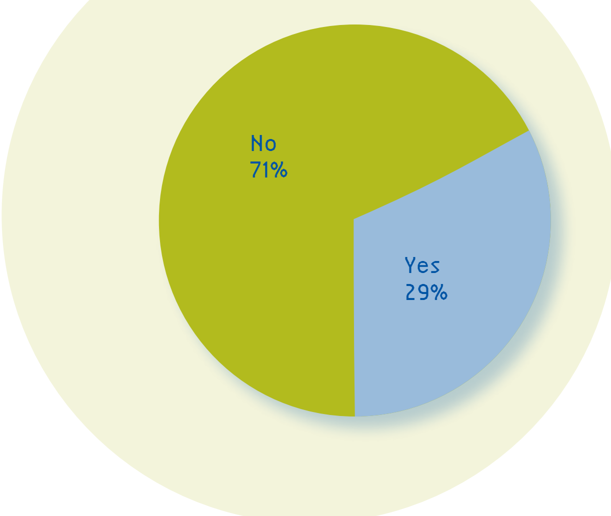



"I just took the organization through the separation from its founder. It has been ugly. I don't know what the end point is, but I feel I owe the board that much because they were the ones who were brave enough to make this happen after 15 years of being a founder-led organization."

Among all executives, just 25% expect to stay in their current jobs for more than 5 years. Executives at the largest organizations are more likely to stay on the job longer: 39% of executives with 100 or more paid staff plan to stay more than 5 years, compared with 21% of executives with 1 – 4 paid staff, and 19% with 5 – 10 paid staff. Presumably the nature of working at a larger organization — higher pay, more staff support, and perhaps prestige and community influence — make sticking it out longer seem more desirable. Anticipated departure is of course different from actual departure: 32% of executives say they have previously decided to leave their jobs and then changed their minds.

While anticipation of departure is an important indicator, not all departures are anticipated by executive directors. One in three nonprofit executives eventually outstays his or her welcome. Thirty-four percent (34%) of non-founder respondents say they came into their current jobs after their predecessors were fired or forced out. Our data doesn't tell us how long or possibly troubled a tenure the predecessors had. A predecessor's termination may have come after a short tenure of chronic underperformance, or it may have come at the end of a longer, largely successful tenure in which the fit between the executive and the job demands or board expectations deteriorated in the final months. These numbers suggest that — like their for-profit counterparts — nonprofit boards frequently drive executive transition. Booz

## Discussed Succession Planning with the Board




Allen Hamilton's annual study of CEO succession at the world's 2,500 largest companies found that nearly a third of the CEOs who left their posts in 2004 were forced out of their positions for underperformance or disagreement with their boards.[3] That one in three nonprofit executives leaves by being fired or forced out speaks to the changing and challenging nature of the job and the proactivity of nonprofit boards — and deserves further research and examination than it has received to date.

**Even among the 10% of executives leaving within a year, less than half — 47% — report having discussed a plan for succession with their boards.**

Despite the growing emphasis by capacity builders and funders on succession planning for nonprofit executives, overall just 29% of executives report having discussed a succession plan for their position with their boards of directors. Even among the 10% of executives leaving within a year, less than half — 47% — report having discussed a plan for succession with their boards. This finding should perhaps be tempered by the likelihood that the term "succession plan" is not universally understood, nor is the nature of succession planning activities.[4] (We avoided the term "written succession plan" in the survey to include less formal discussions between boards and executives.) Focus group participants did address planning for their departures, often questioning the readiness of their organizations to thrive without them. Executives at small organizations felt particularly vulnerable; one participant said, "We are a very small organization and there's no backup support. If I were to leave, there is really nothing there."

"I'm afraid to leave. I feel that the agency probably should have a new leader — a younger leader. But I love my job."

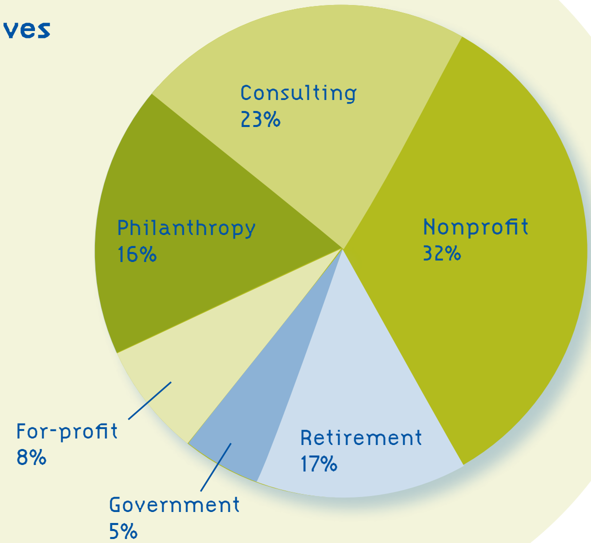
"My organization is only seven years old and already succession planning is critical, especially from the funders' perspective. I understand that on an intellectual level, but I've barely begun and they're already wanting to distract me with succession!"

**Forty-seven percent (47%) of non-retiring executives would like to work in philanthropy or consulting upon leaving their current jobs. The competition for executive level talent between nonprofits and foundations may be significant in the coming years.**

[3] Lucier, C. et al. "CEO Succession 2004: The World's Most Prominent Temp Workers." From http://www.boozallen.de/content/downloads/ceo_succession_2004.pdf. The study reports transitions in one year, while our study reports on the multi-year period over which current nonprofit executives took their jobs.

[4] Just as in the for-profit sector, succession planning in the nonprofit sector has moved away from recruiting and grooming a CEO successor to building an organization that is prepared to hire successfully.

## Ideal Next Sector for Executives




Whether they leave by choice or are forced out, a majority of executives say their ideal next jobs are in the nonprofit sector. If we were to assume that executives who want to be consultants in their next role will work primarily with nonprofits, our sector's retention could be as high as 85% of non-retiring executives. Nearly half — 47% — of non-retiring executives said they would like to work next in philanthropy or consulting. In the five years since *Daring to Lead 2001*, the number of consultants focused on nonprofits and philanthropy has continued to grow. At the same time, many in our field have noted the draw on nonprofit talent that foundations — which often pay better than community-based nonprofits — represent. Because the number of private and community foundations continues to grow, the competition for executive level talent between nonprofits and foundations may be significant in the coming years. In any case, nonprofit executives have very little desire to switch sectors; only 13% envision a next job in the for-profit or government sectors.

**Nonprofit executives have very little desire to switch sectors; only 13% envision a next job in either the for-profit or government sectors.**

FINDING 2

# Boards of Directors and Funders Contribute to Executive Burnout

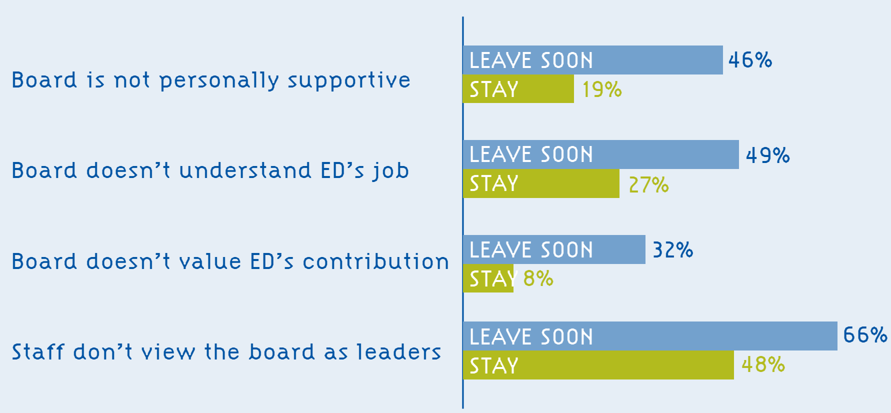
The level of frustration many executives reported about their boards and their institutional funders was striking, especially since theoretically boards and funders are there in part to support and strengthen executives. Effective boards challenge their executives in ways that make them higher impact leaders, while effective funders can be the investors that help executives realize their organizational goals. This research suggests that in many cases executives instead feel taxed by these relationships — forced to care and feed them without a commensurate return on their investment in the case of boards, and required to jump through unreasonable hoops that divert valuable executive attention in the case of funders. Particularly with respect to boards, it's important to note that these data reflect executive *perception* of a relationship that requires strategic effort on both sides. The impression is more that of a failed paradigm than one of indifferent or inadequate board volunteers.

## Key Findings

- **Executives who are unhappy with their boards are more than twice as likely to be planning near-term departures than those who have positive perceptions of their boards.**
- **Only one in three executives agree strongly that their boards challenge them in ways that make them more effective.**
- **Only one in three executives agree strongly that their staffs view the board as an engaged leadership body.**
- **Only one in three executives agree strongly that their funders have a good understanding of the nonprofit executive job.**
- **More general operating support and more multi-year support are the funder actions executives say would be most helpful to them.**

A noteworthy difference between executives leaving their jobs soon and those who plan to stay on the job longer is their relationship to and perception of their boards of directors. Forty-percent (40%) of them do not feel personally supported by their boards; only 19% of other executives feel this way. Forty-five percent (45%) feel that their boards do not understand their jobs well; 27% of other executives feel this way. Twenty-seven percent (27%) believe that

### Executive Turnover and Board Relations



their boards do not value their contribution to the organization's success compared with just 8% of other executives. Two thirds of these executives do not think their staffs view the board as an engaged leadership body.

Dissatisfaction with the board-executive relationship was a strong theme in the survey and focus group responses. The data suggest that many organizations — staff, executives, and board members — are struggling with fundamental questions about governance. What roles should board members play? How much "ownership" should they have? Who's really in charge — the executive or the board? Executives hear competing advice. On one hand, they are told that boards should be powerful fundraising bodies; on the other hand, they are often encouraged or mandated to build consumer-oriented boards. Executives are also told to "manage up" to make their boards work. Yet new accountability legislation and calls from some funders and sector leaders suggest a high level of board independence and ownership. The following focus group comments reflect this ambivalence among executives:

"I have to reach out and pretend I want their expertise when I don't. I want them to open doors and be the kind of people who want to open doors."

"I find that boards want to do all the wrong things. I don't want them to set policy; they're business people."

"For the most part I have always accepted that my job was to do the work of the board, to prepare everything for them, to make sure they had what they needed to do the fiduciary job, to give them communication, to control the message. Now the board experts are telling me that the board really needs to assume much more responsibility and ownership."

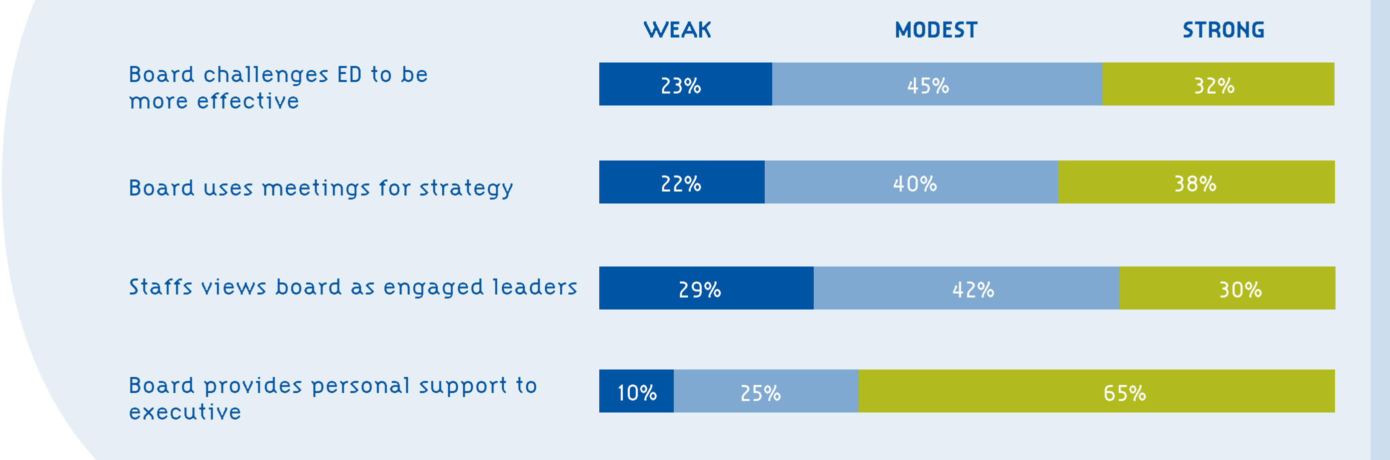
"To me the whole role of the board and the interaction between the ED and board and the governance structure are what I find the most challenging. I can't say that I hate it, but I honestly think that it's seriously flawed."

"They are business people and all of a sudden I've realized they actually do have power. And if they ever exercise it, my God, why do they have the right to decide what happens to poor people in our community rather than the folks who are actually engaged in the work and are of the community?"

Given the quantity of guidebooks and consultants to nonprofit boards that have emerged in the past five years alone, it is striking that experienced executives would articulate this much confusion and discouragement about something as structurally fundamental as the nonprofit board. And the survey data is equally concerning. While 65% of executives feel personally supported by their boards, most don't appear to experience a strong strategic partnership. For instance, fewer than one in three agree strongly that their board challenges them in ways that make them more effective executives. And fewer than one in three report that their staffs view the board as a highly engaged leadership body. Only 38% of executives report that their boards regularly use board meetings to discuss strategic issues and debate possible direction. And in each of these dimensions, a significant minority — more than one in five nonprofit executives — reports seriously low levels of board engagement. As these responses do not vary significantly by organization size, it is clear that this is not a problem that gets solved as organizations grow.

**While 65% of executives feel very personally supported by their boards, most don't experience a strong strategic partnership.**

### Executives' Perception of Board Engagement[5]

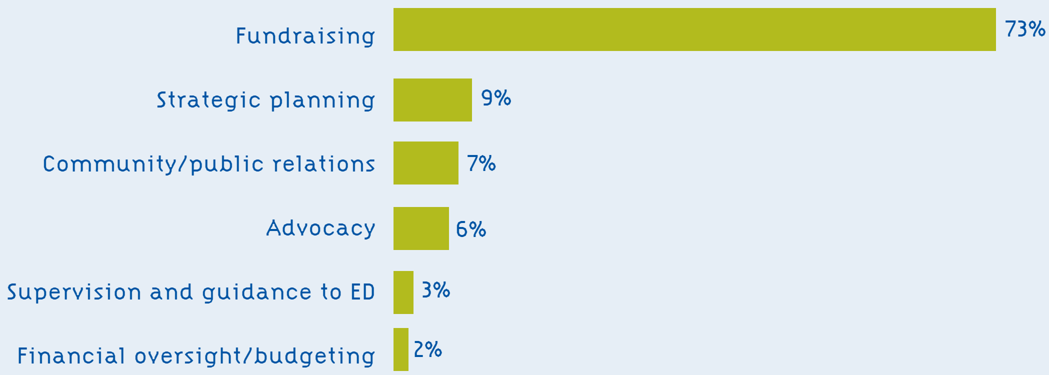



As some of the comments from focus group participants suggest, unmet expectations about the board's role in fundraising contribute to executive directors' frustration. Executives' desire for boards to do more fundraising came through loud and clear in the survey responses. Among six board roles and contributions, 73% of executives chose stronger fundraising as the board improvement that would be most helpful to them; no other board role or contribution got even 10% of responses. And executive focus on board fundraising appears to be universal; these responses did not vary at all by organization size. One possible explanation is that insufficient fundraising becomes the catchall criticism of boards for executives because they don't have a viable alternate vision of how boards can add value to the organization. As William Ryan warned recently in *The Nonprofit Quarterly,* "In assessing their effectiveness, boards should never mistake a good fundraising track record as an indicator of good governance." [6] He refers to the "give, get, or get off" thinking about board fundraising as a "germ of truth [that] mutates into a giant, fast-growing myth that ends up choking good governance to death."

"In terms of what I don't like about my job, I get grumpy that I have to make board meetings happen. For years I have been feeling like, 'Can't you plan your own agenda?'"

[5] Ratings of 1 and 2 on a 6-point scale are labeled weak; 3 and 4 are labeled modest; 5 and 6 are labeled strong.
[6] Ryan, W. "Myth: Good Board Members 'Give, Get, or Get Off.'" *The Nonprofit Quarterly*, Vol. 12, Issue 2, p. 10.

## Where Executives Most Desire Improved Board Performance




"My first few years as ED, I was mostly prepping for the board meetings and something I am really learning to pay more attention to is the success and strength I feel from interacting with board members one-on-one."

"My administrative director used to look at me after board meetings and say, 'Why do you invest so much time? This is a joke.' But I feel like there is so much work I put into this and I do see it pay off."

In some cases, the problem may be that board members don't know the nonprofit executive job — or the nonprofit sector — well enough to be effective thinking partners to their executives. More frequently than on for-profit boards, nonprofit boards are populated by people without experience in the type of organization they are governing. As one focus group participant characterized it: "I've been on several boards and I'm currently on a national board, so I know what it's like to be on a board but none of my board members knows what it's like to be an executive director." We asked executives how well they think their boards understand what the executive job entails. Thirteen percent (13%) responded that their boards' understanding was weak, 42% said it was modest, and 37% said their boards had a strong understanding of the job.

One impression from this data about governance is that there is a degree of half-hearted pretense, even playacting, going on in service of a structure that many people find inadequate. As Richard Chait and his colleagues question in *Governance as Leadership*, "Why is there so much rhetoric that touts the significance and centrality of nonprofit boards, *but* so much empirical and anecdotal evidence that boards of trustees are only marginally relevant or intermittently consequential?" [7] Aside from the obvious loss of leadership thinking when boards under-perform, there appears to be a less acknowledged cost to executives in the psychological drain of working with and around an under-functioning model.

Focus group participants who report an effective strategic partnership with their boards see board members less as fundraisers than as senior colleagues for them — skilled people with a deep investment in the organization who can help solve problems and generate new ideas. One executive commented, "I just feel like there are so many times when I can pick up the phone and someone is right there with the right answer." These executives underscore that achieving this kind of executive-board dynamic takes a serious time investment beyond board meetings. They also stress getting to know board members individually rather than relying only on group meetings and retreats to develop connections.

[7] Chait, R., Ryan, W., and Taylor, B. Governance as Leadership, Board Source, 2005. Published by John Wiley & Sons.

## Frustration with capital markets

Whereas the data suggest executive director ambivalence about the role of boards of directors, responses to the survey and focus group questions suggest a deeper dissatisfaction, even anger, among executives about what it takes to finance nonprofit organizations. They express particular fatigue around institutional fundraising — both the logistics of the process and the influence that funders exert. In focus groups, where attitudes about institutional funding was not an explicit line of questioning in our protocol, participants nevertheless brought up resentment of funder influence in everything from succession planning to program development. The sophistication and emotion of their critique suggest that executives may be approaching a phase of explicit advocacy in this arena rather than accepting the funder-nonprofit dynamic as simply a business reality. The comments also suggest that the funder-nonprofit dynamic is a leading cause of burnout among nonprofit executives. The following comments from focus group participants were responses to the open-ended question, "What do you like least about your job?"

"I hate the power dynamics with funders. Funders who really want to be executive directors, but somehow landed in the funder seat. They try to create through the powers of their funder seat without any of the risks [of implementation] that we have as executive directors."

"I hate having to prove to funders what we do all the time. I hate the bureaucracy around money and the sort of prejudice of it, the irrationality around it and the competition around it. I think the system is broken."

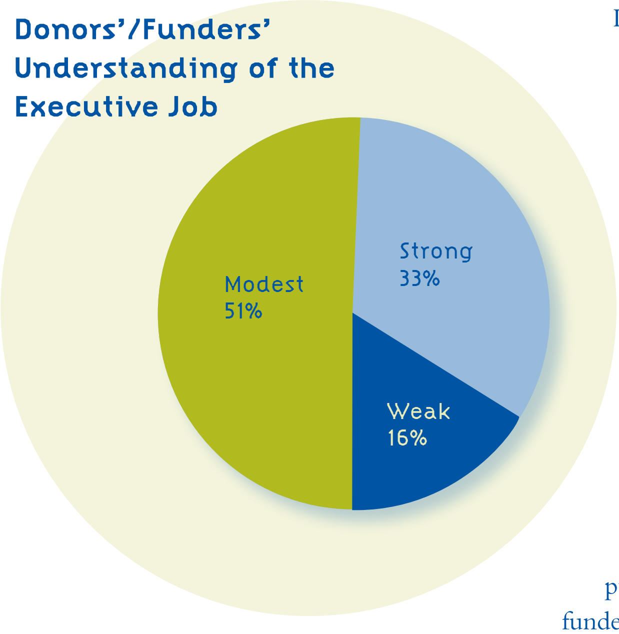
"I hate how flawed the capital markets are for nonprofits—the systemic thing. In the reporting structure, in what is expected of nonprofits, in the absurdity of foundations and how unprofessional they are. We spend so much time accommodating for these inefficiencies and having to report in 50 different formats. And then having to fight with foundations that will give us money but only if we do this little extra thing, which happens to divert us by a 20 degree angle off our focus."

"Now funders say we'll fund you if you write a business plan. Okay sure, so I'm supposed to spend 80% of my time and my key staff's time writing a business plan for this one grant that I may or may not get."

"Funders say they want stability and sustainability and well-run organizations, but the very structure that they're creating is why nonprofits are not sustainable."

"Even regular core funders say, 'We've funded this project, which is really the main thrust of what you do, for two years and now we want to see something different.' So you're creating stuff, making up stuff, for them. Or we're getting all of our ancillary projects funded and not having any core funding for main programs. All the funders say, 'We want to know you are sustainable.' But what that really means is their boards only want to fund the same thing for one or two years. It makes us all crazy because by definition we can't secure core funding."

## Donors'/Funders' Understanding of the Executive Job



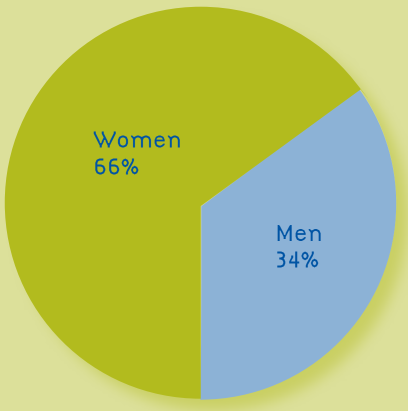

In the survey, we asked executives to rank six potential actions by funders in terms of what would be most helpful to them in their work. The largest number of executives ranked the provision of more general operating support as the most helpful. The provision of multi-year support was the second most highly ranked action. We also asked executives how well their key donors and funders understand the executive job; half rated their understanding as modest, 16% weak, and 33% strong. While grumbling about funders is hardly new, the degree to which even experienced executives deeply resent the impact of funding processes may be a reflection of narrower and more directive funding by both public and private funders. Regardless, institutional funders should be alert to the impact of their funding mechanisms — not just their funding decisions — on nonprofit leadership.

### Executives' Ranking of Potential Funder Actions

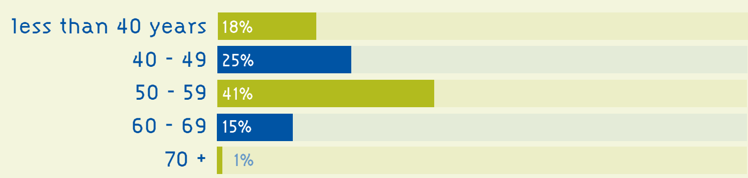
| ACTION | RANKING |
|---|---|
| More general operating/unrestricted support | 1 |
| More multi-year support | 2 |
| Be willing to invest in nonprofit fundraising capacity | 3 |
| Provide more capacity-building support | 4 |
| Simplify/minimize reporting requirements | 5 |
| Funding for executive coaching and professional development | 6 |

# Nonprofit Executives in Profile

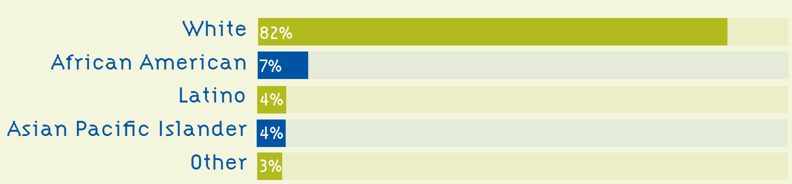
## Executive Gender



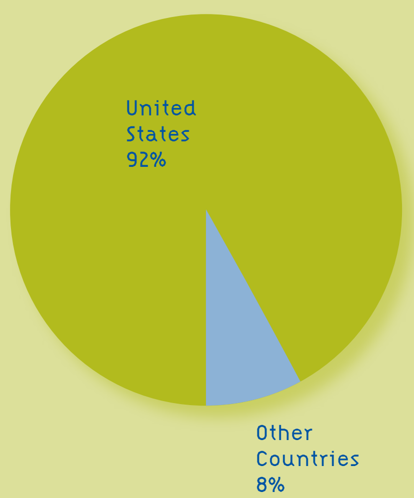

## Executive Age



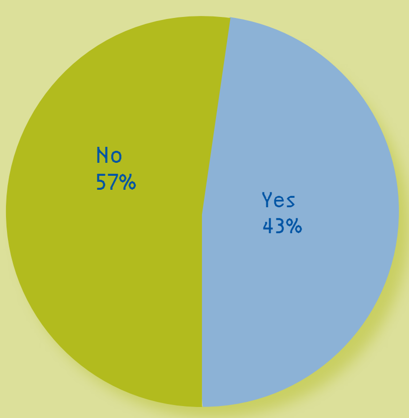

## Executive Race/Ethnicity




## Country of Origin

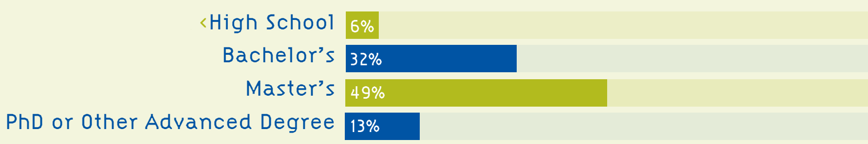



## For-Profit Sector Management Experience

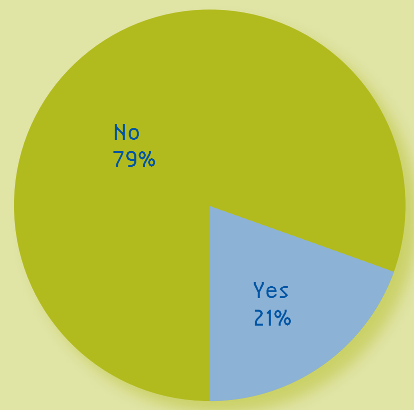


# Nonprofit Executives in Profile

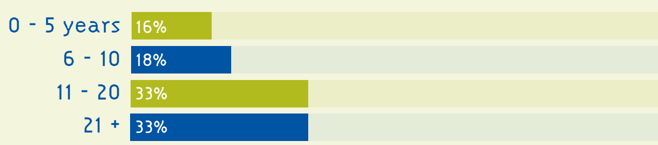
### Highest Level of Education Completed



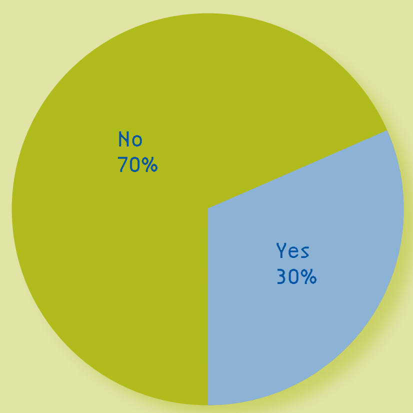

### Public Sector Management Experience



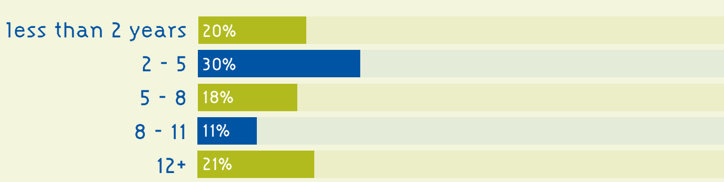

### Nonprofit Sector Experience




### Prior Nonprofit Executive Experience




### Years in Current Position



FINDING

3

# Executives Believe They Make Significant Financial Sacrifices to Lead Nonprofits

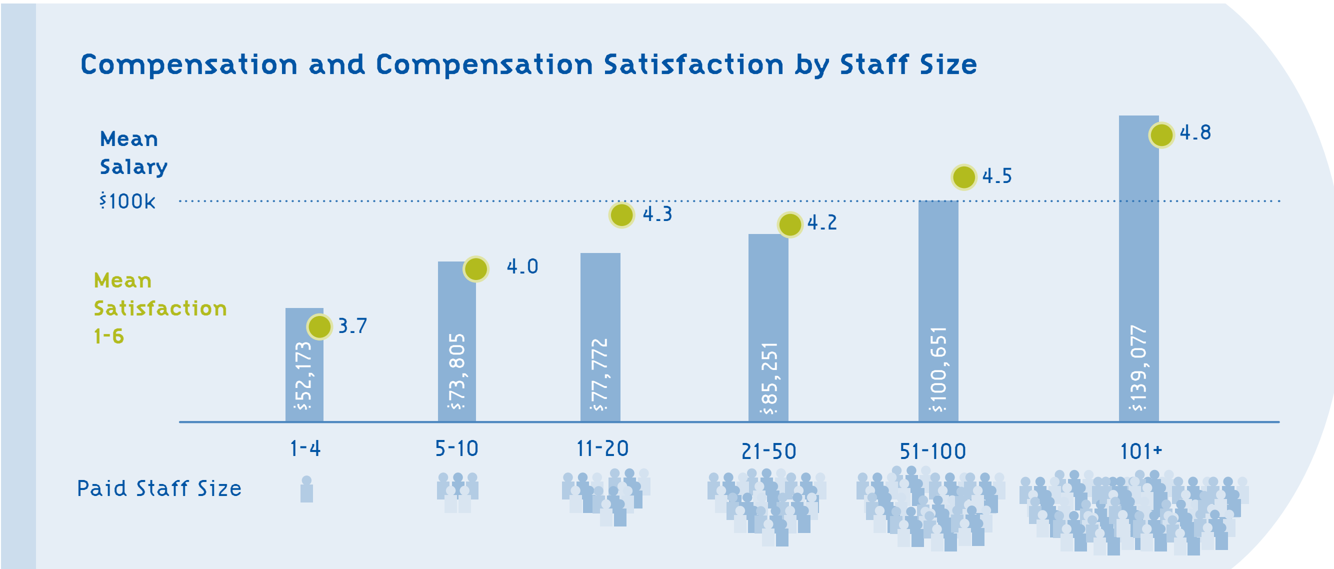
MOST EXECUTIVES BELIEVE THAT THEY COULD HAVE MADE more money working in another sector; they frame their choice to work in the nonprofit sector as an intentional sacrifice. Nonprofits are uniquely challenged in setting executive compensation. Focus on executive talent as a primary determinant of nonprofit effectiveness could mean that executives might demand higher salaries in a more market-driven recruiting environment. On the other hand, scrutiny from regulators and the public — as well as limited financial resources — act as downward pressures on executive compensation. This tension may be at play in our finding that executives are only modestly satisfied with their compensation, but rarely negotiate with their boards for raises. In addition, the executive compensation picture is complex, with gender disparities at all organizational sizes, and low rates of executive retirement contributions despite above-median household incomes.

## Key Findings

- **Executives who are very dissatisfied with their compensation are twice as likely to be leaving within the year than executives who are satisfied with compensation.**
- **Despite only modest satisfaction with compensation, only 26% of executives have ever negotiated a raise beyond what their boards have offered.**
- **Forty-nine percent (49%) of organizations make financial contributions to executive retirement accounts, with larger organizations far more likely to contribute than smaller ones.**
- **Thirty-eight percent (38%) of executives are sole or primary wage earners; the mean annual household income of nonprofit executives is $121,000.**
- **Nearly two in three executives believe they have made a significant financial sacrifice to do this work, with executives at small and mid-sized organizations most likely to believe so.**
- **Despite being 33% of the executive population overall, men are overrepresented among large organizations and make more than women at every budget size.**

| Annual Budget | Mean Executive Salary |
|---|---|
| > 101K | $26,143 |
| 101K-500K | $51,976 |
| 501K-1 MIL | $69,489 |
| 1.1 MIL-5 MIL | $85,807 |
| 5.1 MIL-10 MIL | $102,389 |
| 10.1 MIL + | $135,402 |

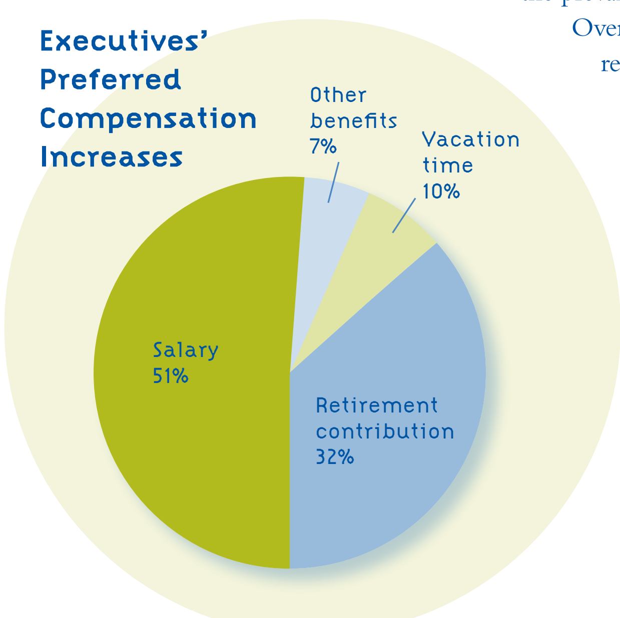
Beliefs about one's own competitive value in the market are inherently subjective — as are the varying opinions of the non-monetary rewards associated with working for a nonprofit — but they nonetheless directly inform executive job satisfaction and turnover. In fact, 49% of executives leaving within one year have low satisfaction with their compensation compared with 29% of executives expecting to stay longer. Because organizational size reflects operating budgets and the capacity to pay executives, it is closely associated with how well executives are compensated and their attitudes about their pay. In other words, the larger the organization, the larger the salary, and the more likely the executive is to be satisfied with compensation. We asked executives to rate their satisfaction with compensation on a 6-point scale. Nearly one third of executives are dissatisfied, rating their satisfaction a 1,2, or 3.




Among four components of compensation (salary, retirement, vacation, and health and other benefits), 51% of executives would most like their salaries to be raised. Yet 74% of executives have never negotiated a raise beyond what their boards offered them. Surprisingly, this does not vary by gender; male nonprofit executives are just as unlikely to have negotiated raises. A number of factors may be at play: In small and mid-sized organizations executives may recognize that the annual budget will not withstand a raise for the executive, so they either do not propose one or may even reject the board's offer of a raise in order to make the budget balance. In effect, their compensation remains budget-based rather than market-based. This finding may also suggest something about how nonprofit executives and boards engage each other in community-based organizations. Conversations about compensation often happen between the board chair and/or treasurer and the executive in less formal ways than they would in a larger corporation. Executive respondents may not view the process of arriving at their salary figure as "negotiation."

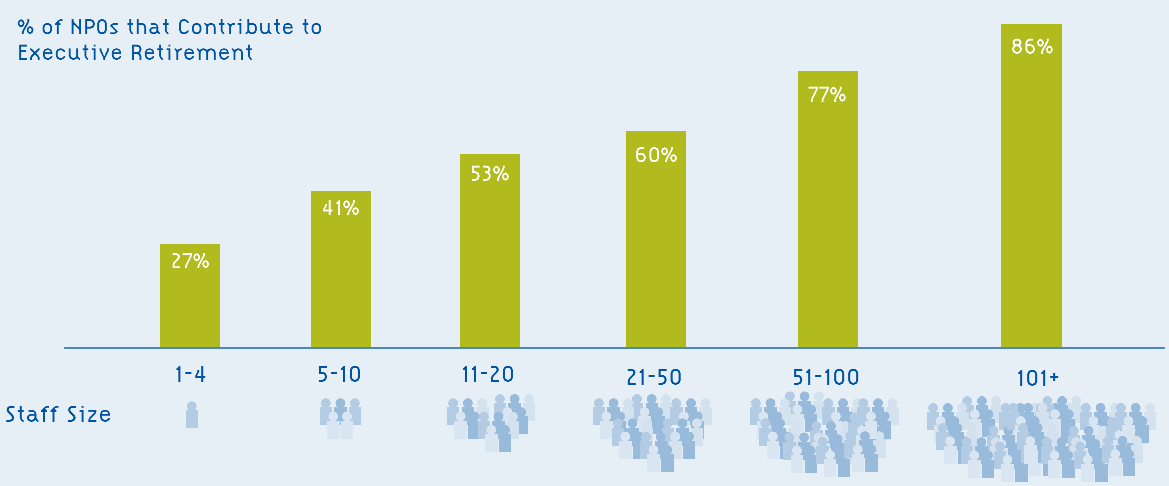
**Seventy-four percent (74%) of executives have never negotiated a raise beyond what their boards offered them.**

Given that many nonprofit executives are baby boomers, we were interested to determine the prevalence of retirement contributions by executives and their organizations. Overall, 49% of nonprofits are making contributions to their executives' retirement accounts. Fifty-six percent (56%) of organizations with executives of 50 years or older make contributions to retirement. As with salary, this is directly associated with organization size. And overall, one third of nonprofit executives are not making their own contributions to a retirement account. On the other hand, nonprofit executives are typically in middle class or higher income brackets. The mean household income of nonprofit executives is $121,000; the median is $115,000, significantly higher than the U.S. average of $43,318.[8] Moreover, a minority of current executives — 24% — are the sole wage earners in their households. Many executives may be relying on the retirement plans of spouses or partners who earn more than they do.




[8] U.S. Census figures for 2003 at http://www.census.gov.

## Retirement Contributions and Organization Staff Size




Most nonprofit executives believe that they have made a significant financial sacrifice to work in the nonprofit sector. This belief does not vary much by age group. On a 6-point scale, 39% of executives under 40 years old rate their sacrifice as a 6, as do 37% of executives in their 40s, and 32% of executives in their 50s and 60s. As with compensation satisfaction, the degree of perceived financial sacrifice is lower among the executives of larger organizations where salaries are higher. In fact, nonprofit executives with advanced degrees (Master's or higher) make slightly more than the national average for all workers with advanced degrees, which is $74,602.[9] Sixty-two percent (62%) of nonprofit executives have an advanced degree; their mean salary is $77,067.

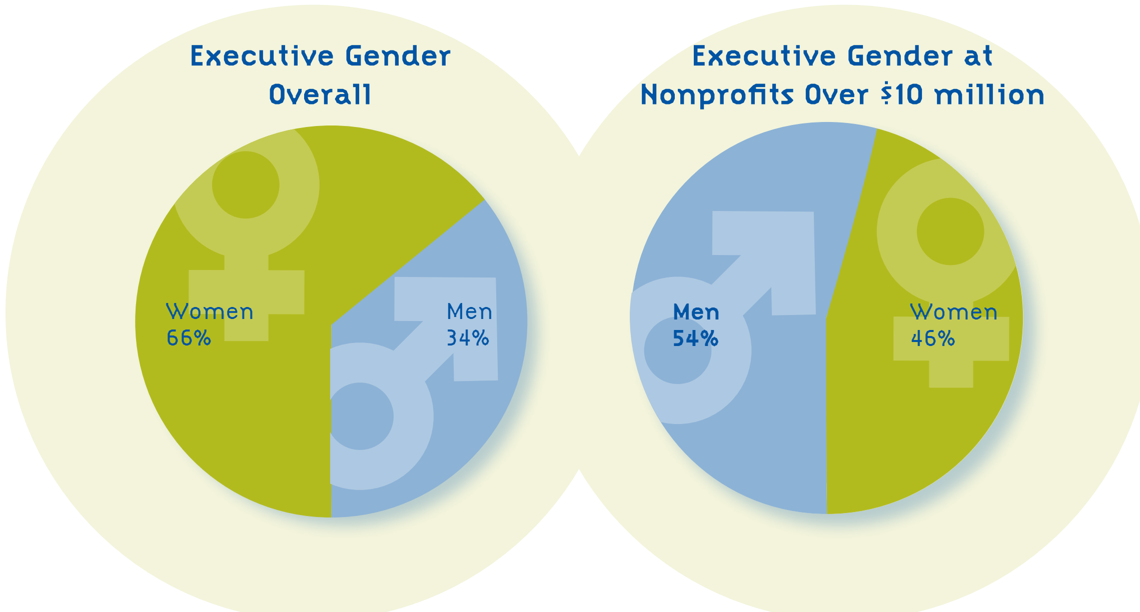
"Old timers, certainly people higher up, often times are independently wealthy. The real rub is how you get people who don't have money to work for a pittance."

## Sense of Financial Sacrifice and Organization Staff Size


[9] Census figures at http://www.census.gov.

“Those of us in my age group made a conscious choice to make a quarter of what everyone else was making.”

Another aspect of financial sacrifice is the fact that women — despite outnumbering men 2 to 1 overall among executives — are underrepresented in large nonprofits and make less to do the same work in many budget categories. Women are exactly 66% of our overall sample, yet among organizations with budgets of greater than $10 million, they are just 46% of the population. The mean salary for female executives at nonprofits with annual budgets between $1 million and $3 million dollars is $83, 270; the mean salary for men in the same budget range is $91,141.




“I worked for 20 years and made $30,000 a year and raised four kids. Now I make a ton more money. The reality is I’d like to earn for a little while and have things like retirement.”

| Annual Budget | Mean Male Executive Salary | Mean Female Executive Salary |
|---|---|---|
| 0-100,000 | 32,086 | 24,374 |
| 101K-500K | 54,582 | 51,140 |
| 501K-1 MIL | 74,066 | 67,530 |
| 1-2.99 million | 91,142 | 83,270 |
| 3-7.5 million | 106,001 | 100,436 |
| > $7.5 million | 159,130 | 114,352 |

FINDING 4

# Concerned with Organizational Sustainability, Executives Seek New Skills and Strategies

BOTH IN SURVEY RESPONSES AND IN FOCUS GROUPS, executives were focused on organizational sustainability. They use different terms — often more business-like and entrepreneurial — to talk about their work and what their organizations need from them as leaders. They report that finance and fundraising are at once their least favorite aspects of the job and the areas in which they most want to build skills. In terms of *how* they build skills, workshops and conferences remain the most dominant learning venues, but coaching and academic programs are now a significant part of the professional development landscape. Not surprisingly, larger organizations afford their executives more access to professional development.

## Key Findings

- **Executives are re-thinking strategic planning, exploring business and entrepreneurial concepts, and engaging in advocacy.**
- **Executives want to build skills in finance and fundraising.**
- **Eight percent (8%) of executives have a paid executive coach—typically paid for by their organizations.**
- **Executives at larger organizations access more professional development than those at smaller organizations.**

When we asked focus group participants what kind of leaders their organizations will need them to be in the coming years, they spoke to emerging capacity issues such as advocacy, business planning, and re-thinking strategic planning. Their responses suggest that they see a need to move beyond categorical management — a fundraising plan, a strategic plan, a budget — to an integrated model for sustainability and deeper impact:

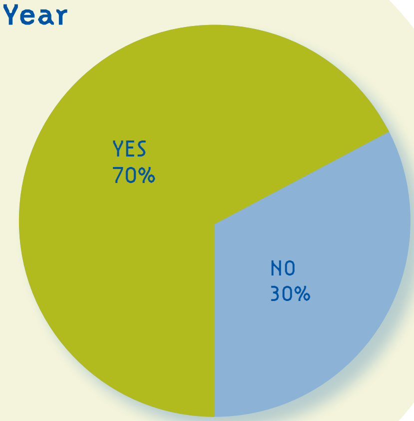
> "I don't want to say strategic planning because I hate what our world does around strategic planning. It's strategic business sense. I need to be able to look farther than anybody else and lengthen my horizon."

> "Our organization has grown 600% in the last three years. I feel the need to learn more entrepreneurial business skills such that we can grow our earned income so that the organization is sustainable."

> "I am thinking about developing lines of business, developing products. How can we give them to the people we serve but make everyone else pay for them? And I'm about as far from an MBA as a person could be."

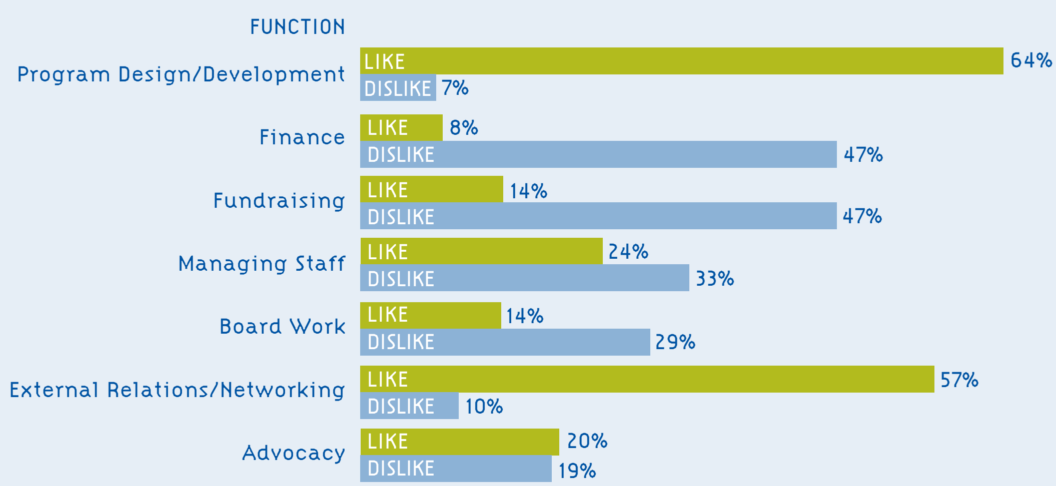
> "I don't know if we are as interested in growing as we are in really doing more advocacy. We're never going to get to 100% of the people; we're never going to get to 20%. So we have to figure out how do we really solve this problem in a different kind of way. That's going to be a hard transition when the political realm starts coming into our little nonprofit."

### Executive Engagement in Advocacy Over the Past Year




Executives report that finance and fundraising are at once their least favorite aspects of the job and the areas in which they most want to build their skills. This is perhaps most critical in the many small and mid-sized nonprofits in which the executive director is the chief financial officer and/or the development director. Overall, 47% of executives do not have a senior staff person in charge of finance, and 60% don't have one in charge of fundraising. Even among organizations with more than 30 staff, one in three executives does not have a senior fundraiser on staff.

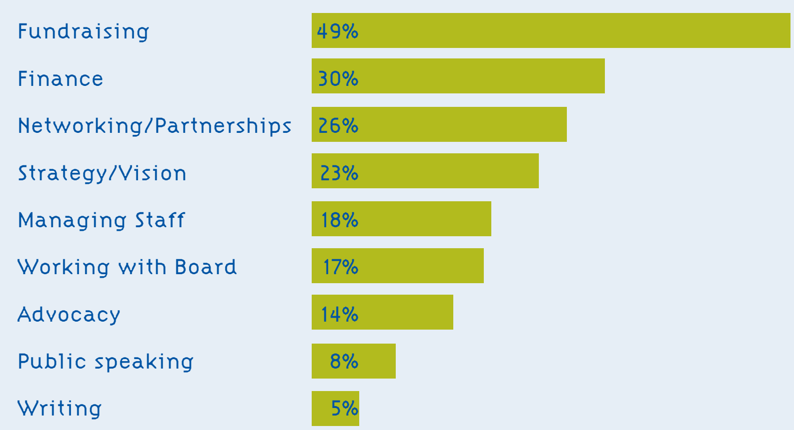
### Executive Likes and Dislikes About the Role[10]




[10] Executives were asked to select the two aspects they enjoy most and least about their roles.

Ninety percent (90%) of executives are accessing professional development of some kind to help them build skills; however, their degree of access is associated with organization size. The executives of larger organizations take more professional development days. A large majority of executives build skills through attendance of workshops and conferences: 87% have gained professional knowledge this way. Fifty-five percent (55%) are members of professional associations. Nearly one in five executives have enrolled in a nonprofit management certificate or degree program, which reflects the increasing availability of nonprofit-specific management education.

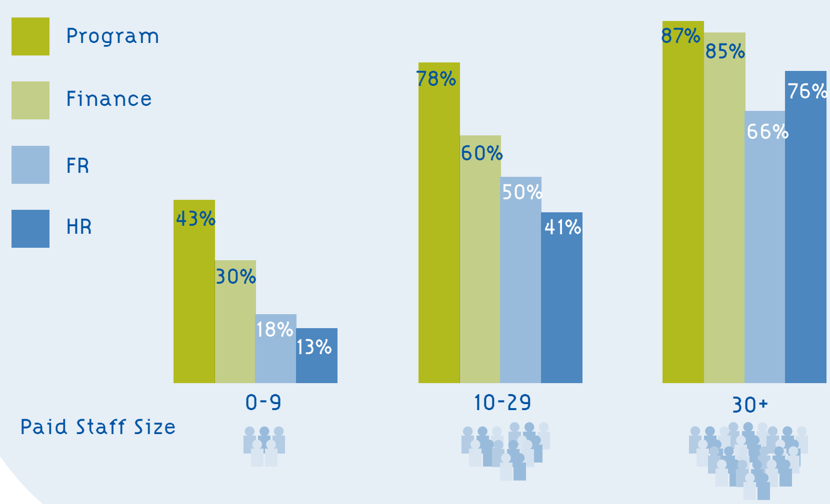
**Executives Identify Two Skills They Most Need to Build**[11]




Executive coaching — which in *Daring to Lead 2001* appeared to have little traction among nonprofit executives — is becoming a more frequent tool for sustaining and improving executive leadership. When asked if they had utilized executive coaching, 25% of survey respondents said yes — a remarkably high number. While coaching has gained in popularity, it is likely that the term "coaching" is still used by executives to mean different things, including less formal mentoring relationships. A more modest but still significant 8% of respondents said that they have a "paid executive coach" right now. In 78% of these cases, the nonprofit or grant funding is paying for the coach on the executive's behalf. Executives at larger organizations are more likely to have a paid coach.

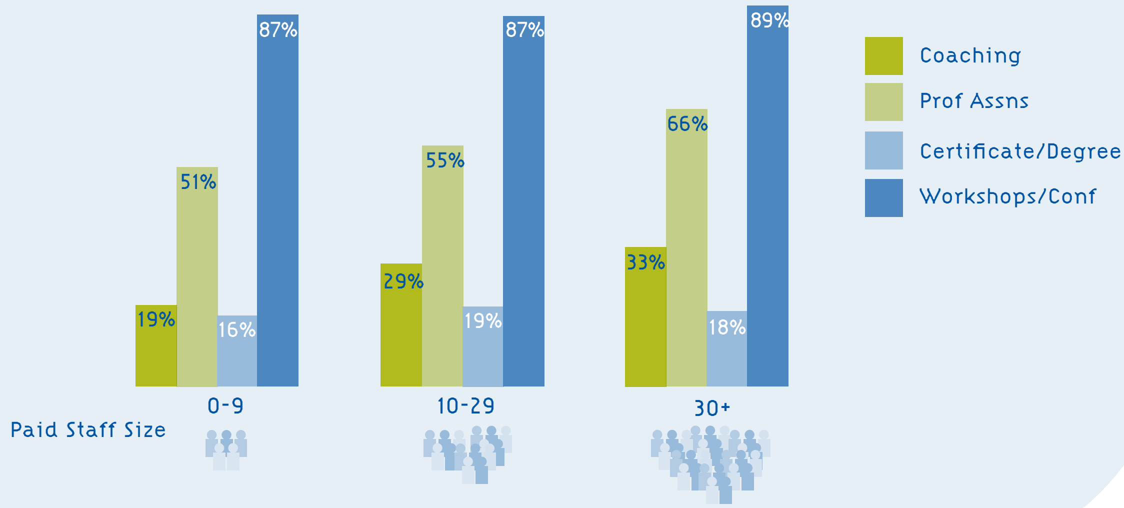
**Even among organizations with more than 30 staff, one in three executives does not have a senior fundraiser on staff.**

**Executives With a Senior Staff Support by Staff Size**

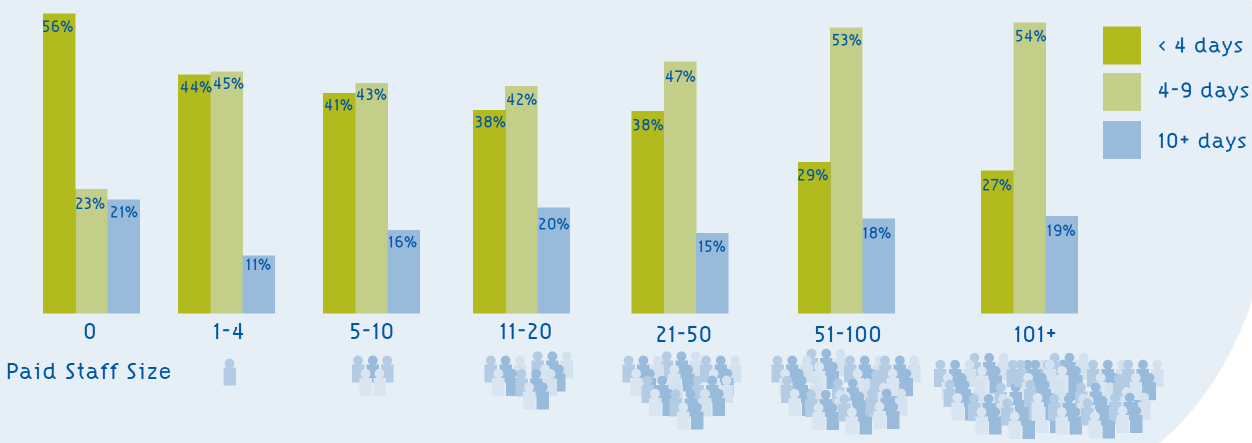



[11] Does not total 100% because respondents selected two skills.

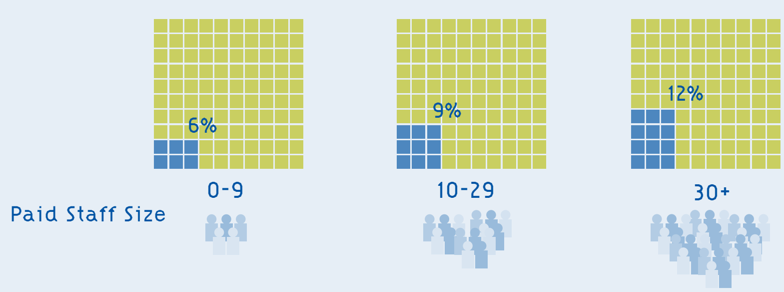
## Executive Use of Professional Development




## Number of Professional Development Days Taken Last Year




## Executives with a Paid Executive Coach



FINDING

5

# Bench Strength, Diversity, and Competitive Compensation are Critical Factors in Finding Future Leaders

BECAUSE THE MAJORITY OF CURRENT NONPROFIT executives are baby boomers, anticipation of wide scale retirement has intensified the anxiety around leadership transition across the sector. This research suggests that many older executives are not on a traditional retirement trajectory; nearly half of executives older than 60 say that something *other* than retirement is what they will do next. Still, the nonprofit sector — like the other sectors — will most certainly have a market response to the talent supply available as the generational handoff unfolds. Our data suggest several points of concern. First, only half of executives at mid-sized organizations (5-20 staff) are actively developing future executives. Second, the sector does not appear to be achieving greater diversity in its newer and younger executives. And third, executives believe that the next cohort of leaders will require higher salaries and more work-life balance, things that small and mid-sized nonprofits may struggle to provide.

**The vast majority of current nonprofit executives are either founders or external hires.**

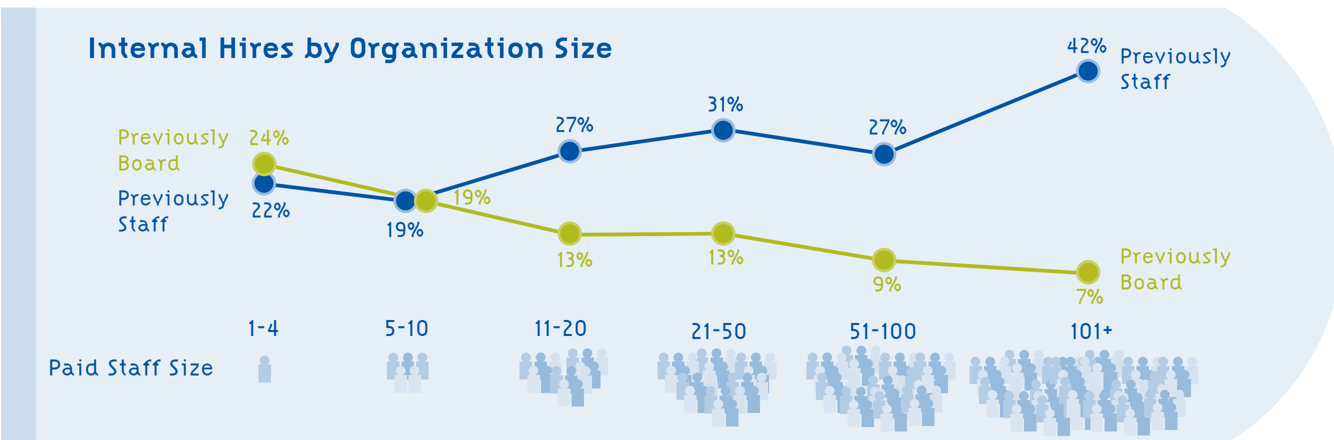
## Key Findings

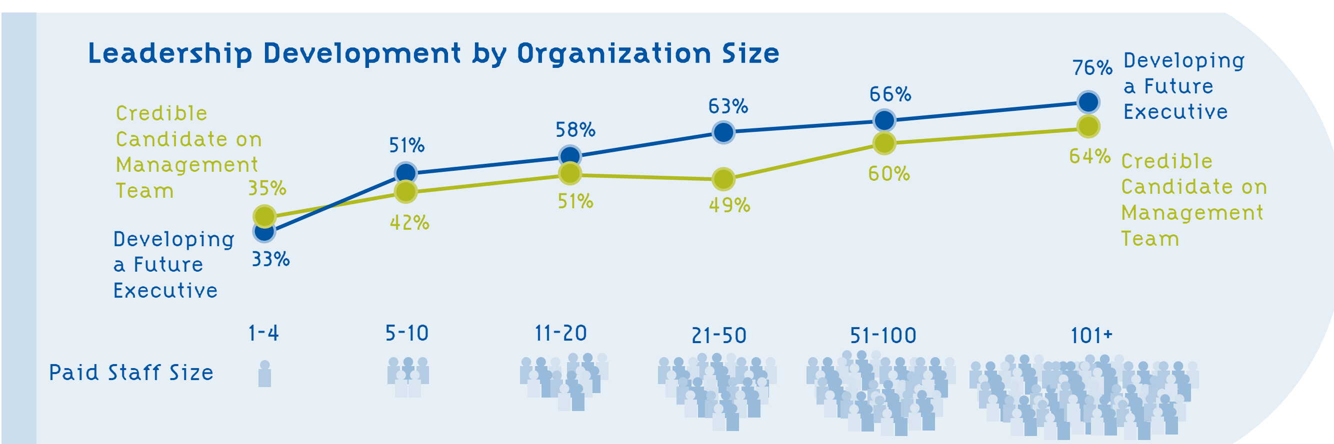
- **Internal hires are the minority at nonprofits; just 27% of executives running organizations with 11-20 staff were on staff prior to becoming the executive.**
- **Just over half of executives are actively developing one or more people on their staff to be an executive director someday.**
- **Nearly one in three current executives are likely to be nonprofit executives again.**
- **48% of executives older than 60 say retirement is not their ideal next role.**
- **18% of executives under 45 years old are people of color.**
- **61% of executives say that if they left today, their organizations would have to pay more than they are making to recruit a qualified successor.**

Nonprofits don't generally grow their own executives; they grow executives for other organizations in the sector. The vast majority of *current* nonprofit executives are either founders or external hires. Among the 1,932 participants in this research, 21% are founders of their organizations. Among non-founders, the likelihood that an executive was on staff prior to taking the role is strongly associated with organizational size, since larger organizations have the kinds of senior roles that serve as feeders to the position. Still, even among larger organizations, internal hires are the minority; 42% of nonprofits with 100 or more paid staff are led by an executive who was on staff prior to taking the role. This is the case for just 22% of nonprofits with paid staffs of 1-4 people. Conversely, the smallest organizations are more likely to be led by someone who was previously on the board of directors. Twenty-four percent (24%) of small nonprofits are led by executives who were formerly on the board, compared with just 7% of the largest nonprofits.

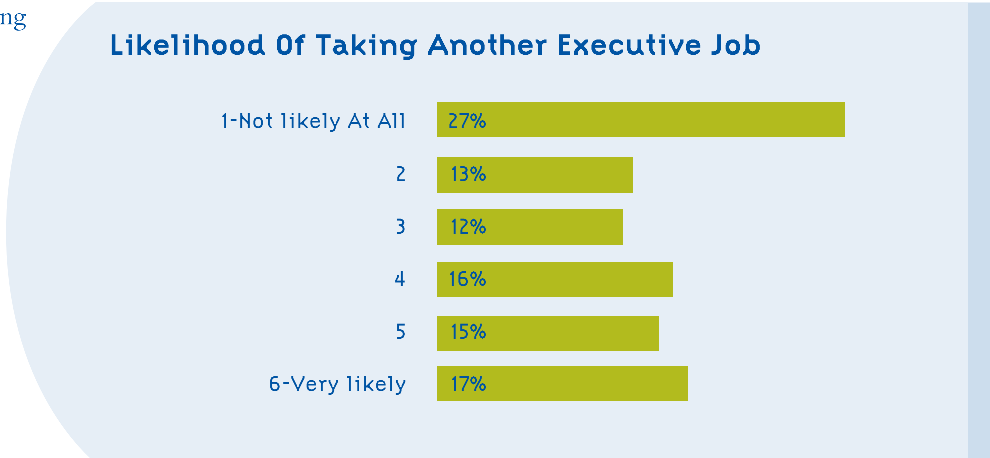
"Learning how to share leadership in a way that grows somebody but still gets the job done is a big challenge for me personally."

Mounting concern about filling the seats of retiring baby boomer executives is one reason for our sector's increasing focus on developing leaders. Another reason is a growing recognition that what's been termed the "heroic" leadership style is neither sustainable for the executive nor a strategic approach to leveraging the talents of other staff. Instead, we now talk about "bench strength," and leadership development programs are expanding to include non-executive senior staff. At the same time, most nonprofits are small and financially lean, which is a serious obstacle to creating leadership development opportunities as well as to paying for professional development activities. Fifty-two percent (52%) of executives report that they are actively developing one or more people on their staff to be an executive director (of some organization) someday. This is strongly associated with organization size, since larger organizations have more mid-level and senior positions. Three out of four executives at nonprofits with more than 100 staff are actively developing future executives, compared with 50% of executives at nonprofits with 5-10 paid staff. Similarly, larger organizations are more likely to have someone on their management teams now who would be a credible candidate for their jobs if they stepped down today.

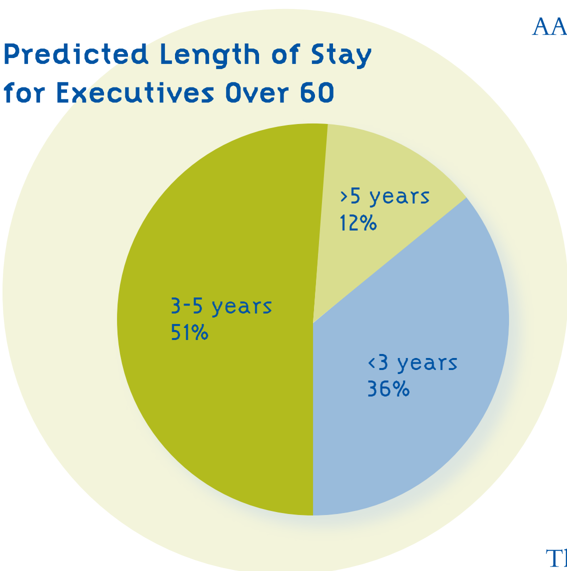


This data suggest, however, that young people with executive potential are not the only talent pool that the sector can tap for impending transitions. First, 32% of current executives are very likely to take another nonprofit executive position in their careers. This cohort is only slightly younger than the overall executive population; their mean age is 47 whereas the mean age of the overall executive population is 50.




Second, our findings suggest that many older executives are not retiring soon or plan to contribute to the field in some way upon leaving their current jobs. Two thirds of respondents older than 60 anticipate staying in their current roles for 3 or more years; 12% anticipate staying for more than 5 years. Further, only half of respondents older than 60 said that retirement was their ideal next role; the other half want to consult or work in another nonprofit or foundation. Amid the fears associated with 77 million baby boomers retiring, economists acknowledge that boomers' orientation towards work and career, their longer life spans, and their need to finance their longer life spans, mean that "retirement" is going to look different than it did for baby boomers' parents. In a 1998 AARP survey, four out of five boomers said that work would play a role in their retirement years.[12] In her monograph, "Up Next: Generation Change and the Leadership of Nonprofit Organizations," Frances Kunreuther argues that financial constraints may prevent older executives from viewing their transitions as viable — a potential roadblock to a healthy generational handoff.[13]




Whatever its age, a major concern is whether the field is making ground in diversifying the population in the executive pipeline. The current cohort of executives is overwhelmingly white; in our sample, which is urban and focused in community-based organizations, just 18% are people of color. If the composition of the younger and newer executives in our sample is a good indication, the diversity of the executive population may not improve much in the near term. Executives 45 years old and younger are just as likely to be white as their more senior counterparts. Similarly, new executives—those who have been on the job for less than two years—are almost as likely to be white as more tenured executives.

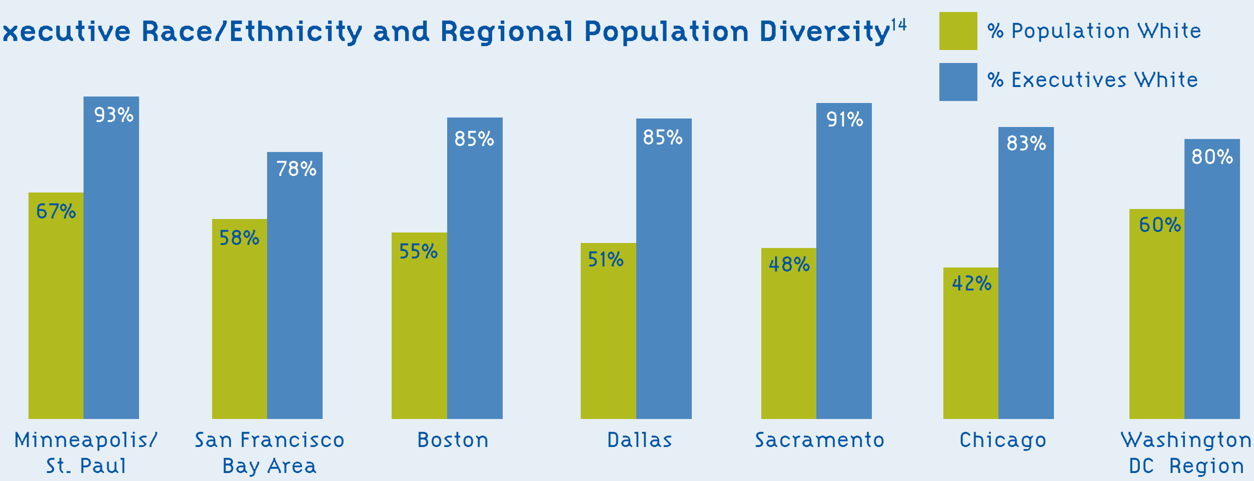
"I think we have a responsibility to dig deep in the community and engage people who are going to care as much about what we're doing today as we care. Emerging leaders are living with this incredible naiveté about how this really works. We have to grab one and say you and I are going to be partners here. We're having lunch at least once a month until you have arrived."

[12] Salls, Manda. "The Nonprofit Boon from Boomers." Harvard Business School Working Knowledge, October 18, 2004.
[13] Kunreuther, Frances. "Up Next: Generation Change and the Leadership of Nonprofit Organizations." The Annie E. Casey Foundation Executive Transitions Monograph Series, Volume 4, p. 17.

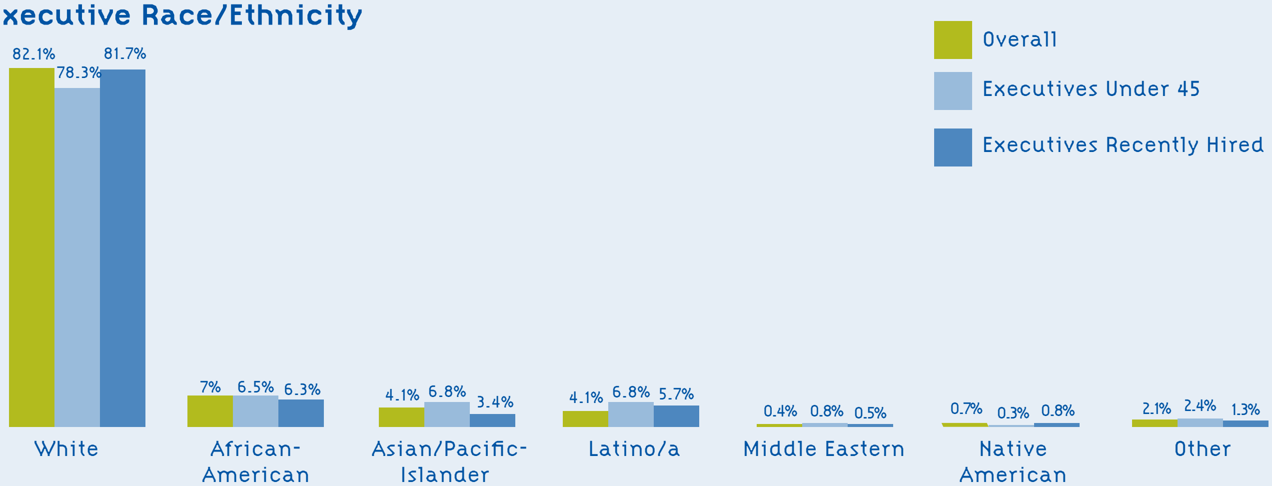
## Ideal Next Job for Executives Over 60


"I think that as middle-class Caucasians, we can offer ourselves to nonprofits in a second career as many people are doing, and the skills are wonderful, but we are not of the community."

## Executive Race/Ethnicity and Regional Population Diversity[14]



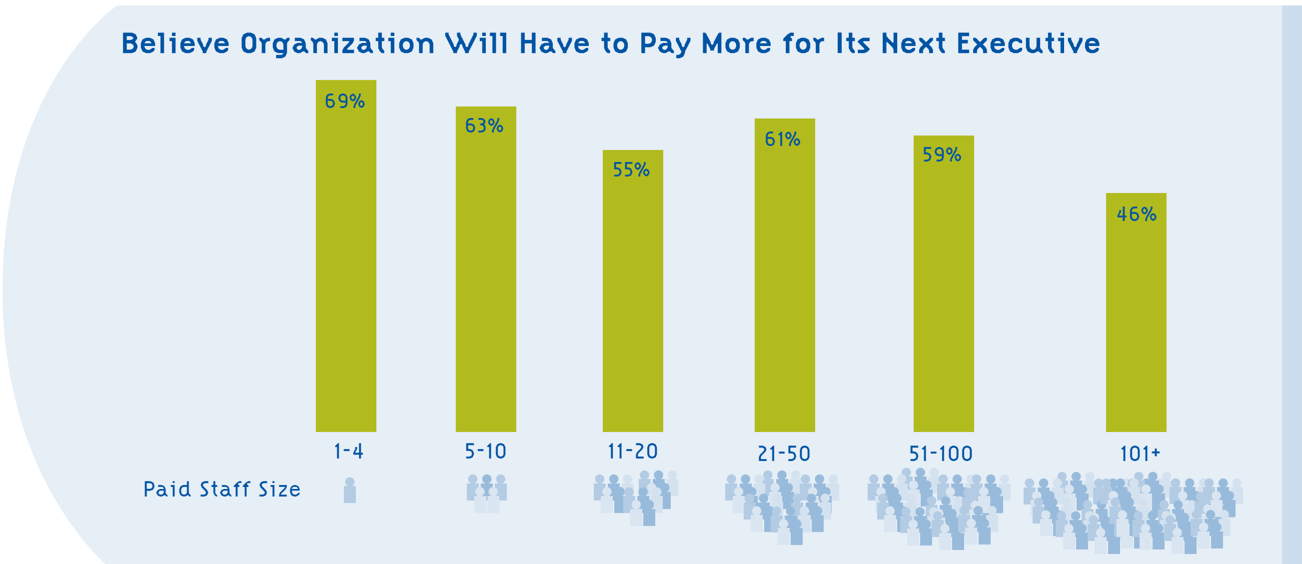

## Executive Race/Ethnicity



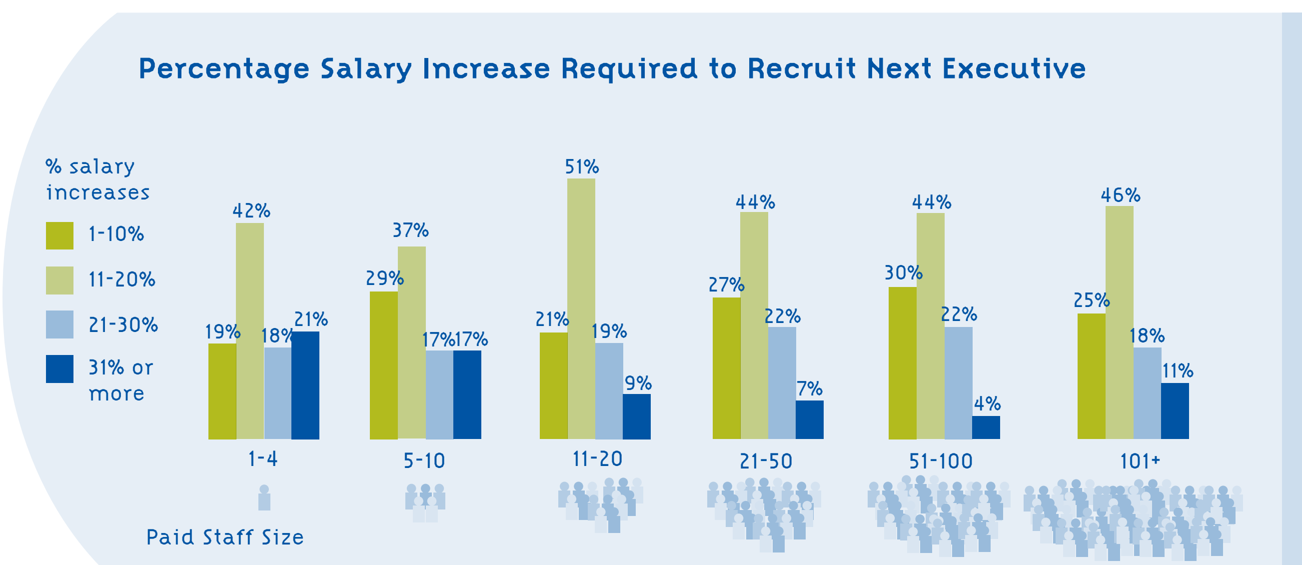

[14] U.S. Census figures for 2000 at http://factfinder.census.gov.

A less frequently discussed leadership development and recruitment issue is executive compensation. In fact, 61% of executives believe that if they left today, their organizations would have to pay someone more than they are making to do the job. Among larger nonprofits where salaries are presumably more competitive, executives say the differential between their salary and what it will take to recruit their successor is smaller, though it is still substantial. Compensation also came up in focus groups as a potential generational difference. Some participants believe that younger executives will expect to be paid more than baby boomers have accepted and that further, they will want work life balance to an extent the founders never expected from the nonprofit executive role. One executive commented, "The young people who come in want balance tomorrow." Another said, "Young people have a lot of high expectations about salary and benefits and they actually read the employee handbook and want everything they are entitled to."

**Sixty-one percent of executives believe that if they left today, their organizations would have to pay someone more than they are currently making.**




"People that do nonprofit work, that came out of the activism of the '60s, have a really different view: that somehow money is bad, or it's a shameful thing to expect to be paid well. It's just not sustainable and it drags down the quality of work across the sector."



# Recommendations to Executives, Boards of Directors, Funders, and Capacity Builders

This research, involving nearly 2,000 nonprofit executives across the country, provides a wealth of information and insights about their job experiences and career paths. Their answers suggest a host of potential responses by board members, funders, providers of training and consulting services to nonprofits—and by executives themselves. The recommendations that follow were created by the authors of this report in response to the survey data.

## Executives

### Take responsibility for the board

CompassPoint's recent work with executives on the job 15 years or more revealed attention to board building and management consumed up to 25% of their time at several points in their tenures. In high-performing organizations, board and executive are a team responsible for one another's well-being and success — adroitly making use of the tension between mutual support and accountability. But when the board side of the team is weaker than the executive side, too many executives respond by making their boards less relevant and important. Successful executives know that building a governing and supporting board takes their genuine commitment, time, and leadership, and they willingly accept that responsibility.

### Build a "leaderful organization" as a succession planning strategy

By building leadership within their organizations, executive directors can develop potential successors and leaders for other organizations. Strengthening the administrative and leadership abilities of managers results in a team that can more fully share with the executive director the challenges of leading a nonprofit organization. This leadership development sometimes starts with the creation of an emergency succession plan. In planning for coverage that would be needed should the executive director suddenly not be on the job, backup managers for key executive duties are identified and trained. When resources allow, some executives test the strength of their backup team by taking a leave or sabbatical.

### Ask for adequate salary and benefits

Executive directors may feel self-conscious and awkward about asking the board for a raise — indeed, this study suggests that three of four executive directors never have. Most executives are also painfully conscious of the organization's financial bottom line, which may also contribute to their reluctance to ask for more money. However, an artificially low salary for the executive director and weak or non-existent benefits affect an organization's long-term ability to recruit employees and build leadership bench strength. It also sends a negative message to young people who may aspire to be executive directors.

### Ask for help

When confused or seriously frustrated with job challenges, executive directors should ask for help sooner, rather than later. Answers could come from a mentor who has been there and gotten over similar hurdles; from a coach who can help the executive develop mental muscles for moving through professional dilemmas; or from a network of supportive peers.

### Pursue leadership development funding

Given that 70% of executives have never run a nonprofit before, resources for building their skills are essential to the success of the organizations they lead. Funders who have already invested in a nonprofit's programs want the organization to succeed, and an increasing number of funders are aware that capable leadership is essential to mission achievement. Moreover, investment in the development of senior staff builds the pipeline of talent for executive jobs throughout the sector.

### Live in the question: Am I still the right person for this job?

This report revealed that a high percentage of executives depart via forced resignations. This rough ending to tenures that may well have been successful at earlier points might be avoided if executives were to periodically examine their current job fit. Executive directors should continually ask themselves: Am I the person to manage the challenges emerging for this organization and to take it to the next level of mission achievement? Would this organization and I be better off if I took my experience and abilities to a different service perch in the community? These questions should be part of the dialogue that occurs with the board as it conducts the executive director's annual performance assessment.

### Engage in career planning

Regardless of how long an executive director plans to stay in a given job, career planning can embolden executives in their current position and ease their transition when it's time to leave. Our data indicate that for most executives their current job is just one stop along a nonprofit career path that has more stops ahead. Knowing what other executives have done next and what might be possible for themselves can make it easier for executive directors to be honest in answering the question about the current fit between themselves and their jobs and can make it easier to take risks to improve a currently bad fit.

# Board Members

A crucial aspect of developing future executives of color is developing board leaders of color.

### Take responsibility for the board

The performance of the board has a direct effect on executive satisfaction and retention. Board chairs and officers in particular should take personal responsibility for the efficacy of the board. In collaboration with the executive director, board leaders should actively recruit and develop board members, plan board meeting outcomes and agendas, and most importantly: make sure the board engages the strategic questions facing the organization.

### Engage in succession planning for the executive and the board

Board members should recognize that executives will eventually leave and should bring succession planning into the annual executive evaluation discussion. The board should ask whether the executive still feels well matched to the strategic issues facing the organization, as well as how future leaders on staff are being developed. By engaging in board succession planning, the board can model this behavior for the executive and ensure a pipeline of strong board members and officers.

### Insist on adequate salary and benefits for the executive director

The board has a responsibility for stewardship of an organization's resources, including its human capital. This study revealed that many executive directors are dissatisfied with their salaries, and that low salaries play a role in executive turnover and burnout. Board members should recognize that working for years without a raise or a performance review, which a surprising number of executives do, is discouraging. An effective executive director is one of an organization's most important assets — one that should be invested in, and for future sustainability, paid a reasonable salary that is market-based, not budget-based.

### Articulate an appropriate and achievable board role in fundraising

Rather than letting unmet expectations lead to executive frustration and deficit budgets, board leaders should work with the executive director to determine what board fundraising is realistic given the organization's revenue makeup and board composition. Significant board fundraising requires strategic board recruitment and active support from staff, so it may take several budget cycles to change a board's fundraising impact. Information about the board's role in fundraising should be discussed as part of the recruitment process and revisited regularly at board meetings so that no one is surprised or disappointed by what is expected.

### Analyze the ethnic and racial composition of your board

This research revealed that the vast majority of new and young executives are white, which may in part result from the fact that boards — the people who selected these new leaders — are predominantly white themselves. In addition to providing an invaluable mix of perspectives and community connections a diverse board also makes it easier for the organization to recruit future executives from a wider pool. Developing board leaders of color is a crucial aspect of developing future executives of color.

# Funders

### Examine how all grantmaking practices — not just formal leadership development support — affect executive directors

Many funders immediately think of workshops, training, and formal leadership programs as primary strategies for strengthening leadership. Such programs can be effective, but many other funding practices support and strengthen executive directors — or contribute to burnout and failure. Survey respondents ranked providing more unrestricted and multi-year support as the two funder actions that would most help them in their work. Coaching and professional development were ranked lowest. This does not mean that coaching and training are not needed, but does suggest that access to operating capital trumps most other challenges for executive directors, many of whom are also the chief development officer for their organization. Focus group participants were especially vocal about institutional funders whose interests and priorities shift every few years, required but unfunded planning and evaluation processes, and the challenge of finding support for core programs.

**Access to financial resources, not lack of vision or leadership or management skill, is the greatest obstacle to the success and effectiveness of most executive directors.**

### Make sure leadership development programs address the key issues identified in this study

Many grantmakers currently offer leadership development programs aimed primarily at executive directors, and more are being created each year. Leadership programs run the gamut from monthly convenings to support for sabbaticals to multi-day retreats to yearlong fellowships that include international travel. Often transformative and inspirational for the individuals involved, they are also sometimes disconnected from the day-to-day challenges and frustrations expressed by nonprofit executives in this report. At their worst, such programs add yet another demand on the time of a leader who is already pulled in a hundred directions without much management backup. Executive directors may feel obligated to participate because a funder asks or suggests. Whatever their form, leadership development programs should include strategies for reducing the job overload of participants — perhaps by strengthening the organization's management team or providing resources for additional administrative support.

### Increase support for executive transition planning and revisit current practices for grantees in transition

With three quarters of survey respondents indicating they don't plan to be in their job five years from now and many executive directors being fired or encouraged to leave, transition will be a critical challenge for many organizations. Executive transition becomes even more challenging when nonprofits don't have funds for an adequate search or when grantmakers withhold support because of a leadership change. Grantmakers that support an organization during transition or provide early funding to a new executive director make an important contribution to a nonprofit's long-term stability and success.

### Encourage grantees to pay executive directors reasonable salaries and improve benefits

Half of survey respondents had no retirement accounts, and most believed that their organization would need to offer a higher salary to their successor. Low salaries for executive directors contribute to stress and burnout, create a low salary ceiling for other senior employees, affect the caliber and diversity of applicants for positions, and create sudden financial potholes when organizations going through transition need to offer a competitive salary to attract a candidate. Of course, grantmakers that urge nonprofits to improve salaries and benefits need to offer grant support at levels that can support that goal. Artificially low limits on overhead and restricted grants that support only direct services help create poorly managed organizations whose executive directors are under-supported, overextended, and ineffective.

### Listen more closely

Many survey respondents and focus group participants expressed deep gratitude at the questions being asked and for the opportunity to talk about themselves and their role. Two thirds felt that funders had only a weak or modest understanding of what their jobs entailed. Conversations between executive directors and funders, if they are candid and the relationship is trusting, offer opportunities for grantmakers to learn more about the executives' current challenges, watch for signs of burnout, discuss succession planning and leadership bench strength, and increase their understanding of the executive's role.

One major theme permeates this report and is significant to all grantmakers: Access to financial resources, not lack of vision or leadership or management skill, is the greatest obstacle to the success and effectiveness of most executive directors. Many nonprofits are funded through a complex patchwork of government grants and contracts, foundation grants, individual contributions, revenue from special events, and earned income. Each source of income, and often each grant or contract, has unique communication, accounting, and reporting requirements, creating daunting challenges for even the best executive directors. Anything grantmakers can do to simplify processes, provide additional stability, and increase funds available for management and general operations will help give executive directors additional breathing room.

# Capacity Builders

### Question conventional wisdom about boards

Individuals and organizations that provide training and consulting for nonprofits may be setting up executives for ongoing frustration by promoting unrealistic and even misguided expectations for boards. For example, is it reasonable and appropriate to expect "good" boards to be fundraising boards? In real life, boards may do a lot of fundraising, a little, or none. Executives need help in figuring out what revenue generation role their boards are capable of and planning accordingly.

### Provide training in fundraising and financial management

Executives identified fundraising and finance as the two aspects of their jobs they like the least, as well as the two areas in which the organization would benefit most if they improved their skills. Many capacity building and management assistance organizations already offer workshops in these areas. However, many are designed for audiences other than executive directors. Training and coaching in these areas — possibly designed for and limited to executive directors — would fill a critical need.

### Promote executive succession planning

Succession planning is an important risk management practice, a strategy for making the executive's job doable, and a way of developing the leadership pipeline. An organizational leadership team (staff and board) trained to back up one another insures minimal loss of steam should a key manager suddenly be absent. It also allows the executive to reduce an impossible workload by delegating to skilled managers. Further, it prepares managers to step into executive positions. Capacity builders can help executives and boards see the value in succession planning and promote it as an ongoing best practice rather a crisis management activity done on an as-needed basis.

### Create a pool of coaches and mentors for executives

On-the-job support from a trained support professional has proven to be a potent and cost-effective skill development tool. Having a diverse talent pool of coaches and mentors ensures that an executive will find one that fits his or her specific style and needs. To have the greatest impact, pool members need to have been trained in best practices for coaching or mentoring and be experienced in the realities of working in community-based nonprofits.

### Offer structured peer networking opportunities for executives

Peer learning groups and learning circles offer executives a facilitated way to access their peers' knowledge. The most enduring networking opportunities are structured in ways that move the participants from telling war stories to coaching one another in devising and executing solutions to the big challenges they face in their leadership jobs. Groups that meet regularly build trust among participants and can lead to long-term support by executives who otherwise fall victim to the often-reported feeling of isolation associated with being in charge

# Conclusion

Because one of our goals was to identify ways in which boards, funders, and capacity-builders could better support executive directors in their critical role, this report focused primarily on the problems and challenges facing executive directors. Yet we should not leave the impression that serving as an executive director is unrewarding.

Executive directors who participated in this study also talked extensively about the rewards and positive aspects of their work: the satisfaction of working for organizations that change communities and lives, their level of autonomy, the wide variety of tasks and responsibilities, and the opportunity to work in constructive partnerships with business and government leaders.

The nonprofit sector depends on these talented, skilled, and visionary leaders. They are committed, creative, and tenacious. They produce amazing results with inadequate resources. By daring to lead nonprofit organizations, they dare to change the world.

## Further Research and Leadership Programming

To inquire about replicating this research or developing related executive leadership programming, contact: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## About CompassPoint

CompassPoint Nonprofit Services is a nonprofit consulting, education, and research organization with offices in San Francisco and San Jose, California. Through a broad range of services and initiatives, CompassPoint serves nonprofit volunteers and staff with the tools, concepts, and strategies necessary to shape change in their communities. In addition to training and consulting in nonprofit strategy, finance, fundraising, governance, and executive transition management, CompassPoint frequently publishes books, articles, and research reports on topics of relevance to nonprofits, funders, and capacity builders. For more information, visit www.compasspoint.org.

## About the Meyer Foundation

The Eugene and Agnes E. Meyer Foundation works to develop the Washington, DC region as a community by supporting capable, community-based nonprofit organizations that foster the well-being of all people in the region. Founded in 1944 by Eugene Meyer, an owner and publisher of The Washington Post, and his wife, Agnes Ernst Meyer, the foundation accomplishes its mission by identifying visionary and talented nonprofit leaders, making early and strategic investments in nonprofit organizations, building the capacity of its grantees, and promoting a strong and influential nonprofit sector. In 1994, Meyer established the Nonprofit Sector Fund, which includes cash flow loan and management assistance programs and grants to strengthen Greater Washington's nonprofit sector. For more information, visit: www.meyerfdn.org

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