EXECUTIVE TRANSITIONS:
What We Can Learn from the Experience of Housing Partnership Network Members

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Introduction

As a society, we are aging. Baby Boomers are reaching retirement age at a rapid pace, with ten thousand Americans turning 65 every day. In the nonprofit sector, 67% of the Executive Directors/CEOs are expecting to retire within five years, with 87% of current CEOs fifty years or older, yet only 17% of nonprofits have a succession plan in place.

The Housing Partnership Network (HPN) is an award-winning business collaborative of 100+ of the nation's leading housing and community development organizations. Over the past few years, there has been a high level of turn-over in the leadership of HPN members, as long-time CEOs retire. Thirty-one member organizations have had executive transitions since 2020. The incoming CEOs are younger and more racially diverse than the people they are replacing. Of the new CEOs since 2020, 71% are People of Color. By comparison just 24% of new CEOs who began their tenure in the period 2016-2019 were People of Color. The gender mix of the current HPN CEOs is 36% female/63% male, and the incoming cohort has slightly more female representation with 39% female, 61% male. The recent CEO transitions at HPN are beginning to change the face of community development leadership.

Whether with a nonprofit or for-profit organization, executive transition is one of the most critical times in an organization. Everyone in the organization is affected. According to McKinsey & Company, nearly half of all leadership role transitions are unsuccessful and/or disappoint, thus understanding what can be done to increase the odds of success is important.

When new CEOs struggle with their transition, the performance of their senior management team also suffers, with their direct reports 20% more likely to disengage or leave the organization. And, per a 2015 study by Paese and Wellins, 74% of new leaders feel they are unprepared for their new role, and they don't necessarily get much guidance from the boards that hire them. The assumption is the new leader has what it takes to get the job done.

Objectives of Study

To learn more about HPN's executive transitions, a survey was sent to all HPN member CEOS, as well as to CEOs who had retired in the past 4 years. There were 22 responses from CEOs who have recently retired, 18 responses from CEOs who expect to retire in the next five years, and 21 responses from new CEOs. A summary of the survey responses is included at the end of this report.

This paper seeks to answer several key questions:

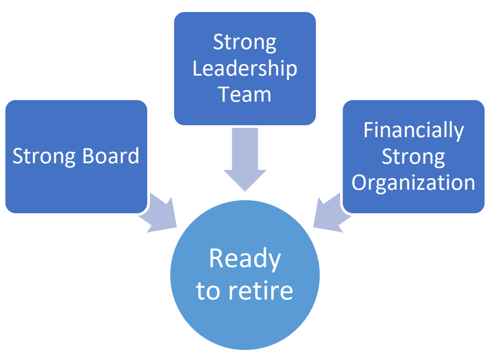
- Is there a right time and a right way to retire?
- How do you best prepare for the transition?
- What is the best way to ensure success of the new leader and their team?
- How do you make the retirement phase of your life meaningful and enjoyable?

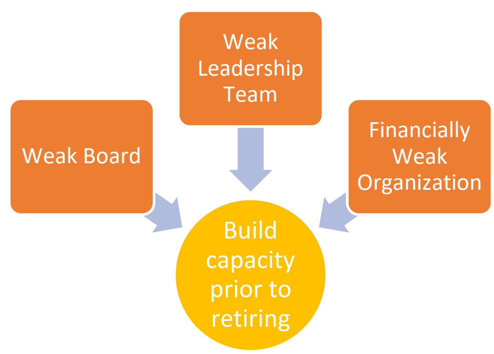
The following narrative reflects the information gleaned from the survey, as well as information and data from current literature on nonprofit executive transition.

Is there a right time and a right way to retire?

At the HPN CEO forum in June of 2022, a retiring CEO joked that he knew it was time to retire when he needed to replace body parts. While age and health are typically factors in making the decision to leave, it is equally important to recognize whether or not you have the energy and drive to continue to lead, and whether or not your vision for the organization still makes sense given the dynamic nature of the work. In the survey, some retired CEOs stated that they felt it was their obligation to step aside at a certain age to let the next generation of leaders take over, even if they planned to continue to work in the field in some capacity in the future.

Another major factor influencing the decision to retire is assessing whether or not the organization is strong enough to withstand a leadership change. Three factors weigh in here: the overall financial health of the organization, the strength of the leadership team, and the strength of the board. If any of these items is missing, the odds for a successful transition are diminished.





Retired CEOs answering the survey shared that in cases where they did not have a strong board and leadership team, they spent time focusing on improving the bench and the board prior to announcing their departure. Some began work as much as two years before departing, and many acknowledged that working with a consultant was helpful. Building the balance sheet prior to departure and ensuring a financially sustainable business model is also critically important to ensuring a smooth transition. Some incoming CEOs in the survey noted that they were surprised that the financial condition of the organization wasn't as rosy as they had been led to believe during the hiring process, adding extra work and stress when they started the job.

If the organization is positioned to weather the change, the CEO needs to determine how much notice to give to the board, the staff, and the organization's partners. The survey found that the notice period varied greatly with HPN's retired CEOs, and it doesn't appear that there is a specific timeframe that works better than others, although most CEOs gave at least a year's notice to their boards. In general, recently retired CEOs surveyed gave their boards more notice than their staff. This allowed the board plenty of time to gear up for the search and hiring process.

In situations where the departing CEO gave several years notice, some incoming CEOs reported that the long lead time complicated the transition. One incoming CEO related that the long lead time led to uncertainty around whether they would actually get the CEO job. Another possible outcome when outgoing CEOs stay on too long is that capable candidates may go elsewhere, rather than wait several years to move into the number one position.

The survey also found that there was quite a bit of variability with the amount of time that the retiring CEO overlapped with the new CEO. To make the transition successful, CEOs noted that it is important to make sure the roles are clear for both during the overlap, so that the board and staff understand who is in charge of what. In most circumstances, survey respondents found that a brief overlap appeared to be sufficient. Many retiring CEOs made themselves available to the incoming leader for consultations for a period of time. In situations where the overlap was long, the overlapped worked well when the retiring CEO had a specific project to work on that was unrelated to leading the organization.

How do you best prepare for the transition?

As noted, the financial health and strength of an organization are key indicators lending insight into the best way to approach a leadership transition. If the organization is well-led, and financially and programmatically successful, there is a greater chance of a successful transition than if the organization is struggling. At each step in planning the transition, there are several decision points that will inform which path to take.

There are five typical conditions of organizations that new CEOs might experience when starting their role. These are: start-up, turnaround, accelerated growth, realignment, and sustaining success, each with their own set of challenges, and each requiring a leader with skills specific to addressing those challenges.

For strong organizations that need a new leader who can sustain success, the board needs to find someone who can take the organization into the future, and not necessarily repeat the past. The skills and leadership style of the new leader may be very different than the predecessor, and the organizational culture may change. It is important for the board and leadership team of the organization to really understand the condition of the organization and think through what leadership skills are needed to be successful. Most of the recently retired and about to retire HPN CEOs surveyed used a consultant to help guide this process. Having a neutral and experienced third party can be helpful in assessing the organization’s condition, navigating internal politics, and providing direction.

In situations where there is a strong internal candidate or heir apparent, survey respondents found that it was important for the CEO to be clear in communicating to the board the intent to hire internally, and to involve the board in the decision to promote that person. Most CEOs worked closely with their boards to gain approval of the plan to hire the internal candidate. This is important for credibility for the new leader. One HPN CEO relayed that after being promoted internally, several others in upper management were also promoted. This helped with internal politics and put into place a team that would meet the needs of the new leader.

When organizations hired externally, retiring HPN CEOs were generally involved in some capacity, such as reaching out to potential candidates or vetting applicants, but most were not involved in the selection of their replacement. One respondent mentioned that it was critical to have a strong board search committee. By being confident in the selection committee, it was easier to let the transition unfold under the stewardship of others.

One retired CEO advised that you need to be prepared to let go and support the new leader, but if the new leader doesn't work out, you should be prepared to be part of the solution.

Another question that organizations should consider before an executive transition is whether the organization should prepare a new strategic plan prior to the transition. Survey respondents were split on this issue. Some incoming CEOs felt it was helpful to provide the new leaders with a blueprint, while others felt it was important that the new leader should have the opportunity to create their own plan.

Developing a long-term strategic plan that is discarded by the incoming CEO can lead to extra work for both the board and staff, and confusion on the part of the larger team as to why the current plan is being jettisoned. The issue of "to plan or not to plan" should be thoroughly discussed by the outgoing CEO and the board, prior to moving forward. If there is a need to create a new plan, a short-term plan could both provide immediate direction to the incoming CEO, while also giving the new leader the ability to develop a plan in a year or two, once they are more familiar with the organization.

What is the best way to ensure success of the new leader?

There were several suggestions offered by the survey respondents as to how to ensure a new leader's success. Eighty-one percent of the new leaders stated that support from the board was critical to their success, and just behind that was support from senior leadership (67%). The board has a critical role to play in guiding the transition and supporting the new CEOs, since there will typically be challenges as the team adjusts to the new leader's style and the new leader understands the culture of the organization.

Survey respondents frequently mentioned the benefit of having coaches and mentors for both the outgoing CEO and the incoming leaders. Fifty-eight percent of the outgoing CEOs worked with an executive coach to guide their leadership transition out of the organization. Mentors and coaches were just as important for the new leaders as they transitioned into the organization, especially since many boards take a hands-off approach once the new leader is in place.

A number of HPN leaders stated they would like to be part of a peer learning group of new CEOs so they can support and learn from each other. As noted earlier, some of the incoming leaders thought that it was important to have a strategic plan in place when they started so that they had time to learn the organization and its initiatives. This was less of a need for new CEOs that came from within the organization.

The survey found that even CEOs hired internally can struggle with the scope of the job, especially if their prior position takes a while to fill and they are left trying to do both their old job and their new one. One survey respondent stated that they were completely unprepared for running the full organization and received no mentorship or training on how to do it well. After recognizing their limitations, the CEO sought support and advice from other HPN CEOs, and committed to improving internal operations to support the organization's growth.

The biggest challenges cited by the new CEOs were tackling needed organizational change (96%) and shifting the culture of the organization to fit with their leadership style. Some new CEOs also noted that the financial condition of the organization was not as expected (24%) and gaining acceptance by the leadership team was a challenge (19%). Beginning their tenure during Covid and the lockdown was also cited as a challenge from those starting during 2020/2021. With everyone working remotely, it took longer and more effort to build relationships with team members, especially those who were not direct reports.

Some of the new CEOs noted the importance of frequently and proactively communicating internally and externally as they begin their tenure. Some new CEOs obtained coaches to build the cohesion of the senior leadership team. Others noted the need to pace change incrementally. Still other respondents cited that it is important, early on in the transition, to celebrate when accomplishments are achieved to help build the esprit de corps of the organization under new leadership.

New CEOs recommended several elements that could help smooth the transition including a handbook from the former CEO with lessons learned, more budget transparency, more mentorship or coaching, and clear, measurable expectations from the board.

How do you make the retirement phase of your life meaningful?

Leaving a job that has defined who you are for a significant number of years can be daunting. One CEO reported that once you declare your intent to retire, and the search has begun, your authority may begin to wane. The respondent emphasized the importance of frequent communication during the transition to avoid staff unrest due to uncertainty. Over half the respondents who have retired, or will be retiring in the near future, said that hiring a consultant to help them transition was important both from the perspective of the organization and for their personal future plans. Many retired CEOs stated that they worked on improving their financial health prior to retiring.

Long-time nonprofit CEOs who have built successful organizations are not typically rewarded at retirement as they would be had the company been for-profit and they had an ownership interest. Exit packages that include financial compensation and other benefits can be a way for boards to acknowledge the leaders' significant contributions. It isn't unusual for long-time leaders to have had compensation levels under market levels, with their replacements being paid significantly more. In those cases, an exit package can help offset this disparity. For HPN leaders, slightly over half of the survey respondents (56%) obtained an exit package with additional pay and benefits for a short period of time. And interestingly, eighty-nine percent of the former CEOs initiated the request, not the board.

Most of the former CEO respondents are either writing, teaching, consulting, or playing a governance role in other organizations. There are many opportunities for retired CEOs given a growing number of organizations, staff shortages caused by the “great resignation”, and the ability to work remotely. It can be challenging going from an intensive structured work experience to not having major professional responsibilities, which is why many former CEOs are doing other work that keeps them active and engaged.

In addition to working opportunities, retired CEOs and soon to be retired CEOs are starting and expanding hobbies, traveling, volunteering, and spending time with their families. The survey also pointed out the growing awareness towards exercise and healthy lifestyles when retired CEOs have more flexible time. One retired CEO noted the importance of getting Medicare lined up early to avoid a gap in coverage.

What the future holds

At HPN, as with other nonprofit organizations, there is a lot of change happening at the top of organizations as baby boomers retire. The shift to fully or partially remote work has also, and will continue to, bring major changes and challenges to the workplace. With new, younger, more diverse leaders coming into organizations, we can expect some cultural shifts as different leadership styles are implemented, new technologies are used, and new views toward careers and workplace longevity change.

According to Kim Daly of Broadview Talent Partners, new CEOs will readily give organizations 5-7 years of leadership and may, optimistically, stay for 7-10 years. But for the most part, the days of the 20-30 year tenure for CEOs is a thing of the past. McKinsey & Company notes that most companies treat executive transitions as one-off events but, looking forward with leaders changing more frequently, organizations need to become adept at managing these transitions. Boards and leaders need to prepare for more frequent succession by building durable business models and strong upper management teams that can sustain momentum during periods of leadership change. Succession planning for all levels of the organization is important so there is a plan in place when the vacancies arise.

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