

# 20 Questions Directors of Not-for-Profit Organizations Should Ask About **CEO Succession**

Dr. Peter Stephenson • Dr. Guy Beaudin



# 20 Questions Directors of Not-for-Profit Organizations Should Ask About **CEO Succession**

Dr. Peter Stephenson • Dr. Guy Beaudin

## DISCLAIMER

This publication was prepared by the Chartered Professional Accountants of Canada (CPA Canada) as non-authoritative guidance.

CPA Canada and the authors do not accept any responsibility or liability that might occur directly or indirectly as a consequence of the use, application or reliance on this material.

Library and Archives Canada Cataloguing in Publication

Stephenson, Peter J. (Peter John), author

20 questions directors of not-for-profit organizations should ask about CEO succession / Dr Peter Stephenson, M.A., Ph.D., ICD.D, Dr. Guy Beaudin, MBA, Ph.D., ICD.D.

(20 questions)

Includes bibliographical references.

Issued in print and electronic formats.

ISBN 978-1-5254-0001-8 (paperback).--ISBN 978-1-5254-0002-5 (pdf)

1. Executive succession--Miscellanea. 2. Nonprofit organizations--Miscellanea. I. Beaudin, Guy, author II. Chartered Professional Accountants of Canada, issuing body III. Title. IV. Title: Twenty questions directors of not-for-profit organizations should ask about CEO succession. V. Series: 20 questions (Chartered Professional Accountants of Canada)

HD38.2.S7547 2016

658.4'07128

C2016-903841-6

C2016-903842-4

© 2016 Chartered Professional Accountants of Canada

All rights reserved. This publication is protected by copyright and written permission is required to reproduce, store in a retrieval system or transmit in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise).

For information regarding permission, please contact [permissions@cpacanada.ca](mailto:permissions@cpacanada.ca).

# Preface

The Corporate Oversight and Governance Board (COGB) of the Chartered Professional Accountants of Canada (CPA Canada) has commissioned this publication to assist directors of Canadian not-for-profit (NFP) organizations in discharging their governance responsibilities in the area of CEO succession.

This publication is intended as a resource to assist directors in:

- understanding the process of CEO succession
- ensuring a new CEO's success
- ongoing preparedness for changes in the CEO

This publication will provide directors of NFP organizations, which include non-profit organizations and registered charities, with questions that they may ask to focus thought and discussion on the issue of CEO succession. Each question includes an explanatory background and some suggestions.

The COGB thanks the authors, Dr. Peter Stephenson and Dr. Guy Beaudin, and acknowledges the contribution of the Not-for-Profit Organizations Committee.

Thomas Peddie, FCPA, FCA  
Chair, Corporate Oversight and Governance Board

**Not-for-Profit Organizations  
Committee**

Lyn McDonnell, CAE, C.Dir, CMC,  
*Chair*

Marilyn De Mara, FCPA, FCA

Giles Meikle, FCPA, FCA

Linda Godel, LL.B.

Sara Oates, CPA, CA

Anne Pashley, MBA, MLS

Ron Stoesz, FCPA, FCMA

James Temple, CSR-P

Larry Whatmore, MBA, CPA, CMA

Deryck Williams, FCPA, FCA, CMC

**Authors**

Dr. Peter Stephenson, M.A., Ph.D.,  
ICD.D

Dr. Guy Beaudin, MBA, Ph.D., ICD.D

**Corporate Oversight  
and Governance Board**

Thomas Peddie, FCPA, FCA,  
*Chair*

Hugh Bolton, FCPA, FCA

John Caldwell, CPA, CA

Andrew Foley, J.D.

Carol Hansell, LL.B., MBA, F.ICD

Kathleen O'Neill, FCPA, FCA, ICD.D

Ian Smith, MBA

Robert Strachan, FCPA, FCMA, C.Dir

John Walker, CPA, CA, LL.B.

Richard Wilson, HBA

**Project Direction, CPA Canada**

Rayna Shienfield, J.D.  
*Principal*, Research, Guidance &  
Support

Corporate Oversight & Governance

Marial Stirling, CPA, CA, LL.B.  
*Principal*, Research, Guidance &  
Support

Corporate Oversight & Governance

Gigi Dawe, LL.M.  
*Principal*, Research, Guidance &  
Support

*Leader*, Corporate Oversight &  
Governance

Gordon Beal, CPA, CA, M.Ed.  
*Vice-President*, Research, Guidance &  
Support

# Table of Contents

<b>Introduction</b>	<b>1</b>
<b>The Board’s Roadmap for Selecting a New CEO</b>	<b>3</b>
1. What Is the Board’s Role in Choosing a New CEO?	4
2. What Is the Role of the CEO Search Committee?	5
3. What Does an “Ideal” CEO Look Like?	6
4. How Do We Determine the Readiness of Internal Candidates?	8
5. Should the Board Look for Candidates Externally?	9
6. Should the Board Engage External Search Professionals?	10
7. How Should the Board Involve the Current CEO and Management in the Process?	11
8. How Does the Board Avoid Picking the Wrong Candidate?	12
9. Who Can Help the Board Mitigate the Risk of CEO Succession Decisions?	16
10. What Should a CEO Selection Communications Plan Look Like?	17
<b>The Board’s Role in Ensuring the New CEO’s Success</b>	<b>19</b>
11. How Will the New CEO Be Integrated into the Organization?	19
12. How Can the Board Track the CEO’s Progress Toward Integration?	21
13. What Is the Board’s Role in Coaching and Developing the CEO?	22

<b>CEO Succession Planning—An Ongoing Responsibility</b>	<b>25</b>
14. What Succession-Related Factors Should Be on the Board’s Radar?	25
15. Is the Board Responsible for Overseeing the Development of Internal Candidates?	26
16. What Is the Board’s Role in Developing Internal CEO Successors?	27
17. How Should the Board Monitor the External Talent Pool?	28
18. How Well Does the Board Understand and Anticipate the CEO’s Limits?	29
<b>Special Circumstances</b>	<b>33</b>
19. What Should the Board Do When Faced with a Sudden, Unexpected CEO Vacancy?	33
20. How Should the Board Proceed When a Director Wishes to Be a CEO Candidate?	34
<b>Avoiding Common Mistakes</b>	<b>35</b>
<b>Conclusion</b>	<b>37</b>
<b>Appendix A: Model CEO Profile of Success</b>	<b>39</b>
<b>Appendix B: Sample NFP CEO Leadership Profile</b>	<b>40</b>
<b>Appendix C: CEO Succession—Key Roles and Responsibilities</b>	<b>44</b>
<b>Where to Find More Information</b>	<b>47</b>
<b>About the Authors</b>	<b>49</b>

# Introduction

For not-for-profit organizations (NFPs), selecting a new chief executive officer (CEO)<sup>1</sup> is one of a board's most important responsibilities and one of its most powerful means of steering the organization toward success in meeting its mandate. This is especially true in small and mid-sized NFPs, where a top-notch senior executive can have a significant impact on the organization's success.

But for many directors, dealing with CEO succession may be a new or, at least, infrequent experience. This publication offers guidance to help directors of NFPs of all sizes develop plans for selecting a new CEO from outside the organization and/or for developing potential leaders internally.

Directors need to prepare for two types of CEO succession:

- **Planned CEO succession** (where the CEO has given notice that they will withdraw from the role at a certain age or date)
- **Unplanned CEO succession** (where the CEO leaves suddenly)

Even planned CEO successions are unpredictable, which is why many large NFPs have a detailed plan in place for identifying and developing their next CEO internally. Most NFPs, however, lack the size and scope to develop internal successors for the top job, requiring them to look outside the organization for an appropriate successor.

Managing CEO succession is further complicated by the variety of unplanned events that can trigger a change of CEO, including inadequate CEO performance, sudden illness or poaching. While NFP CEO succession data is unavailable, recent for-profit organization data shows that fewer than half of

<sup>1</sup> The top-most management team members of NFPs go by many titles, including CEO, Executive Director and National Director. In this publication, we use the term "CEO" for ease of reference to cover all such titles.



CEO departures are due to planned retirement (46 per cent). The majority are due to poor performance, mergers or other factors.<sup>2</sup> In these unplanned situations, boards are often under pressure to fill the void quickly.

This publication generally assumes the ideal case in which the NFP has the resources to commit to all elements of the succession process set out in these pages. Directors are encouraged to adapt the ideas outlined in this publication to their NFP's size, sophistication, available resources and other characteristics of the NFP, picking the most critical and achievable elements to oversee the process as best as possible given its capacity.<sup>3</sup>

Regardless of their size, all NFPs need evergreen processes in place for both planned and unplanned CEO succession, with clearly articulated board and committee roles. Done well, the succession process offers an opportunity for the board to take stock of the NFP and its future, as well as initiate a period of renewal for the NFP and its staff.

2 "CEO Succession 2005: The Crest of the Wave", Chuck Lucier, Paul Kocourek & Rolf Habel, *Strategy+Business*, 43, Summer 2006.

3 For a basic primer on CEO succession, see *Hiring and Performance Appraisal of the Executive Director*, The Muttart Foundation and Alberta Culture and Community Spirit, 2008.

# The Board's Roadmap for Selecting a New CEO

Choosing a new CEO typically requires directors to make decisions that involve significant subjective judgment. It helps, therefore, to have a robust agreed-upon process in place to guide the decision making. Once a succession has been triggered, boards should first confirm the CEO selection process they will follow.

This process should suit the organization's size, culture and stakeholders, the board's dynamics, and the strength of any internal CEO candidates. It should also be designed to work effectively and efficiently, respectful of volunteer directors' time and without being over-engineered.

**For a list of common mistakes to avoid in CEO succession planning, see page 35.**

### Choosing and integrating a new CEO—key steps for NFP directors

- Discuss and allocate roles and responsibilities among specific individuals and groups.
- If responsibility is allocated to a CEO search committee as a subcommittee of the board, choose which directors will serve on this committee.
- Define the NFP's leadership requirements.
- Develop a CEO leadership profile (see the model and sample in Appendices A and B).
- Determine the readiness of internal candidates and/or consider whether the board should seek potential external candidates.
- Determine whether the board should engage external search professionals.
- Decide whether (and how) to involve the current CEO and/or management in the process.
- Conduct a robust interviewing, vetting and debriefing process, involving the full board, management, and other stakeholders as appropriate.
- Develop and execute a plan for communicating with staff and stakeholders about the selection process.
- Coach the new CEO to help integration with the NFP and monitor progress.

## 1. What Is the Board's Role in Choosing a New CEO?

The board is responsible and accountable for selecting the CEO—not the current CEO or other members of the management team. In fact, the selection of a new CEO is one of the board's most important responsibilities. Boards that take time upfront to clarify responsibilities, processes and timelines are better able to meet this obligation successfully.

The board's selection process may be straightforward if the board's ongoing succession planning activities have already identified a single internal candidate who appears ready to assume the CEO mantle. The process is more complex when no internal candidates have been identified or when an identified candidate is still acquiring the necessary experience and skills.

In developing the selection process, a first step is to determine what, if any, responsibilities will be assigned

**Smaller boards often choose to approach CEO selection as a committee of the whole, with the full board taking part.**

to specific individuals or groups. In more complex external search succession situations, medium- to large-sized boards frequently appoint a CEO search committee to oversee and perform most of the administrative work. This special committee typically includes the chair (and vice-chair, if any).

The board must discuss and agree on the roles and responsibilities of the search committee, its chair, the full board and any other people involved. The board should also establish broad timeframes and outputs for the process. Since a change in CEO is usually seen as a material event that could destabilize staff and might benefit from disclosure to significant funders or other stakeholders, the board needs to ensure that a communication plan is developed that assigns responsibilities for creating, approving and communicating key messages.

The board chair plays a particularly important role in the process, which is often time-consuming, especially in a crisis situation. The chair is responsible for ensuring that the right committee is struck, the integrity of the process is respected, and the full board is informed about and aligned with the process at all times. The chair should also plan to communicate regularly with staff and other stakeholders to set and manage expectations about the process, including timing.

The roles and responsibilities of the board chair and others involved in the succession process are summarized in [Appendix C](#).

## **2. What Is the Role of the CEO Search Committee?**

Conducting a CEO search that involves external candidates and/or multiple internal candidates is time-consuming and intense. Timeframes and schedules for meetings and interviews can be demanding. Many boards create a special search committee to assume these responsibilities on the board's behalf. A board that chooses to take on these responsibilities as a full board must recognize, and plan for, the additional work involved.

A CEO search committee's responsibilities typically include:

- mapping out the details of the search process
- creating, with appropriate engagement with other directors, senior staff and other stakeholders, a CEO leadership profile that defines the competencies, attributes and experience necessary for success in the CEO role (see [Appendix A](#) for a model and [Appendix B](#) for a sample)
- identifying and contracting with any external resources (e.g., a search consultant)
- identifying and interviewing potential candidates
- keeping the full board apprised of the search process
- recommending final candidates to the board
- facilitating the board's decision making process about the finalist candidate
- facilitating the board's offer to the finalist candidate
- ensuring a plan is in place for the orientation and onboarding of the new CEO

Care should be taken when choosing the directors to serve on the search committee. To be effective, they should have a deep knowledge of the organization and its culture, stakeholders and challenges. The directors need to be aware of their own biases and how to be objective about them. They should be team players who can ensure that all directors are providing input to the CEO leadership profile, tapped for sources of potential candidates, kept apprised as the search progressed, and involved in making decisions, as agreed by the full board.

### 3. What Does an “Ideal” CEO Look Like?

CEO selections often take on a sense of urgency because of the anxiety that a leadership void can create. Directors can put pressure on themselves as a result, or bow to internal and/or external pressure, and start identifying and interviewing prospective candidates too quickly. CEO searches that become bogged down or derailed usually do so because the board did not invest the time upfront to develop a detailed profile of an ideal CEO.

Defining the organization's leadership requirements is an important early step. The board or its search committee must create a “leadership profile of success” to guide the search and selection processes ([Appendix A](#)

shows a model of a CEO leadership profile while [Appendix B](#) includes a sample profile). The specific competencies, skills, attributes and experience sought in a new CEO are crucial. Creating the profile is a key board responsibility that should not be delegated to the organization's human resources staff or external consultants (although both can offer useful input).

CEO selection presents boards with opportunities to reflect on and define the NFP's leadership needs. In developing its CEO leadership profile, the board should:

- consider the organization's mission, strategy, strategic challenges, stage of maturity, depth of talent, history, stakeholders and culture
- explicitly address the impact of the current CEO's style and legacy
- consider engaging staff to build morale and support for the next CEO (by interviewing employees for their opinions on the current state of the NFP and the characteristics needed in the next CEO)

If the board has formed a search committee, the committee needs to gain the full board's input and approval of the CEO leadership profile. This helps ensure that all directors agree on the assessment of the challenges facing the organization, and the type of CEO best able to lead the organization and meet those challenges.

When creating a CEO leadership profile, boards should guard against unrealistic assumptions and overly idealistic expectations. Common mistakes to guard against include:

- seeking a calibre of candidate who would not be interested in becoming the organization's CEO
- seeking a calibre of candidate the organization could not afford given market conditions
- seeking a candidate based on an unrealistic or unattainable vision for the future
- believing the ideal candidate must already be a CEO
- believing the candidate alone can create the success the organization hopes to achieve

By challenging such assumptions pragmatically, boards can refine their CEO leadership profile and/or the proposed search process accordingly.

Before interviewing any candidates, directors should prioritize the elements in their CEO leadership profile and agree on which aspects of the profile are non-negotiable and where trade-offs may be possible.

#### 4. How Do We Determine the Readiness of Internal Candidates?

Directors of larger NFPs that have robust succession and talent development processes usually have an up-to-date understanding of the potential internal candidates for the CEO role. The challenge lies in determining how ready the individual candidates are to assume the CEO responsibilities.

Directors should obtain first-hand input from many sources about any potential internal candidates through, for example, interviews and candidate presentations about specific issues. People who can offer valuable input about candidates' readiness include members of senior staff, the human resources leader, chief financial officer, key stakeholders and the outgoing CEO.

The board should then use its CEO leadership profile to organize this input and assess the potential and readiness of each internal candidate by seeking to answer three key questions:

1. How well does the candidate fit the profile?
2. Where do the candidate's attributes result in gaps with the profile?
3. What is the candidate's potential for developing quickly enough to fill those gaps?

When interacting with internal candidates, the board should aim to engage them in ways that keep them motivated and aligned with the goal of finding the "best" CEO for the organization. Directors must address internal candidates with candour and sensitivity. The board should work to ensure participants view the process as being transparent, fair and professionally managed. The outgoing CEO can often help the board communicate and manage internal candidates.

High potential individuals who want to be considered, but are not yet ready, for the role of CEO and unsuccessful candidates should receive constructive feedback so they feel they have benefitted from throwing their hat into the ring. Ensuring that unsuccessful candidates will support the new CEO is also important.

Two areas can be particularly sensitive. One area involves whether potential candidates should be informed that they are on the succession list, which is usually advisable. One means of developing high potential individuals is to ensure their work is visible and leads to real consequences. Another is that their assignments should “stretch” their abilities and give them a broader view of the organization. Neither of these objectives is easily accomplished when the succession process is not open and transparent.

Another sensitive area involves the fear that executives who are not considered to be possible successors will leave the organization. This possibility cannot be avoided and being honest with these people is usually the best approach. Let them know where their skills sets are most valued and how the organization will continue to commit to their ongoing progress and development. If their ambition is to get the top job, keeping them may be impossible. Having a succession process that goes down a few levels in the organization, if feasible, can help address this risk.

## 5. Should the Board Look for Candidates Externally?

In the for-profit world, approximately one-third of CEOs are recruited externally. The proportion is even higher for NFPs, which tend to be smaller and have fewer internal candidates. Research shows that CEOs of for-profits recruited from outside their organization are more likely to fail than those recruited internally.<sup>4</sup> Externally recruited CEOs most often fail due to a lack of “fit” (i.e., they are unable to gain the trust of and credibility from management and/or the board to lead the organization forward).

Some directors may believe that a lack of internal CEO candidates reflects the board's failure to effectively manage the CEO succession. A board or search committee may choose, however, to look at external candidates for many different reasons:<sup>5</sup>

- Internal candidates with the potential to become CEO are not yet ready to take on that role, which may lead the board to seek a seasoned CEO for a set time period, in part, to mentor internal candidates.

4 See note 2.

5 See note 2.



- The organization lacks the scale or resources required to develop CEO candidates internally.
- The board wants to calibrate and benchmark internal candidates against external candidates.
- The organization requires a significant change in strategy and direction, for example, when the board believes financial difficulties or strategic threats call for an experienced outsider to help turn things around. Such situations can arise when a board fails to anticipate its outgoing CEO's limits (see Question 18).

## 6. Should the Board Engage External Search Professionals?

Given how important it is for NFPs to find a great CEO, using an external search professional to assist in the CEO search process is highly recommended.

Many search professionals specialize in finding NFP talent. Working with someone who understands the sector well can be beneficial, not only because of their familiarity with the talent pool but also because they understand the nuances of leadership that are particular to this sector. For example, search professionals will guard against the fallacy that a successful executive in the for-profit sector can automatically transfer those skills into the NFP sector and present candidates whose mindsets and skills match the NFP's needs.

Boards or search committees should interview several search professionals to find one that is the right fit. Be sure to select a search professional who knows—or will take the time to learn—your organization, its cause or mission, strategy, culture and CEO leadership profile. You will want to ensure your search professional knows the NFP labour market well and has experience working with NFP organizations, preferably with organizations of similar size and complexity as your own. Good chemistry with the board is also important.

In developing your contract with the search professional, it is important to clearly delineate the roles of the board or search committee and the search professional, specifying your expectations in terms of process, communication, timeframes, decision making and fees. The contract helps set the tone of the partnership between the board or search committee and the search professional and ensures the board

or search committee keeps control over the search process and its outcomes. This is advised even where the search professional is offering their services at a discount or *pro bono* (free).

Relationships between boards (or search committees) and search professionals can become strained after the search professional presents the first group of potential candidates. This is often the point when both parties realize they disagree on what constitutes a viable candidate. These situations usually result because the board did not invest enough time working with the search professional to develop a thorough CEO leadership profile, which is the key to a successful, efficient succession process.

Engaging search professionals can help NFP boards conduct a more robust search process, consider a broader range of candidates, and select a strong CEO, but NFP boards should guard against relying too heavily on search professionals. The board is ultimately accountable for the CEO selection process and should not abdicate its decision making responsibility.

## **7. How Should the Board Involve the Current CEO and Management in the Process?**

The best way to involve management in selecting the new CEO depends largely on the NFP's circumstances at the time of the transition. A CEO succession creates unique dynamics within an organization, especially among senior management. The board or search committee must understand those dynamics and ensure that management members are involved in the process in ways that do not disrupt or distract operations.

If the succession is planned (e.g., CEO retirement), creating an effective partnership between the board (or search committee) and the outgoing CEO may help ease tensions or anxieties that can arise through a leadership transition. The outgoing CEO can often provide useful input to the CEO leadership profile and help identify internal and external candidates. The outgoing CEO can also help manage the expectations of the internal candidates and support the board or search committee in communicating information about the search process to the organization and its stakeholders.

Boards and search committees may also benefit from engaging other senior members of management during the search process. Regardless of whether any internal candidates are being considered, senior management members can offer useful input to the CEO leadership profile, which may help the board clarify its own thinking. Senior management members may also help the board gauge whether management shares the board's strategic imperatives and priorities, as well as management's willingness to accept new leadership.

In particular, the NFP's top human resources or finance executive (if any) can provide valuable insights about individual candidates and help the board monitor the reactions of NFP staff to the selection process and potential CEO candidates.

Boards are advised against delegating too much of this process to the CEO or senior staff. While volunteer boards commonly accomplish their governance tasks working closely with management, they should lead the process where CEO succession is concerned. This is a board responsibility first and foremost, and requires more time and direct involvement than many NFP directors might expect.

## 8. How Does the Board Avoid Picking the Wrong Candidate?

Making any business decision bears an element of risk. When selecting a new CEO, boards and search committees must be sure they understand, manage and mitigate the risk of making a poor decision. A variety of processes and tools can help achieve this.

**CEO leadership profile**—The CEO leadership profile is a useful tool. Even after an “ideal” profile has been diligently defined, however, there is a risk that the board or search committee will not use the profile to anchor the candidate screening, interviewing and decision making processes, reverting instead to more subjective decision making. This may occur if the CEO leadership

Tools and processes that can help boards choose the right CEO include:

- CEO leadership profile
- CEO compensation discussions
- efficient scheduling
- robust first interviews
- face-to-face post-interview debriefings
- targeted second interviews
- meetings with management
- full board interviews
- reference and background checks

profile is overly complex or cumbersome. To help mitigate this risk, the profile should be streamlined into a prioritized list of competencies and attributes for use in screening and comparing candidates. The board or search committee can assign ratings to candidates for each element of the profile or rank candidates using the profile's elements as their guide.

**CEO compensation discussions —**

Talking to candidates about potential compensation can help screen out candidates who are attractive but financially out of reach. Early in the selection process, directors should define their philosophy for CEO compensation and the compensation range the NFP can afford.

Typically, boards rely on independent compensation consultants or search professionals for advice on the competitiveness of the organization's CEO compensation package. Boards of NFPs spending donor or public money must give extra attention to any potential negative consequences that could result if the salary, bonus or other elements of the compensation package were disclosed.

For smaller NFPs that may lack resources in-house, search professionals and compensation consultants can fill gaps and help benchmark competitive compensation practices in the market.

**Efficient scheduling —** A well-planned and carefully scheduled selection process in which directors fully participate helps mitigate the risk of selecting an inappropriate candidate. But the amount of time the process can consume makes this a challenge, especially when external candidates are involved. The process can become bogged down in particular at the interview stage due to scheduling conflicts between directors and candidates, especially when the board is comprised of volunteers who may be allocating their time between a full-time occupation and one or more board commitments. Of greater concern is the loss of effectiveness that results when individual directors are unavailable for interviews or unable to take part by telephone.

Ensuring the interview team and interview process are consistent can decrease the risk of making a poor decision. As the short-list of candidates to be interviewed is being established, directors should set aside blocks of time for candidate interviews and review meetings.

**Robust first interviews —** In candidate interviews, directors should seek answers to probing questions that obtain informative, relevant answers. Some directors may, however, have limited or dated experience in

conducting interviews with senior candidates, reducing the interview's value. Directors can improve the quality of interviews by developing a common set of questions for all candidates that address each element of the profile. Behavioural questions are also useful because they compel candidates to base their responses on facts and limit the possibility that particularly articulate candidates will impress directors with style over substance.

**Face-to-face debriefing**—People's perceptions differ and when interview teams gather information on different topics, each team may develop different opinions of the candidate. Post-interview debriefing sessions are an important forum for directors to review their insights and perceptions of each candidate. While the interview is still fresh in their minds, directors should rank each candidate and identify the issues, questions and concerns to address in the next round of interviews with the top two or three candidates. These sessions should be done face-to-face so directors can observe and assess each other's reactions.

**Targeted second interviews**—Second interviews give directors an opportunity to probe more deeply into the values, beliefs, operating styles and judgment of finalist candidates. Again, investing time to prepare questions in advance and planning an efficient interview schedule can help ensure the effectiveness of these interviews.

**Meetings with management**—Asking finalist external candidates to meet with members of management in a confidential setting may be an appropriate and desirable way to learn how well they will fit into the organization. The board should exercise care both in framing these meetings between management and the candidates and, later, in debriefing management members. It is important that members of management understand that they are not “picking their boss,” but are providing input about how well the candidates would fit the organization. Insights from management can be useful to the board when making its final decision and involving members of management in the process can help smooth the integration of the new CEO into the organization. However, boards need to ensure that they retain decision making responsibility.

**Full board interviews**—Boards that create search committees to lead the CEO selection activities should decide how and when the full board should become involved in the process. Some boards are comfortable meeting a single finalist candidate; others want to see two or three finalist candidates. The full board's meeting with candidates brings another

perspective to the process, thereby helping ensure the most appropriate candidate is selected. To be effective, however, these interviews need to be managed carefully so both directors and candidates understand the interview's purpose and value.

To help the board prepare for its meetings with the candidates, the search committee should provide fellow directors with a comprehensive briefing that alerts them to any questions or concerns the committee may have about each candidate. Some candidates may have concerns about a full board interview as it pertains to maintaining the confidentiality of the process. When meeting an entire board, there is a greater potential for networks to overlap. Boards should be prepared to reassure candidates about the confidential nature of the process should this question arise. Boards must also remind members of the confidential nature of the search and interview process and ensure that interview schedules, materials and notes are handled with discretion.

**Reference and background checks**—Reference and background checks provide valuable information. The board or its search committee should agree on a process for gathering and checking references for finalist candidates. Investing time in advance to generate a list of thoughtful, pertinent questions to ask each reference will greatly enhance the value of these conversations.

Questions may, for example, probe areas identified as key priorities in the CEO leadership profile, or they may focus on the candidate's soft skills, such as their ability to work effectively with the NFP's range of stakeholders. Boards may choose to engage an independent third party to gather background information, such as past criminal or regulatory issues. Directors should also identify people in their own networks who may provide useful insights about candidates, while recognizing the need to preserve confidentiality throughout the search process.

**Board recommendation**—If a search committee has been struck and its members have agreed on a candidate, the committee will make its recommendation to the full board, along with recommendations on the key areas to focus on when making the offer and integrating the new CEO into the organization.

## 9. Who Can Help the Board Mitigate the Risk of CEO Succession Decisions?

Selecting a new CEO does not happen every day and it is not uncommon for directors to find themselves sitting on their first search committee. The process steps, interview tools and use of executive search professionals described above will guide first-time directors through the search process and help mitigate the risk of choosing an inappropriate candidate.

Using professional advisors, such as legal advisors, compensation consultants and management psychologists, can further reduce the risk. These advisors should be engaged early in the process to get the full benefit of their services. It is essential that advisors are engaged independently and the board retains responsibility for making final decisions about the CEO.

**Legal advisors**—Boards should consult legal advisors to help draft the CEO employment contract. Involving a legal advisor early will help the board determine which elements of the contract are fixed and which may be negotiable. This, in turn, can help set expectations with candidates when such issues arise during interviews.

**Compensation consultants**—CEO compensation is evolving rapidly as an area of board responsibility. Many boards obtain professional advice from compensation consultants to develop a competitive compensation philosophy and pay range early in the search process. Compensation consultants can help the board negotiate and creatively structure an attractive compensation package with the finalist candidate. They can also help craft the rationale for the level of compensation by comparing it to the compensation offered by similar organizations, which can be especially important for donors and other key stakeholders.

Some advisors' fees may be out of reach for smaller organizations. Some professional services firms and individual professionals allocate a set portion of their time for *pro bono* or reduced fee work, allowing smaller organizations to tap their expertise.

Newer consultants who are in the early stages of developing their book of business may also be willing to do the work *pro bono* or at a reduced fee in exchange for the opportunity to demonstrate their expertise to members of the board.

**Management psychologists** — Management psychologists can provide boards and search committees with objective profiles about their finalist candidates on critical issues such as leadership style, interpersonal approach and overall cultural fit. They can help identify gaps between the candidate's attributes and the CEO leadership profile and alert boards about issues to ensure the new CEO's successful integration. For executives moving from a for-profit organization to a NFP, such a profile can determine the portability of their skills from one context to the other.

## 10. What Should a CEO Selection Communications Plan Look Like?

The selection of a new CEO typically attracts curiosity and scrutiny, sometimes leading to instability with stakeholders (including employees, clients, volunteers, members, donors and others, such as patient groups of health charities or alumni of educational institutions). Boards can manage these pressures by moving quickly with an open and transparent search process. Boards are, however, usually quite tight-lipped because of the time required to conduct a rigorous search and the need to maintain confidentiality throughout the process.

A well-planned, properly executed communications plan can help mitigate stakeholders' concerns during the CEO selection process. Boards should identify at the outset the NFP's key stakeholders and their key concerns, and determine the message that should be communicated to each, by whom and within what timeframe. The plan should be refined periodically to ensure each stakeholder group is updated appropriately about the progress of the selection process.



# The Board's Role in Ensuring the New CEO's Success

There is no perfect candidate for a role as complex and multi-faceted as CEO. The board's role does not end once a new CEO has been selected. In many ways, that is when the real work for the board begins.

New CEOs can fail for many reasons, and not only because the wrong candidate was chosen in the first place. In fact, many CEOs fail because they were poorly integrated into the organization. The board has a key role to play in helping the new CEO integrate successfully. The senior human resources and/or finance executive (if any) and, of course, the new CEO share in this responsibility.

## 11. How Will the New CEO Be Integrated into the Organization?

Once the new CEO is selected, directors must turn their focus to helping ensure his or her success in the role. A director, typically the chair, should take responsibility for overseeing the new CEO's integration into the organization.

Research shows that the following five actions are critical to the successful integration of new

Directors can help the new CEO integrate successfully by:

1. fostering the CEO's accelerated learning
2. clarifying expectations from the start
3. helping the CEO forge relationships with stakeholders
4. helping the CEO understand and navigate the NFP's culture
5. identifying and communicating an early win

executives.<sup>6</sup> While these actions are important for both internal and external hires, external hires often require more help in understanding the NFP and its culture, and in developing relationships with key stakeholders.

**Foster the CEO's accelerated learning**—A good CEO will interact with directors from the start to obtain their perspectives on the organization, the sector it operates in, and his or her own leadership style. The board chair should actively encourage this interaction. If a new CEO's ego or lack of confidence prevents him or her from engaging the board effectively, this is clearly the first issue for the board to address.

Any gaps between the CEO's knowledge or skill set and the NFP's needs should have been identified during the selection process. To help bridge these gaps, the chair or senior human resources or finance executive, as appropriate, should identify resources, such as coaching of the CEO by directors.

**Clarify expectations from the start**—Directors must address three key issues to clarify the CEO's role and expectations:

1. *Establish measures of success*: People are more likely to succeed when they clearly understand the expectations set for them. From the start, the board should clearly articulate performance expectations in terms of both qualitative (behaviours) and quantitative (objectives and deliverables) measures.
2. *Deliverables*: The board or its human resources committee should work with the CEO to translate the measures of success into a set of objective, clearly agreed-upon deliverables that will form the basis for the annual CEO performance review.
3. *Scope*: The board should set explicit boundaries to delineate the separate responsibilities of the board from those of management. This division of responsibilities will vary from one NFP to another, depending on size, sophistication, management experience and other factors.

**Help the CEO forge relationships with stakeholders**—This is particularly important if the CEO is an external candidate, especially if he or she comes from another sector or this is their first role as a NFP CEO.

6 RHR International Research: *Hitting the Ground Running* (2002); *Beyond the First 90 Days* (2005); *Stumbling to the Top* (2010).

The board should help the CEO identify the organization's key stakeholders, share any insights about those stakeholders, and develop a plan for engaging with them. The outgoing CEO may help transfer key relationships to the new CEO. Special care should be taken to identify key stakeholders, such as donor or beneficiary groups.

**Help the CEO understand and navigate the NFP's culture**—The board can help accelerate the integration of a new CEO, especially an external candidate, by arming the individual with a good understanding of the organization's culture. This learning process should start during the interview stage, since it will be a key criterion for assessing a candidate's potential fit.

**Identify and communicate an early win**—An early win can greatly facilitate a new CEO's integration. The board should be proactive in helping the new CEO identify key issues to deal with early in their tenure that would help build credibility within the organization and with stakeholders.

## 12. How Can the Board Track the CEO's Progress Toward Integration?

Integrating a new CEO usually takes longer than expected—typically it takes at least a full 12-month business cycle.

To get a quick read on how successfully the new CEO is integrating, boards can monitor four key factors.

In mid- to large-sized organizations, the senior human resources executive can support the board chair by setting up a system to track the new CEO's progress.

How well is the new CEO integrating? Four factors for directors to monitor:

1. acceptance
2. alignment
3. credibility
4. contribution

**Acceptance**—Boards should monitor how well the new CEO is gaining acceptance from the organization's key stakeholders, paying close attention to early reactions to the CEO's style. If necessary, the board (or the senior human resources executive) should coach or advise the CEO on ways to adjust their behaviour to better suit the NFP's culture. Early perceptions can take on a life of their own, so boards are advised to help the CEO address situations that could derail their acceptance as soon as possible.

**Alignment**—How well aligned are the CEO, board and management team regarding the organization’s strategy? Disagreements about strategy are the most common reason for early departures of new CEOs.

**Credibility**—Beyond being *accepted* by the organization’s key stakeholders, new CEOs must also *develop credibility* with them. Boards should monitor how well the CEO is developing credibility with key stakeholders and other constituent groups.

**Contribution**—When the CEO was hired, the board should have set clear expectations regarding the separate responsibilities of the board and the CEO. Boards should monitor the CEO’s performance against those expectations to determine whether the CEO is contributing to the organization as expected.

*In camera* sessions (meetings of directors without management present) are good forums for directors to review the CEO’s progress in these four areas. Monitoring the CEO’s performance in these areas should start as soon as he or she is hired, in order that the board can address issues as they arise and before they become entrenched. Boards that meet infrequently can delegate responsibility for monitoring the new CEO to the board executive or board chair.

Sometimes, it quickly becomes apparent that the new CEO is not working out and must be replaced. In these situations, the board must develop and implement a communication plan to explain the situation to the organization and its stakeholders, highlighting the actions the board is taking to ensure the stability and continuity of the organization and its strategic direction.

From a succession perspective, this situation should be treated as a sudden or unplanned CEO vacancy and the board will need to immediately restart its CEO selection process.

### 13. What Is the Board’s Role in Coaching and Developing the CEO?

New CEOs fail for many reasons, but rarely is the fault solely their own. Some responsibility for CEO failure lies with boards that do not actively coach and develop their CEOs. Boards not only need to set clear expectations for the role in terms of success measures, deliverables, and scope (see Question 11); they also have a duty to help ensure the CEO

is well equipped to meet those expectations. By following a few basic practices, boards can greatly improve their effectiveness in carrying out these responsibilities.

It is good practice for the board to assign the job of coaching the CEO to a specific director, typically the board chair and/or the chair of the board's committee responsible for human resources. Other directors may provide coaching support in areas related to their skills.

Coaching by directors can be challenging in the NFP sector. Many board chairs and directors may not have directly relevant NFP experience. It may be helpful to bring in an external mentor who can advise new CEOs, especially those new to the NFP sector, in those all-important first one or two years. In any case, some topics should be on the coaching agenda at all times, such as the CEO's role in developing the skills of his or her direct reports.

A structured annual performance review is another important building block in the CEO's ongoing growth and success. The process should unfold in three parts:

**1. Establish goals and objectives at the beginning of the year.**

These should include financial performance metrics, but also other goals that will drive performance, such as establishing a strategic plan, developing leadership talent and, for charities, donor engagement.

**2. Conduct an informal mid-year review** to gauge progress and correct the CEO's course as required.

**3. Engage in a formal year-end review** that includes the CEO's self-evaluation on goals set at the beginning of the year and the board's view of the CEO's performance. This review should be delivered by the board chair and can be accompanied by a compensation review if appropriate.

In the first year of a new CEO's tenure, it is incumbent upon the board to create a climate in which the CEO feels comfortable seeking the board's advice on issues and receiving its coaching when required. Boards should discuss the CEO's performance and contribution at least quarterly to ensure alignment on how well the new CEO is doing.

Finally, it is important that the timing of succession for the CEO and the chair do not coincide. Most organizations find it challenging to transition both senior leadership roles at the same time. Careful, longer-term succession planning for both roles can help prevent simultaneous successions.

# CEO Succession Planning – An Ongoing Responsibility

Most NFP directors acknowledge that their jobs are becoming more complex and demanding. They agree that few board decisions are more important than selecting the CEO. Directors should view CEO succession not as a periodic event but as an ongoing, core governance responsibility. With this mindset, directors should ask these questions to help them fulfill this responsibility effectively.

## 14. What Succession-Related Factors Should Be on the Board's Radar?

Directors need to begin with a clear understanding of the CEO succession-related factors, and review and evaluate them on an ongoing basis. Although boards already monitor some of these factors for other purposes, boards should view them through the lens of CEO succession so they can prepare for possible succession scenarios.

On an ongoing basis, directors should track:

- their organization's mission, strategy, and stakeholder environment
- their current CEO's strengths, limitations, performance, and planned tenure with the organization
- potential successors, especially internal ones

Any NFP CEO succession plan must start with a thorough analysis of the organization's mission and strategic and stakeholder environments. When selecting a CEO, the board's task involves determining how well

an individual candidate's strengths and limitations fit with the NFP's mission, needs and requirements. The organization's strategic direction (as approved by the board) and potential obstacles to achieving those aims are both important in anticipating the NFP's leadership needs.

Carefully monitoring the environment can help directors remain vigilant about the characteristics the current CEO must possess for success in that environment. Thinking through the leadership implications of the organization's strategy and its challenges can help better prepare directors for the tasks of assessing the current CEO and selecting a successor when needed.

## 15. Is the Board Responsible for Overseeing the Development of Internal Candidates?

For large NFPs, the short answer is “yes”.

Research in the for-profit sector indicates that organizations that embrace succession planning and have an “heir apparent” for the CEO role also experience higher levels of performance.<sup>7</sup> This is sometimes referred to as “relay succession”—passing the leadership baton smoothly from one CEO to the next.

These findings should encourage all directors to adopt the best practice of investing the board's time in overseeing the development of top talent and in planning for CEO succession.

This strategy is appropriate for large NFPs that have the breadth and depth of internal roles in which a well-rounded senior leader may develop. However, most NFPs are unable to develop internal successors due to their size and their need to have senior staff members who are functional specialists. In these situations, boards need to ensure that the current CEO maintains a steady focus on the ongoing development of senior staff so that they can provide resilient continuity when CEO succession with an external candidate occurs.

**CEOs of smaller NFPs should make extra efforts to develop senior staff so they can provide continuity if a new external CEO comes on board.**

7 See note 2.



## 16. What Is the Board's Role in Developing Internal CEO Successors?

Boards of larger NFPs should play two distinct roles in the development of internal CEO succession candidates: ensuring a process is in place to develop internal candidates and conducting its own assessments of these candidates.

First, the board should ensure that the current CEO has an appropriate internal talent development process in place to identify, develop and retain high potential individuals who are capable of becoming CEO. Either the board or its committee responsible for human resources should engage the CEO in in-depth discussions regarding the top talent development process and the actual development of key succession candidates.

Second, the board should conduct its own independent assessment of the progress and readiness of the potential CEO succession candidates. As a best practice, some directors invest time inside and outside the boardroom with their NFP's high potential individuals. Here are three suggested steps for boards to strengthen their knowledge of their high potential talent pool:

### Assessing high potential internal staff—three key steps for boards:

1. Take time to get to know the candidates.
2. Have several directors spend time with high potential talent and share perceptions.
3. Set clear guidelines for board-management interaction.

#### 1. Take time to get to know the potential candidates

Over the course of a series of meetings, the natural formality that initially exists between senior staff and directors will diminish, ultimately giving directors a more accurate picture of the executive's strengths and limitations.

#### 2. Have several directors spend time with high potential talent and share their perceptions regularly

This is a well-established principle in leadership assessment. We all assess talent from the perspective of our own preferences and biases. These biases can be overcome by having several directors meet with and share their perceptions about high potential talent.

### 3. Set clear guidelines for board-management interaction

Many CEOs are sensitive to interactions among directors and members of management that occur outside the boardroom. The board must be sure the CEO understands and agrees with the board's need to have first-hand exposure to high potential talent. This can be achieved by having the board and CEO jointly agree on the succession process and annual talent review plans.

For a larger NFP board, making sure high potential talent is identified, developed and retained is the most important thing it can do to ensure a successful CEO succession. Given the time required to develop internal candidates, it is imperative to identify these candidates early and nurture them diligently.

At the same time, directors should remember that it is the CEO who is primarily responsible for establishing and driving a robust internal succession planning process. Directors are responsible for developing an independent perspective on the leadership talent in the organization, ensuring a talent development process is in place, monitoring and reviewing progress against that process and, when the time comes, deciding whether internal candidates ultimately fit the CEO role.

## 17. How Should the Board Monitor the External Talent Pool?

In addition to monitoring internal talent, NFP directors should monitor other similar organizations. Which of these organizations is high performing? Who is driving their success? Where does the up-and-coming talent reside?

Directors' familiarity with external talent across their networks can be especially beneficial for smaller NFPs with limited internal candidates.

This information is valuable as a benchmark for the board to use in its ongoing assessment, development and retention of the current CEO and any internal CEO succession candidates. It also enables the board to be more prepared and nimble should it be faced with a sudden, unexpected CEO transition.

Directors can help ensure that the board has current, accurate information on external talent by:

- Discussing external talent with the current CEO periodically in the context of succession planning
- Periodically pooling the knowledge they acquire about external talent from their own networks

External advisors are another good source of information on leadership talent in related sectors. Directors who have executive search contacts should be encouraged to talk to them about the leaders of organizations similar to their own NFP.

Some CEOs and succession candidates may view these activities as threatening, therefore, the board should proceed with care and sensitivity. The board's monitoring should be transparent to the CEO and, if appropriate, involve the senior human resources leader (if any) to leverage their knowledge of the external market.

## 18. How Well Does the Board Understand and Anticipate the CEO's Limits?

Leadership success is situational. Every leader has a strategic context in which they will succeed, and every leader has contexts that are beyond their abilities. Typically, boards are slow to make decisions about a CEO's poor performance and only do so after staff or other stakeholders have raised questions.

Boards can avoid this situation by answering two key questions:

1. What is the current CEO's leadership range?
2. What factors might the organization face in the future that may take it out of the CEO's leadership range?

In order for directors to be able to anticipate when CEO succession should occur, they require a solid grasp of the current CEO's leadership capabilities. They need to reject the idea that a talented leader can be successful in any context. Instead, directors must clearly understand what the current CEO does well, and his or her limitations.

The board should have an annual discussion with the CEO about when he or she plans to retire. The board should also develop an understanding of the expected succession timing of each management team member to help avoid concurrent departures of mission-critical staff. Finally, the board should ensure that its own succession plans would not lead the CEO and board chair to transition at the same time as this can cause the NFP to lose stability and momentum.

The CEO goal-setting and evaluation management process is a key tool that boards can use to facilitate these discussions. Boards should ensure that they have in place a rigorous annual process that examines the CEO's performance, development needs and the fit of the CEO's skills and experience with the NFP's current and potential future challenges. If the NFP can afford it (or can access the service *pro bono* or at reduced fees), an objective, third-party assessment of the CEO's abilities can further enhance the board's understanding of the range of conditions that the CEO can navigate successfully.

It is good practice for the board to re-confirm the CEO's appointment every year. This process, which should be included in the CEO's employment contract, provides the board with experience in identifying and addressing issues with the current CEO's performance and skill set. It also helps the board ensure that the CEO's performance and skills are right for current and expected strategic conditions.

Whenever a NFP's performance prompts a significant change in strategy or culture, the board must reconsider whether the current CEO has the ability to adapt and continue to lead effectively. Monitoring the organization's environment helps the board anticipate when existing or emerging conditions are outside the range of the CEO's skills. By proactively assessing the organization's performance, its operating environment and the CEO's skills, the board can be vigilant of situations that may call for increased board coaching of the CEO to help him or her address key issues.

Sometimes, however, there are situations when additional coaching from the board may not be enough for the CEO to be successful. Boards should watch for the red flags (see below) that may suggest the CEO will be unable to stretch his or her skills and abilities beyond the organization's current strategic or cultural situation.

**Red flags that signal a CEO is at risk**

- The CEO fails to recognize that a cultural, stakeholder or other shift is occurring.
- The CEO minimizes the shift's importance.
- The CEO cannot spell out how his or her leadership needs to change to deal with the shift.
- The CEO neglects to make change as needed to accommodate the NFP's shifting needs.

Lagging organizational performance and morale sometimes accompany these warning signs.

When red flags appear, it may be time to change CEOs. Boards that can judge when a CEO's skill set is no longer adequate will be better placed to manage a smooth transition to a new CEO, rather than terminating the CEO and then starting the succession process. Explicit, ongoing discussions between the board and the CEO on these topics are essential to the succession planning process, yet most boards shy away from such discussions for fear of offending the CEO. While these conversations can be challenging, the challenge pales in comparison to the costs of *not* having had these discussions.

# Special Circumstances

The CEO succession planning issues and processes described earlier in this publication should enable boards to effectively oversee the development of their NFPs' talent pipelines and conduct informed, well-managed CEO selection processes.

Two circumstances, however, deserve special attention: what the board should do when the CEO departs suddenly and unexpectedly, and how the board should proceed when a current director aspires to the CEO role.

## **19. What Should the Board Do When Faced with a Sudden, Unexpected CEO Vacancy?**

No matter how diligently a board prepares for a CEO transition, unanticipated situations may still arise, such as changes in a CEO's health or personal circumstances that may trigger an unexpected departure. These situations are challenging but, depending on the circumstances of the departure and the NFP, the board may have several options available to help it manage the process.

If the board has a CEO candidate who is being groomed but is still developing in some areas, it may be tempting to search for an external candidate who has all of the required attributes for the role. As discussed, however, externally recruited CEOs are more likely to fail than internal candidates. If an internal candidate is almost ready for the CEO role, the board's better choice may be to offer the CEO's position to that internal candidate and heighten the board's involvement in the CEO's integration, at least for the first full annual cycle, while ensuring that the board does not meddle in management's work. This approach sends a message of stability to the NFP and its stakeholders and limits the length of time the NFP is without a CEO at the helm.

If the internal candidate is clearly one or two years away from being ready to take on the role of CEO, another option is to hire an interim executive as CEO, depending on the organization's size and complexity.

If there are no internal candidates and an external search is necessary, the board must take action to ensure leadership remains stable and the NFP maintains momentum while the CEO search is in progress. The board should avoid rushing the selection process and hiring a candidate without conducting proper due diligence. To provide stability at the top, the board may choose to appoint a director, a member of management or an external temporary hire to act as interim CEO.

In any of these situations, it is critical for boards to obtain professional advice, if possible, to help it manage communications with internal and external stakeholders. This is important during any CEO succession process, but even more so when the transition is unexpected, given the risks to the NFP.

## **20. How Should the Board Proceed When a Director Wishes to Be a CEO Candidate?**

It is not uncommon for the boards of smaller organizations to turn to one of their own directors, either as interim or permanent CEO, especially where the former CEO's departure was unplanned. This situation presents special challenges that the board must navigate carefully.

In these cases, boards are advised to go through the full selection process recommended in this publication. Ideally, the director's name is added to the pool of candidates and the director steps down from the board while the process unfolds. From this point on, the process would be the same for this candidate as for the others.

If the director makes the short list of final candidates, the views of the other directors should be solicited as part of the referencing process. This gives directors with reservations about their peer a forum to share their concerns in confidence and ensure that any concerns are considered in assessing the individual's candidacy.

# Avoiding Common Mistakes

There are some common pitfalls to avoid in the CEO succession process. Directors often overlook these areas, diminishing the success and effectiveness of CEO transitions as a result.

## **Starting the process with untested assumptions about the CEO role's requirements**

— The key criterion for a successful CEO succession is that it must be a strategy-led process. Boards must start with a careful analysis of the organization's strategy and the type of leadership required to execute that strategy successfully, paying special attention to the challenges and obstacles the NFP is likely to encounter in executing its strategy. Failing to take the time to build a CEO profile that is based on an understanding of the NFP's mission and its needs will lead to problems later in the selection process.

**Relying too heavily on the CEO's assessment of internal talent** — Boards must get first-hand knowledge of the internal talent. CEOs may provide input to the board and will have their own opinions about various internal candidates. CEOs tend to seek a replica of themselves and their style in the succession process, which can cause problems where change in strategy or culture is required.

**Relying too heavily on an executive search professional** — The entire board should seek out information about candidates through trusted contacts or from direct experience (recognizing confidentiality) to add more objectivity

NFP directors should steer clear of these common pitfalls:

- starting the process with untested assumptions about the CEO role's requirements
- relying too heavily on the CEO's assessment of internal talent
- relying too heavily on an executive search professional
- taking an expedient route
- not dealing with CEO performance issues quickly or directly



to the process. A search professional can be an invaluable partner, especially during an external search, but boards must remember that they are ultimately responsible for choosing the CEO.

**Taking an expedient route**—Choosing a CEO could be the most important decision that a NFP director will ever face. It is crucial that directors establish a robust process and devote the time needed to carry it out fully and effectively.

**Not dealing with CEO performance issues directly or quickly**—Ensuring that an ongoing process exists for assessing the CEO's performance will help prevent a situation that requires the emergency succession of an existing CEO. A thorough performance management process allows the board to better anticipate when the current CEO's abilities may be inadequate for the organization's needs. Holding regular, explicit conversations about the CEO's expected tenure also allows for better long-term CEO transition planning.

# Conclusion

In summary, many NFP directors are acting in the role as volunteers and the time each director can devote to this process may be limited. Replacing the CEO is often the most important single task a board can undertake and it, therefore, merits commitment, planning and due diligence to be done successfully. By avoiding these common mistakes and by following the process set out in this publication, boards can conduct their NFP CEO selection and succession planning process efficiently, effectively and with confidence in their choices.

# Appendices

## Appendix A: Model CEO Profile of Success

In developing a profile for CEO succession, three areas need to be addressed:<sup>8</sup>

Organizational Imperatives	CEO Success Factors	Behavioural Requirements
Steps a NFP must take to implement its strategy and reach its objectives	Leadership requirements for success	Capabilities and qualities needed to achieve the success factors
Directors should ask: <ul style="list-style-type: none"> <li>• What key challenges face the organization?</li> <li>• What must the organization do to accomplish its objectives?</li> </ul>	Directors should ask: <ul style="list-style-type: none"> <li>• What are the NFP's leadership needs?</li> <li>• What must the CEO be able to do extremely well to ensure the NFP achieves its goals?</li> </ul>	Directors should ask: <ul style="list-style-type: none"> <li>• What specific characteristics must the CEO possess in order to achieve the success factors?</li> <li>• What qualities are necessary, culturally, to lead the organization forward?</li> </ul>

**Appendix B** features an example of a leadership profile that addresses these three key areas.

<sup>8</sup> "Reflections on Fit: Improving Executive Selection," *Executive Insights*, Volume 14, no. 1, RHR International.

## Appendix B: Sample NFP CEO Leadership Profile

This sample CEO profile links the NFP's strategy with the characteristics that a candidate would need to steer a NFP through that strategy, focusing on the candidate's competencies and behaviours rather than their track record or work experience. This sample profile is tailored to the needs of ABC NFP, a larger NFP in the XYZ sector. Directors are encouraged to adapt this profile to suit the size, resources, imperatives and strategic objectives of their own NFP.

### Leadership Profile: Chief Executive Officer

This document outlines what it would take to be effective in the position of Chief Executive Officer at ABC NFP in the future. This leadership profile provides the criteria (or template) for assessing candidates for selection decisions and for guiding the development of aspirants to the role. The **organizational imperatives** define the organization's leadership needs, while the **success factors** and accompanying **behavioural requirements** define what is anticipated to be necessary for leadership success in this specific position.

ORGANIZATIONAL IMPERATIVES	
Overall Criteria	Specific Criteria
1. Provide leadership in representing the interests of ABC member organizations of XYZ sector in the public policy arena.	<ul style="list-style-type: none"> <li>• Ensure a regulatory environment that supports the interests of its members.</li> <li>• Intervene and preempt adverse legislation and regulation.</li> <li>• Advocate at the federal level for legislative and regulatory policies that impact sector priorities.</li> <li>• Represent sector and member interests at the provincial level.</li> <li>• Enable and support organizations' grass roots capabilities to achieve public policy objectives.</li> </ul>
2. Identify and leverage opportunities for sector collaboration to promote efficiency and growth.	<ul style="list-style-type: none"> <li>• Analyze and communicate emerging issues, practices and processes that have the potential to improve access and efficiencies.</li> <li>• Selectively initiate cooperative efforts among member organizations and customers/clients that result in more effective service delivery.</li> </ul>

<b>ORGANIZATIONAL IMPERATIVES</b>	
<b>Overall Criteria</b>	<b>Specific Criteria</b>
3. Speak persuasively and authoritatively for the sector, to the public and to the media, on policy advocacy for sector practices.	<ul style="list-style-type: none"> <li>• Demonstrate a highly credible, constructive, and compelling voice in all communications on behalf of the sector's positions.</li> <li>• Articulate the economic, moral and social value responsibility of the sector.</li> <li>• Proactively provide accurate information and thought leadership on customer/client sensitive issues.</li> <li>• Coordinate with other sector associations to consolidate and strengthen the impact of communications.</li> <li>• Assure the delivery of accurate and coordinated information in response to threats and public attacks.</li> </ul>
4. Forge constructive collaborations with domestic and international partners relevant to XYZ sector.	<ul style="list-style-type: none"> <li>• Develop and maintain partnerships and coordinated approaches with other XYZ associations.</li> <li>• Develop and maintain partnerships and communication with counterparts to ABC outside Canada.</li> <li>• Identify trends and common issues to this sector across borders and help build strategies that represent member interests.</li> </ul>

<b>SUCCESS FACTORS</b>	
<b>Overall Criteria</b>	<b>Specific Criteria</b>
1. Bring intellectual leadership in informing the board about the primary issues, threats and priorities confronting XYZ sector.	<ul style="list-style-type: none"> <li>• Help the board understand and anticipate key issues that could influence the success of their organizations.</li> <li>• Lead the board to be proactive and influential in shaping the operating landscape.</li> </ul>
2. Forge consensus among ABC member organizations regarding the role, agenda, strategies and success criteria for ABC.	<ul style="list-style-type: none"> <li>• Identify common, crosscutting issues.</li> <li>• Clarify where to focus ABC's resources.</li> <li>• Promote internal consistency within and across member organizations about what ABC is asked to do.</li> <li>• Determine performance metrics to gauge ABC's effectiveness.</li> </ul>
3. Develop and lead ABC's effective advocacy to government.	<ul style="list-style-type: none"> <li>• Understand how the government works.</li> <li>• Cultivate a network of relationships with policy makers and regulators.</li> <li>• Lead and leverage ABC and organization resources to exert strong influence in shaping legislative and regulatory policy.</li> </ul>
4. Lead a multi-channel sector effort to promote efficiencies and industry best practices.	<ul style="list-style-type: none"> <li>• Assure the success of sector committees on technology, standards and adoption.</li> <li>• Identify and act on those issues where collective sector action results in improved efficiencies.</li> <li>• Cultivate a network of relationships with key customers/clients and customer/client associations.</li> </ul>

SUCCESS FACTORS	
Overall Criteria	Specific Criteria
5. Manage multiple stakeholders with diplomacy, both domestically and internationally.	<ul style="list-style-type: none"> <li>• Develop and maintain good rapport with ABC's directors and the organization's senior management.</li> <li>• Demonstrate cross-cultural sensitivity.</li> <li>• Collaborate well with other leaders in sector groups and sector associations.</li> </ul>
6. Demonstrate capability in managing a lean organization with an ambitious agenda.	<ul style="list-style-type: none"> <li>• Provide organizational focus in addressing key priorities.</li> <li>• Practice effective executive leadership and management of ABC's staff.</li> <li>• Ensure continuity of high-performing talent for key roles within ABC.</li> </ul>
7. Create an environment that fosters innovation and creativity.	<ul style="list-style-type: none"> <li>• Set an example of continuous improvement.</li> <li>• Be alert to new developments and best practices in all areas of the sector.</li> <li>• Build a greater awareness of, and desire to learn from, sources external to the sector.</li> </ul>
8. Have a track record of success.	<ul style="list-style-type: none"> <li>• Has a history of sustained financial performance.</li> <li>• Is able to articulate lessons learned from experience.</li> <li>• Has a track record of leaving organizations better off for having been there.</li> </ul>
9. Behave in ways that are consistent with the ABC way.	<ul style="list-style-type: none"> <li>• Is seen as authentic in aligning personal values with the organization's values.</li> </ul>

BEHAVIOURAL REQUIREMENTS	
Overall Criteria	Specific Criteria
1. Problem-solving and thinking.	<ul style="list-style-type: none"> <li>• Possesses superior intellectual capacity.</li> <li>• Can think strategically and tactically.</li> <li>• Able to analyze and translate complex, conceptual issues into focused action.</li> <li>• Exercises pragmatic judgment in decision making.</li> <li>• Engages key stakeholders in addressing critical issues.</li> <li>• Develops win-win solutions to multifaceted problems.</li> </ul>
2. Emotion and motivation.	<ul style="list-style-type: none"> <li>• Adaptable.</li> <li>• Modest needs for power and control.</li> <li>• Strong achievement and results orientation.</li> <li>• Emotionally steady in the face of adversity and pressure.</li> <li>• Optimistic, positive outlook.</li> <li>• High levels of energy, stamina, patience, and perseverance.</li> </ul>

## BEHAVIOURAL REQUIREMENTS

Overall Criteria	Specific Criteria
3. Interpersonal relations and communication.	<ul style="list-style-type: none"> <li>• Honest, direct, straightforward communicator.</li> <li>• Trustworthy and has high integrity.</li> <li>• Blends charisma and humility in interpersonal manner.</li> <li>• Conveys genuine attention and interest to the issues that are important to ABC member organizations.</li> <li>• Skilled in public speaking and media relations.</li> <li>• Can relate effectively to a wide range of audiences.</li> <li>• Can develop and maintain good collaborative relationships amidst conflicts and differences of opinion.</li> </ul>
4. Understanding of self and others.	<ul style="list-style-type: none"> <li>• Confident and secure.</li> <li>• Recognizes own strengths and weaknesses.</li> <li>• Open to feedback and guidance from others.</li> <li>• Insightful in reading the needs and motivations of others.</li> <li>• Skillful in using insights about others to achieve cooperation.</li> <li>• Able to provide constructive input to the development of others.</li> </ul>
5. Work and leadership characteristics.	<ul style="list-style-type: none"> <li>• Able and willing to work long hours.</li> <li>• Displays active, hands-on leadership that inspires and earns the respect of multiple stakeholders.</li> <li>• Understands the “businesses” of ABC member organizations.</li> <li>• Effective in getting the agenda and priorities right.</li> <li>• Can influence others without formal authority.</li> <li>• Balances proactive and reactive demands.</li> <li>• Proficient at time management and multitasking.</li> </ul>

## Appendix C: CEO Succession—Key Roles and Responsibilities

This chart offers a good starting point for determining how to allocate the tasks involved with the succession process. This list is not exhaustive — roles and responsibilities can vary greatly depending on the skill sets of the directors and the size of the organization. Directors are encouraged to modify the scope of responsibilities for the chair, directors, CEO, and others accordingly.

Role	Responsibility	Comments
Chair	<ul style="list-style-type: none"> <li>Setting annual performance objectives and conducting an annual performance review with CEO, including a discussion on the timing of the CEO's departure.</li> <li>Coaching the CEO.</li> <li>Ensuring that the CEO is conducting a robust succession planning, which is appropriately reviewed by the board.</li> <li>Ensuring there is an agreed upon succession process.</li> <li>Setting up the selection committee.</li> <li>Developing a communication plan to key stakeholders, including staff, to set expectations about the process.</li> <li>Keeping the full board apprised of the succession process as it progresses.</li> <li>Ensuring that the board is responsible for the process and does not overly rely on the CEO or the search firm.</li> </ul>	<ul style="list-style-type: none"> <li>The board chair customarily takes part on the selection committee, but it can be chaired by another director.</li> <li>Some of these responsibilities may be delegated to the board's committee responsible for human resources.</li> </ul>
Board	<ul style="list-style-type: none"> <li>Approving the candidate as recommended by the selection committee.</li> </ul>	<ul style="list-style-type: none"> <li>The selection committee should have no more than five members to balance ease of scheduling with ensuring diversity of thought and representation of stakeholder groups.</li> </ul>
Director	<ul style="list-style-type: none"> <li>Awareness of the organization's strategy and competitive environment.</li> <li>Knowledge of the universe of possible successors, inside and outside the organization.</li> <li>Knowledge of the current CEO's strengths, limitations, and performance.</li> </ul>	



Role	Responsibility	Comments
CEO	<ul style="list-style-type: none"> <li>• Keeping the board informed of his or her plans regarding retirement/tenure to ensure a smooth transition process.</li> <li>• Overseeing the internal succession planning process to help ensure there are potential internal successors, if possible.</li> <li>• Grooming and coaching possible successors.</li> <li>• Helping to establish the profile for the next CEO.</li> <li>• Participating in the successful integration of the successful candidate.</li> </ul>	<ul style="list-style-type: none"> <li>• In smaller organizations, the CEO may play a more active role in the process, provided that the board maintains the final responsibility.</li> <li>• In some cases, it is not desirable for the CEO to stay on and take part in the integration of the successful candidate.</li> </ul>
Selection committee	<ul style="list-style-type: none"> <li>• Establishing the profile for the successful CEO with the full board's input and approval.</li> <li>• Interviewing short-listed candidates against the profile.</li> <li>• Submitting a recommendation to the board as to the preferred candidate.</li> </ul>	
Senior HR executive (if any)	<ul style="list-style-type: none"> <li>• Ensuring a robust program is in place for selecting and developing possible CEO successors within the organization.</li> <li>• Contributing to the profile for the next CEO.</li> <li>• Helping to source external advisors to the process, including legal counsel, search firm, compensation consultant, and management psychologist.</li> </ul>	

# Where to Find More Information

## **CPA Canada publications on governance**

(available at [www.cpacanada.ca/governance](http://www.cpacanada.ca/governance))

## **The Not-For-Profit Director Series**

### **20 Questions Series**

- 20 Questions Directors of Not-For-Profit Organizations Should Ask about Board Recruitment, Development and Assessment
- 20 Questions Directors of Not-For-Profit Organizations Should Ask about CEO Succession
- 20 Questions Directors of Not-For-Profit Organizations Should Ask about Fiduciary Duty
- 20 Questions Directors of Not-For-Profit Organizations Should Ask about Human Resources
- 20 Questions Directors of Not-For-Profit Organizations Should Ask about Mergers
- 20 Questions Directors of Not-For-Profit Organizations Should Ask about Risk
- 20 Questions Directors of Not-For-Profit Organizations Should Ask about Social Enterprise

### **Board Briefings**

- Accountants on Board—A Guide to Becoming a Director of a Not-For-Profit Organization
- A Guide to Financial Statements of Not-For-Profit Organizations—Questions For Directors to Ask
- Board Oversight of Not-For-Profit Program Evaluation—Questions For Directors to Ask
- Governance for Not-for-Profit Organizations—Questions for Directors to Ask

### **Board Bulletins**

- Advocacy and Political Activities—Questions for directors to ask
- Canada’s Anti-Spam Legislation (“CASL”): It’s the Law on July 1, 2014—Questions for directors to ask
- Cloud Computing for Not-For-Profit Organizations—Questions for directors to ask
- The New “Ineligible Individual” Provisions—Considerations for Directors of Registered Charities And Registered Canadian Amateur Athletic Associations

# About the Authors

## **Dr. Peter Stephenson, M.A., Ph.D., ICD.D**

**Dr. Peter Stephenson** specializes in building strategic leadership capability. He is an organizational psychologist, management consultant and trusted advisor to CEOs, boards of directors and executive teams. His clients are predominantly Canadian organizations spanning the private, public and not-for-profit sectors. Peter consults on a broad range of leadership issues including the implementation of business strategy, board and individual director effectiveness, merger and acquisition integration, and executive assessment and development. Peter has a B.Sc. from Trent University and an M.A. and Ph.D. in Applied Psychology from the University of Toronto. He is a frequent guest speaker on board effectiveness, strategy implementation, succession planning and executive development. He has served on several not-for-profit boards.

## **Dr. Guy Beaudin, MBA, Ph.D., ICD.D**

**Dr. Guy Beaudin** is a Senior Partner at RHR International and has been with the firm since 1996. He is an advisor to CEOs, boards of directors and senior executive teams across North America, Europe, Asia and Australia. His practice includes the full scope of RHR's core services from the development of high potential talent up to board effectiveness and CEO succession. Guy's clients range from rapidly growing family-owned businesses to Fortune 500 companies. His expertise is sought in all areas of talent assessment and talent development, including CEO advisory and Senior Team effectiveness.

Guy has an MBA from the University of Ottawa and a Ph.D. in Industrial/Organizational Psychology from the University of Montreal. He is frequently solicited for his views on leadership and leadership development in speaking

engagements and in a variety of media. He has authored numerous articles and publications, including a guide to CEO succession published by CPA Canada. He is a Director of the Heart and Stroke Foundation of Canada. Guy is also a graduate of the Institute of Corporate Directors' Directors Education Program.



**CPA**

CHARTERED  
PROFESSIONAL  
ACCOUNTANTS  
CANADA

277 WELLINGTON STREET WEST  
TORONTO, ON CANADA M5V 3H2  
T. 416 977.3222 F. 416 977.8585  
WWW.CPACANADA.CA

ISBN-13: 978-1-5254-0001-8



9 781525 400018

04000087