Daring to Lead 2011

A National Study of Nonprofit Executive Leadership

A Joint Project of
CompassPoint Nonprofit Services
and the Meyer Foundation

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About Daring to Lead 2011

More than 3,000 executive directors participated in *Daring to Lead 2011*, the third *Daring to Lead* national study produced in partnership by CompassPoint and the Meyer Foundation, with previous studies published in 2001 and 2006.

Daring to Lead 2011 has multiple components:

- This main report
- Three topical briefs: *Leading Through a Recession, Inside the Executive Director Job,* and *The Board Paradox*
- The interactive *Daring to Lead* website (daringtolead.org), where you will find report downloads, additional data and findings, downloadable charts and graphs, community comments, research methodology, and information about the project team and regional partners.

Please visit daringtolead.org frequently to hear what sector leaders are saying about the findings and to engage in the ongoing dialogue about their implications for nonprofit executives and boards, philanthropy, and capacity builders.

Daring to Lead 2011 Partner Organizations

CompassPoint and the Meyer Foundation deeply thank our partner organizations for distributing the survey and supporting this project. Without their partnership, this research would not have been possible.

Center for Nonprofit Management, Dallas

Center for Nonprofit Management, Los Angeles

Center for Nonprofit Management, Tennessee

Community Resource Exchange, New York

Donors Forum, Chicago

Georgia Center for Nonprofits, Atlanta

Hawai'i Community Foundation, Hawai'i

MAP for Nonprofits, Minneapolis

Nonprofit Association of Oregon, Portland

Weingart Foundation, Los Angeles

Note on terminology: We use the term executive and leader interchangeably in this report to mean both Executive Director and CEO.

For reference purposes, please use the following citation: Cornelius, Marla, Rick Moyers, and Jeanne Bell, *Daring to Lead 2011: A National Study of Executive Director Leadership* (San Francisco, CA: CompassPoint Nonprofit Services and the Meyer Foundation, 2011).
All charts are available to download at daringtolead.org.

Our third *Daring to Lead* report in 10 years comes at an extraordinary time

to be the executive director of a nonprofit organization. Since our last report in 2006, powerful forces have influenced the requirements of—and the possibilities for—embodying the role well. On the challenging side, executives are daring to lead through a deep recession that resulted for many in fewer resources, and for all in profound shifts in when and on what terms individuals and institutions invest in their organizations. Moreover, executives leading the effort to respond to the economically disadvantaged are facing a relentless demand for services far beyond their capacity to respond. On the positive side, the comparatively progressive policies of the Obama administration and nonprofit-led progress on various social movements mean that executives leading critical social change efforts are experiencing greater opportunity and organizational growth. And with respect to the practice of leadership itself, five years later we know more about how the sector is experiencing the generational handoff, about what works in developing future leaders, and about which executive and governance practices are most associated with sustainable organizations. This report is organized around three key findings and concludes with corresponding calls to action.

KEY FINDING 1

Though slowed by the recession, projected rates of executive turnover remain high and many boards of directors are under-prepared to select and support new leaders.

"I had originally thought I would leave around the 10-year mark, but the economy has significantly stressed our organization over the past two years such that it would feel like a set-up."

As a sector, we have been anticipating and studying executive transition for 15 years. Executives wrestle with a number of personal and organizational readiness questions—as well as environmental factors from the economy to the election cycle—in determining when the successful handoff to a new leader can happen. *Daring to Lead 2006* found that 9% of executives were in the process of leaving their jobs and that 75% anticipated leaving their jobs within 5 years. In 2011, 7% have given notice and 67% anticipate leaving within five years. But within that 67% there is also a large cohort (10%) who have not given notice but say they are actively considering leaving.

These data suggest that several factors have created a drag effect on the rate of executive transitions. First, the recession required many older executives to reconsider their transition timing. One in six leaders is 60 years or older, and of this group, 22% reported that a loss in their retirement savings contributed to a transition delay. Across all age groups, 12% reported that a shrinking job market contributed to delay. And, 9% reported that reduced funding and the resulting instability of their organizations contributed to delay. A second factor that influences turnover timing is the perceived lack of an appropriate successor. Nine percent (9%) of executives said this contributed to their delay.

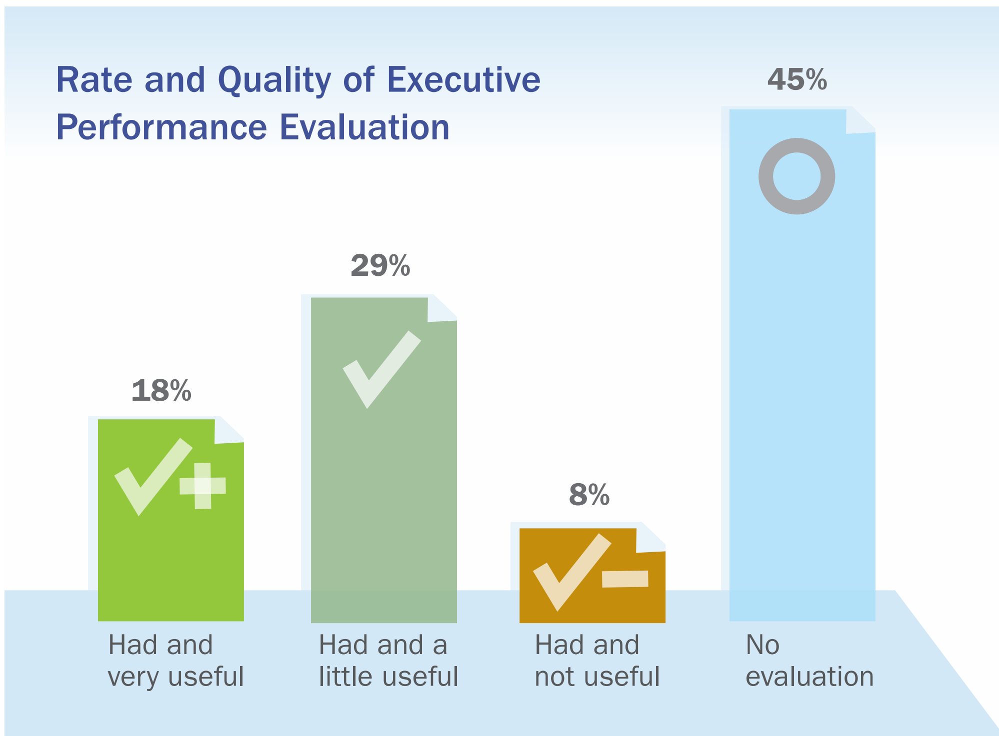
Still, the distribution of executive tenure across the 3,000 respondents reflects a healthy continuum of new and veteran leaders in the sector. Nearly a third of current executives (31%) have been on the job for fewer than three years; this is more than the 27% who have been on the job for ten or more years. Alarm at the potential widespread sector disruption executive turnover might cause has given way to concern about how best to prepare new leaders and their organizations to weather, and even leverage, inevitable transition.

"One of my main concerns is making sure that staff are being recognized, that they are growing, and that we're retaining and developing the next cycle of leadership. I have nightmares about it. What if I got hit by a bus? What would happen?"

Despite 15 years of attention to the issue, a number of key practices associated with effective executive transition are not widespread. Executives and boards are still reluctant to talk proactively about succession and just 17% of organizations have a documented succession plan. Even more problematic is the extent to which many boards are unfamiliar with the dimensions of their executives' roles and responsibilities. Just 33% of executives were very confident that their boards will hire the right successor when

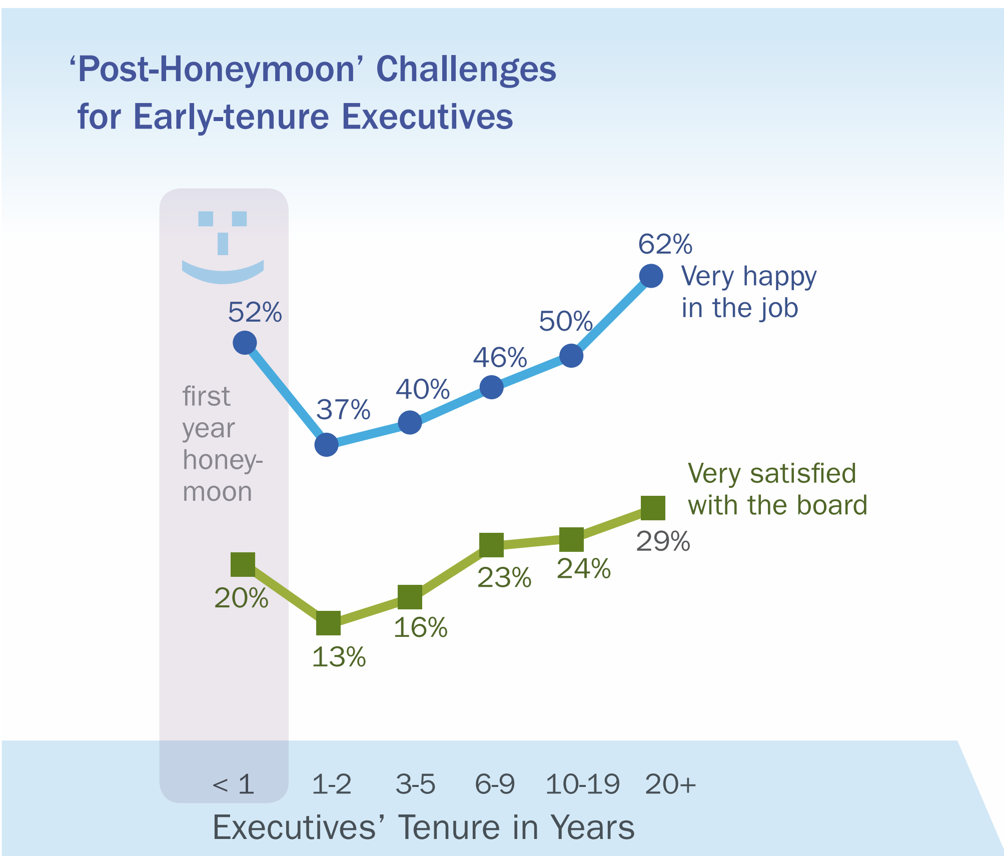
"Look at all of us who've been in these roles for decades; for us to leave is the normal evolution of a healthy organization."

they leave. Performance management is a critical means of being in dialogue with an executive about success and its metrics, yet 45% of executives did not have a performance evaluation last year. Even among the majority of executives who did have a review within the past year, just a third (32%) said it was very useful, with the remaining two thirds reporting that it was only a little useful (53%) or not useful at all (15%). Without consistent, meaningful engagement in what the job requires, many boards are under-prepared for their critical role in executive transition.



Boards' unfamiliarity with the role and dearth of executive performance management no doubt contribute to two additional challenges related to executive transition: termination on the one hand, and supportive onboarding[1] on the other. Thirty-three percent (33%) of current executives followed a leader who was fired or forced to resign, indicating the frequency of mishires and unclear expectations between boards and executives across the sector. Further, this research uncovered a number of challenges for newly hired executives. While all executives reported periods of exhaustion, newer leaders described a visceral fear as they came to realize the enormity of their jobs. After an initial honeymoon phase during which 52% of leaders in the role for less than a year described themselves as very happy, just 37% identified that way during years one through three. Newer leaders were particularly challenged by establishing effective partnerships with their boards, describing disillusionment with what boards actually contribute with respect to strategy, resources, and personal support along executives' steep learning curves. As with happiness in the job, satisfaction with board performance was lowest among leaders on the job between one and three years. It appears that many boards see executive transition as ending with the hire, when in fact leaders—nearly all of whom are in the role for the first time—need intentional support and development as they build efficacy in the executive role.

"I don't know if I'd call it burnout but more panic. The 3:00 a.m. stuff for me is, my gosh, how are we going to find the money? And the feeling that it's very personal. That it will reflect on my leadership, but also that it will affect people who are doing really amazing work—people who I don't want to let down. More important than my own ego is that. I think what I am really talking about is fear. "

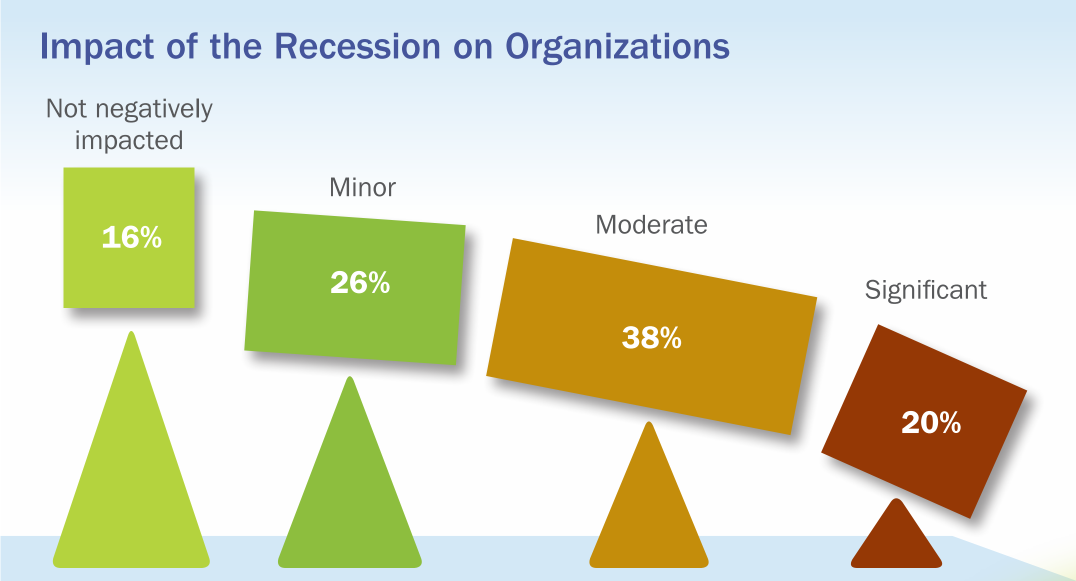


KEY FINDING 2

The recession has amplified the chronic financial instability of many organizations, causing heightened anxiety and increased frustration with unsustainable financial models.

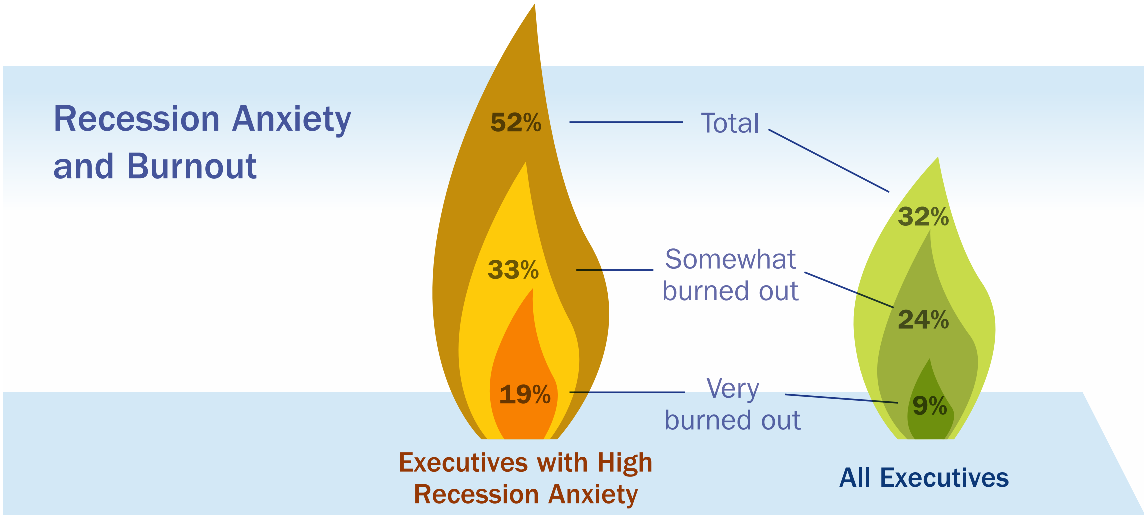
The majority of organizations were negatively impacted by the recession. Eighty-four (84%) of leaders reported negative organizational impact, though its intensity varied widely, with one in five executives describing the negative impact as significant. In the fourth quarter of 2010 when these data were collected, 26% of organizations had downsized; that is, were operating with a budget smaller than the previous year's. More than one third of nonprofits (34%) were operating with a budget larger than the previous year's, indicating the opportunity that some executives were able to find in higher demand, federal stimulus funding, increased donor commitment to safety-net services, and other counter-cyclical market forces. Given the dire budget situation in cities, counties, states, and at the federal level, it remains unclear how many organizations will in fact come out of the recession wholly intact. Specifically, there is widespread acknowledgment among leaders that fundamental shifts are underway in how the social safety-net—to which nonprofit service providers have become absolutely integral—is adequately financed going forward.

Beyond the effect on their organizations' balance sheets, the recession has taken a personal toll on executives. Sixty-five percent (65%) of executives reported significant levels of recession-related anxiety. Understandably, there was a strong correlation between executives' anxiety and the size of their organizations' operating reserves, or financial margin for error.[2] Thirty-three percent (33%) of executives with less than one month of reserves reported high recession-related anxiety, compared with 15% among executives with six months or more. Further, recession anxiety was strongly associated with executive burnout. Overall, 9% of executives described themselves as very burned out, compared to 19% of leaders with high levels of recession anxiety.



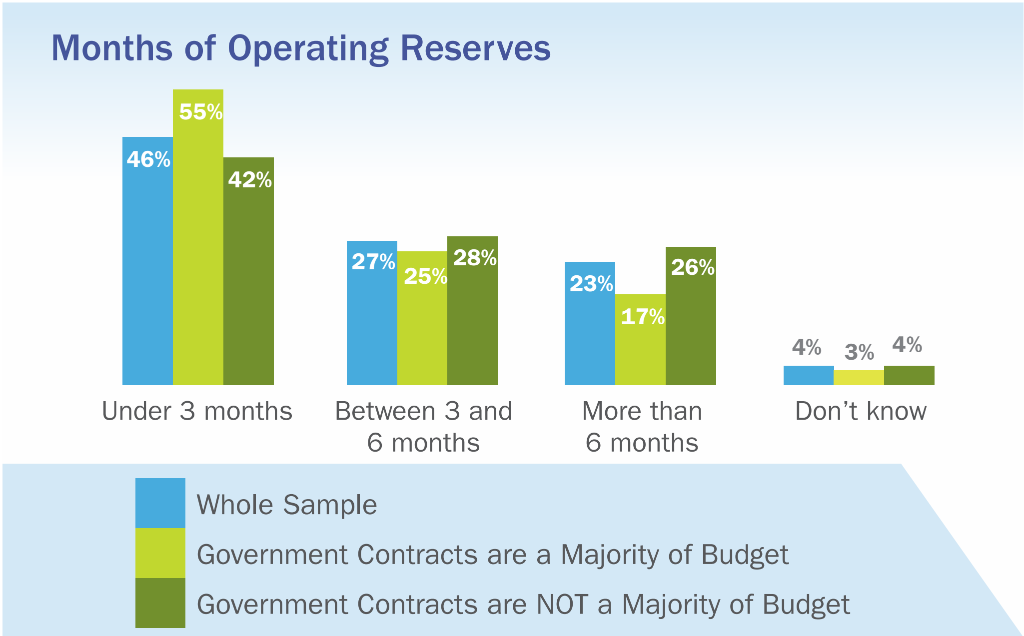
In fact, the recession has only exacerbated an endemic challenge of leadership in the nonprofit sector: developing a sustainable business model that fully finances a nonprofit's desired impacts and allows for strategic organizational development and growth over time. For instance, almost half of executives (46%) reported cash reserves of fewer than three months—when the prevailing wisdom is that organizations should maintain reserves of at least three to six months. This means that roughly half of nonprofit executives have very limited organizational savings with which to take risks, underwrite growth, or invest in their own capacity beyond what they can get existing funding streams to pay for. Nonprofits that rely on government contracts for more than 50% of their operating budget—typically those providing direct human services—are even more vulnerable, with 55% operating with less than three months' reserves compared to 42% among those that receive a majority of their funding from other sources.

"It's a business that doesn't work. We have to find a way for contributed income to be 60% or 70% of our income. We've tried going the other way to make earned income work. But I haven't figured it out. I truly believe that our business of nonprofit management can't work like a business."



Of particular concern, the recession and business model challenges are disproportionately affecting new leaders and leaders of color. Thirty-two percent (32%) of executives in their first year on the job have less than one month of operating reserves; in other words, those on the steepest part of the learning curve often have the smallest margin for error. Twenty-eight percent (28%) of people-of-color-led organizations were severely impacted by the recession, compared with 18% of white-led nonprofits. This is in part because people of color are more likely to run heavily government-funded organizations; 34% of leaders of color run nonprofits whose budgets are comprised of 50% or more government contracts compared with 27% of white executives.

For the majority of nonprofit leaders, boards of directors are not a buffer against this harsh financial reality. A minority of boards are active in fundraising. Forty-eight percent (48%) of executives reported that they had someone on their boards who participates in donor identification; 41% had someone who participates in donor cultivation; and 42% had someone who participates in asking for donations. In fact, nearly half of boards (44%) have not even achieved 100% giving, which is a fairly standard expectation of board support. Moreover, just 32% of boards are participating in policy advocacy, which can be critical to the protection of public funding.



KEY FINDING 3

Despite the profound challenges of the role, nonprofit executives remain energized and resolved.

"I love seeing the transformation that takes place in the lives of our clients. I love witnessing the changes in people's lives. I love that we do both policy and direct services. I get to be involved in the big picture, but also to witness the impact on everyday lives."

Despite the complexity of the economic and structural challenges to nonprofit leadership—and perhaps inspired by them in some cases—the majority of executives demonstrated a high level of resolve and confidence in their capacity to lead. Forty-five percent (45%) reported being very happy in their jobs, and another 46% reported that they have more good days than bad in the role. Levels of burnout, especially given the economic climate, were low; 67% of leaders reported little or no burnout at all. In fact, leaders distinguished between burnout, which they associated with disengagement and ultimately leaving the job, and the realities of fatigue and elusive boundaries between their work and personal lives that go with the job. Forty-seven percent (47%) of executives reported having the work-life balance that's right for them, while a significant minority (39%) said they did not. The inherent isolation of the position is also a reality, with 70% reporting some degree of loneliness at the top. These indicators of executive well-being differ significantly among men and women. Men report burnout at half the rate of women and are significantly more likely to report having the work-life balance that's right for them.

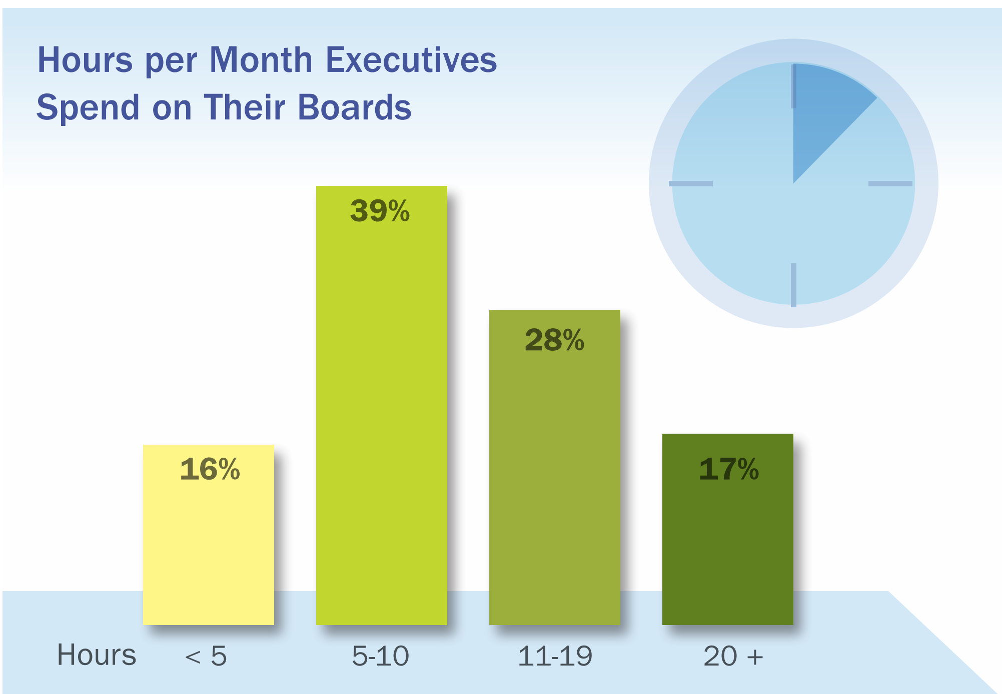
Feelings of leadership efficacy are widespread among nonprofit executives. Leadership theory now distinguishes among the leadership domains that any role may require: the capacity to lead self, to lead others, to lead an organization, and to lead externally in networks and community.[3] The vast majority of leaders assessed themselves as effective or very effective in all four of these leadership domains. The domain where the smallest percentage (35%) assessed themselves as very effective was leading others. The classic challenges associated with human resource management—hiring and firing, giving and getting effective feedback, keeping a whole team aligned and high-performing—contribute to this relatively lower self-assessment by executives. In fact, they ranked human resources as the most depleting and commensurately as the least energizing aspect of their work.

"Personnel is a sucking bog, and the thing is, I don't feel like there's any return on investment. I spend a lot of time working with this person or this department or this team, and now it's good, and then they get a new job. They're like, 'thanks for the training, bye!' Or 'thanks for the training. I'm really good now. I want more money, I want more time'... I want, want, want."

But leading others is also about actively developing people and effectively sharing responsibility and decision-making across the staff. Fifty-seven percent of executives (57%) said that shared leadership—described as a leadership approach that is inclusive and collaborative—very much described their style. Another 34% said that shared leadership somewhat described their approach. And a large majority (81%) reported having someone on staff that they trusted to make important organizational decisions without consulting them. Explicit executive mentoring of other staff was a relatively infrequent practice, with 31% of executives reporting being in an explicit mentoring relationship. Supporting executives in expanding their intentional leadership development practices and encouraging them to build organizational systems—beyond their individual shared leadership practices—that prioritize talent development are critical to strengthening organizations today and preparing them for leadership transition in the future.

Executive time invested in working with boards of directors was notably low. Sixteen percent (16%) of executives reported spending fewer than five hours per month on board-related activity, yet nearly half of these executives described themselves as spending the right amount of time. The largest group of executives (39%) spend between five and 10 hours per month—just 6% of their time overall—and half of these executives said this was the right amount of time. Other studies have found that executives who spend 20% of their time on board-related activity have high rates of satisfaction with board performance. Similarly, among these respondents, executives at the low-end of the time investment spectrum were the least happy with their boards' performance.

"I have almost a flat hierarchy. Yes, I'm the executive director but we make a lot of decisions as a group. We have some more junior staff that are learning, but they're given equal voice at the table. And I think it's a really good way to go. I get much better ideas, much better input, and much, much better buy-in."

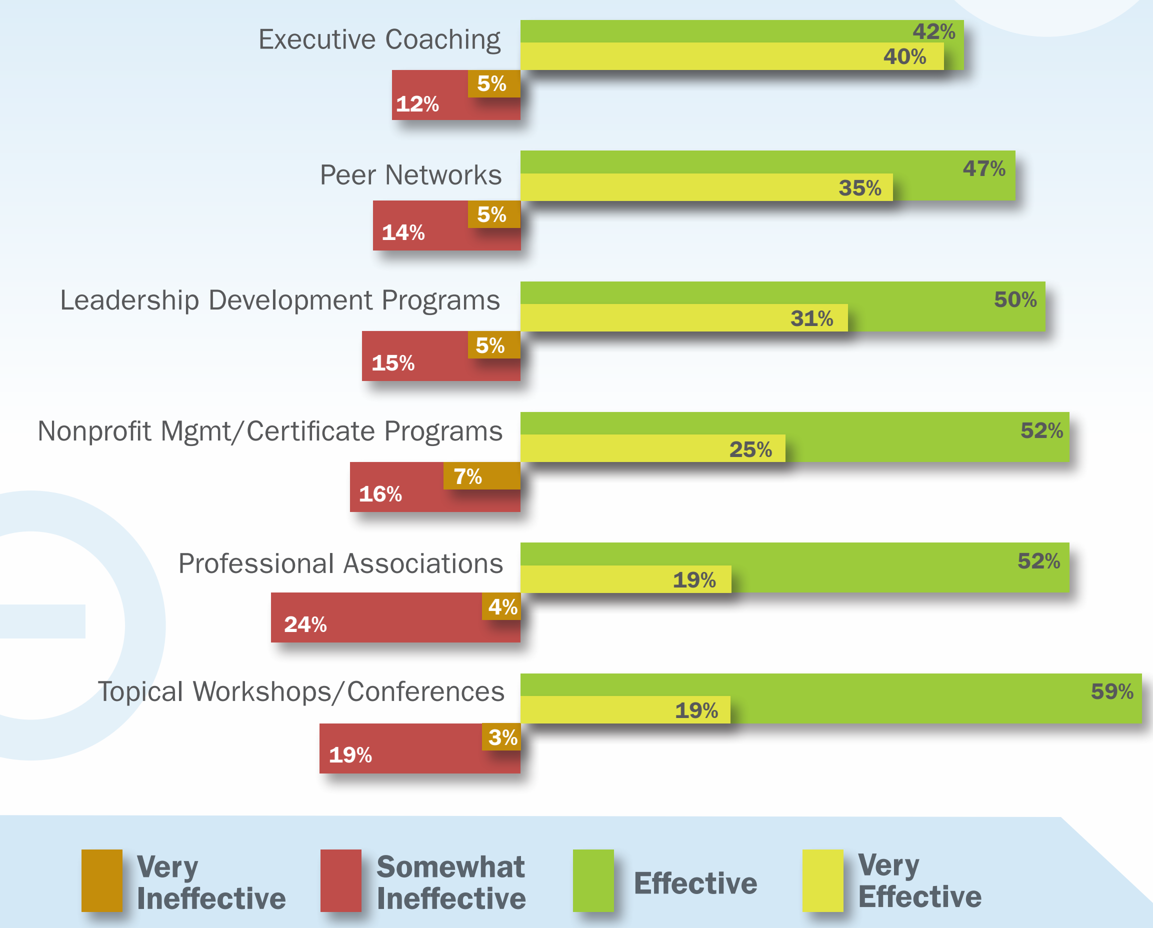


In fact, overall executive satisfaction with board performance was quite low; just 20% of leaders described themselves as very satisfied. Moreover, only 38% of executives were very confident that their own efforts could influence their boards' performance. Despite decades of technical assistance to leaders promoting the value of strategic board development and engagement, many executives still struggle to define the return on investment (ROI) of board-related activity, and further to understand their position of influence on that ROI.

"For me as an executive director, the biggest angst is finding board members and their ability to understand what their role is in leading the organization."

With respect to their own development as leaders, executives reported employing a range of strategies to continue learning and access support. They were most likely to assess executive coaching, peer networks, and leadership programs as very effective. All three of these strategies include non-didactic elements—an opportunity for skilled executives to grapple with the universal challenges of their roles and reflect on their own leadership practices in a safe environment. Ten percent (10%) of leaders were currently working with an executive coach. Peer networks, both formal and informal, were especially effective for decreasing feelings of isolation and norming the trials and tribulations of the role.

Effectiveness Ratings of Professional Development Activities Utilized



The five years since the last *Daring to Lead* were among the most challenging since the sector began emphasizing and exploring the dimensions of effective nonprofit executive leadership some 15 years ago. The demands on leaders have never been greater and for many, resources remain scarce. Yet overall, the 3,000 executives of this study tell a story of resilience and an undiminished commitment to—and passion for—their leadership roles in the social sector.

Calls to **Action**

1

Plan for successful transitions.

Both the age of current executive directors and the responses to this and previous surveys suggest that high rates of executive turnover will continue—and in some cases transition is healthy. Recognizing that some transitions are inevitable, boards, executives, and funders should do all they can to ensure that the ingredients necessary for healthy transition are in place. These include:

- Emergency succession and transition plans to ensure continuity in the event of an unexpected executive departure.
- A meaningful annual performance review process and conversation between the board and executive about performance.
- Recognition by funders of the importance of successful leadership transition to the strength and stability of grantees and, where possible, stepped up support during the transition.
- Understanding on the part of boards, funders, and executives themselves that financial stability is essential to effective executive transitions.
- Ongoing board involvement and support for new executives beyond the hire.

2

Advance understanding of nonprofit financial sustainability.

A significant number of executive directors don't thoroughly understand the financial underpinnings of their organizations, and boards of directors are more focused on financial oversight than on long-term sustainability. In addition to being a primary contributor to executive director burnout, financial instability can threaten an organization's ability to carry out its mission and its very existence. Addressing nonprofit sustainability challenges calls for:

- Clearer understanding on the part of executives and boards about the financial condition of their organization, its business model, and the meaning of sustainability. This will require many executive directors to improve their financial management and analysis skills, and boards to shift their focus from compliance and oversight to long-term sustainability. Beyond basic training in how to read financial statements or how to prepare for an audit, executives and boards need sophisticated training on financial sustainability—training and support that is not available in most communities.
- Recognition among funders of the ways in which they contribute to the chronic undercapitalization of nonprofit organizations.
- Increased board engagement in fundraising.

3

Expand and diversify the professional development options available to executive directors.

This study highlighted the fact that executive directors have different challenges and professional development needs depending on tenure, organizational size, and other factors. Boards, funders, and executives themselves need to develop a more expansive definition of professional development and recognize that executives will need different things at different times. Actions that could address this include:

- Increased support for and utilization of executive coaching, which stands out as a professional development activity that executives say is highly effective but is used by a relatively small number of executives.
- Support for new executive directors, perhaps from a coach or consultant, during their first few years on the job, when they are especially vulnerable to burnout.

continued >

- Development of alternative forms of coaching, perhaps in combination with peer networking or mentoring opportunities, to address the isolation inherent in the executive director role.
- Support from boards of directors and funders for practices and activities that promote healthy work-life balance as an essential element of professional development and support for executive directors.

4

Find new ways to improve the performance and enhance the composition of boards.

Weak board performance was cited many times by survey participants and contributes to botched executive transitions, financial instability, and executive burnout. The board plays a central role in supporting and sustaining executive directors and creating sustainable organizations. Despite decades of attention to improving board effectiveness, board performance continues to lag. Actions that could address this issue include:

- Recognition by executives of their own important role in helping to improve the performance of the board—and the need to invest their time in identifying and cultivating board members and supporting the board in its work.
- Development of improved systems for placing and training board members that can address the huge, ongoing demand for skilled and engaged board members.
- Increased attention and higher expectations of boards and governance from funders, along with funds to help organizations strengthen their boards.

Endnotes

1 Onboarding is the process of orienting and acclimating new staff and volunteers so that they acquire the necessary knowledge, skills, and behaviors to become effective in their roles.

2 We defined reserves as unrestricted cash in excess of the current budget's requirements. One month of reserve is equivalent in dollars to a typical month's expenses, or burn rate.

3 Adapted from the work of Center for Creative Leadership, Grantmakers for Effective Organizations, David Day, and Building Movement Project, the *Daring to Lead* survey defined the domains as follows: Leading self—Have a sense of personal purpose, self-awareness and understanding of personal leadership style, strengths, and abilities. Leading others inside my organization—Can relate to and understand others, develop them, coordinate their efforts and build commitments. Leading my organization—Can develop, communicate and manage organizational vision, strategy and priorities. Can problem-solve, make decisions, and manage and communicate change. External leadership—Can connect to and work with others outside of the organization in order to advance the organization's mission. Includes leading in collaborations, coalitions, partnerships, and other external community relationships.

visit www.**DaringToLead.org**

More data, updates and downloads

Find new articles, data and methodology on DaringtoLead.org.

Join the conversation

Hear what sector leaders are saying about the findings and add your own comments to the ongoing dialogue.

About CompassPoint Nonprofit Services

CompassPoint intensifies the impact of fellow nonprofit leaders, organizations, and networks as we achieve social equity together. We believe that nonprofit organizations and leaders need relevant support that builds on their strengths, experiences, and achievements and that those individuals and organizations that invest in increasing their leadership and management capacities are better poised to achieve progress. For over 35 years, CompassPoint has worked to carry out this purpose by guiding nonprofits as they become better managed, more adaptive, and achieve higher impact. For more information, visit www.compasspoint.org.

About the Meyer Foundation

The Meyer Foundation identifies and invests in visionary leaders and effective community-based nonprofit organizations that are working to create lasting improvements in the lives of low-income people in the Washington, DC metropolitan region, and works to strengthen the region's nonprofit sector as a vital and respected partner in meeting community needs. The Foundation makes grants to organizations working in the areas of education, healthy communities, economic security, and a strong nonprofit sector. Meyer's nonprofit capacity building programs, which were established in 1994, have received national recognition. In 2006, as a response to the previous *Daring to Lead* study, the Foundation established the annual Exponent Awards to recognize outstanding nonprofit executives. For more information, visit www.meyerfoundation.org.

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Daring to Lead 2011

A National Study of Nonprofit Executive Leadership

BRIEF 1

Leading Through a Recession

KEY FINDINGS

The vast majority of nonprofits, 84%, were negatively impacted by the recession. Negative financial impact however, is not the same thing as planned downsizing. A minority of nonprofits, 26%, reported a smaller budget this year than last; 40% maintained their budget size; and 34% budgeted for growth compared with the prior year.

Organizations led by people of color are more likely to have experienced significant negative impact from the recession. Twenty-eight percent (28%) of minority-led organizations were severely impacted compared with 18% of white-led nonprofits.

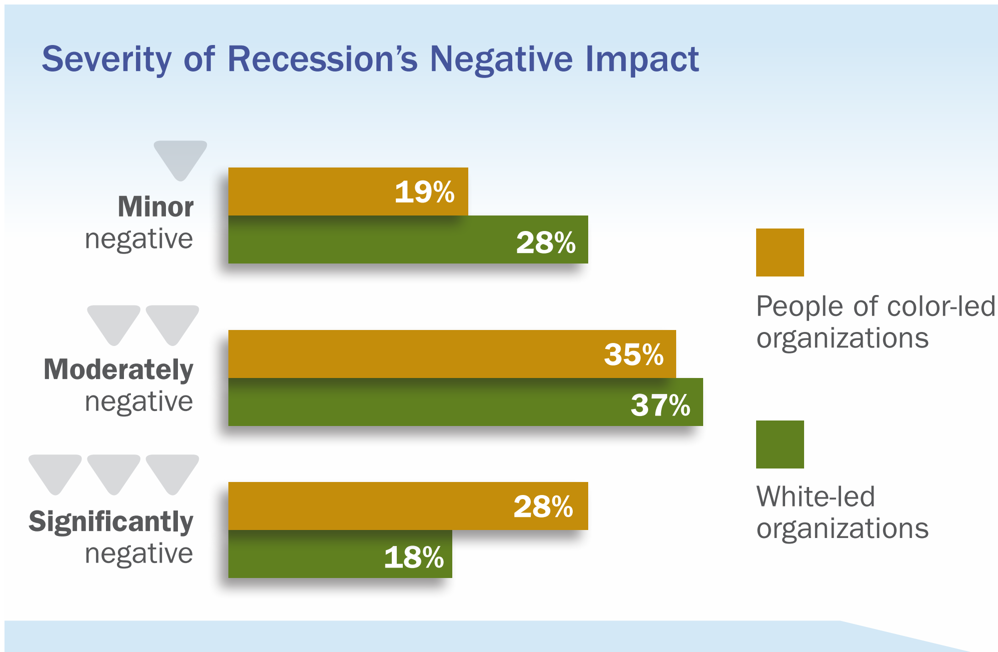
The recession amplified pre-existing economic challenges for the sector, including inadequate government funding, insufficient cash reserves, and low levels of executive financial literacy.

Jeanne Bell, CompassPoint

Daring to Lead 2011 found that a large majority of community based organizations and their leaders were negatively impacted by the recession. The negative effects on organizations include both diminished financial health and downsizing of organizations. Eighty-four percent (84%) of nonprofits experienced a weakening of their financial position—though not necessarily a reduction in their annual budgeted expenses—due to the recession. Twenty-six percent (26%) decreased their annual operating budgets in the face of reduced funding. For leaders, the negative effects included recession-related anxiety and burnout, as well as delayed executive transition. Overall, the recession has underscored the endemic weaknesses in many nonprofit business models. This research captures profound executive frustration with business model challenges, including inadequate government funding at a time of increased demand for services.

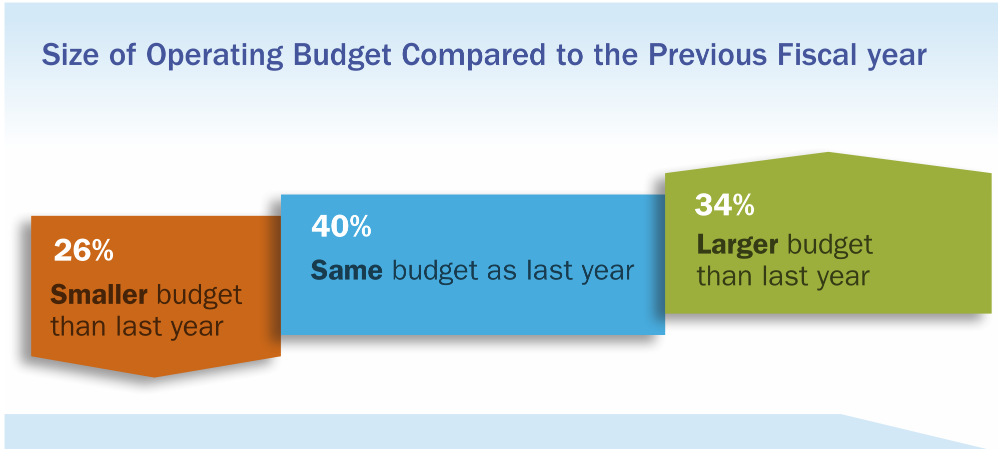
Daring to Lead is a joint project of CompassPoint and the Meyer Foundation. This is the first brief in the Daring to Lead 2011 series. To see all reports and findings from the Daring to Lead national research project, visit: ***www.daringtolead.org****.*

There is not a single story of the recession's toll on nonprofit organzations and on their leaders. The vast majority of executives reported a negative impact on their organzations, but the intensity of that negative impact varies widely. Notably, executives of color were more likely to report their organizations experiencing signficant negative impact.



The varied timing of funding changes across nonprofit revenue streams—individual giving, foundation grantmaking, and government contracting, for instance—inevitably effects how quickly organzations can anticipate these shifts and make commensurate budget decisions. By the fourth quarter of 2010 when these data were collected, 26% of organzations had downsized; that is, they were operating on a smaller budget than the previous year. The largest group of respondents, 40%, were operating with roughly the same budget as the prior year. More than one third of nonprofits (34%) were operating with a budget larger than the previous year's, indicating the opportunity that some executives found in higher demand for their programs, federal stimulus funding, increased donor commitment to safety-net services, and other counter-cyclical market forces.

However, we don't know how many of these organzations in fact met their own budget expectations in 2010 and 2011; the recession made budgeting revenue accurately challenging for many nonprofits. Further, organizations that experienced temporary growth with stimulus dollars will have to right-size as that funding ends. And finally, the shifts to funding strategies that some foundations have made recently—in part catalyzed by the recession's impact on their assets—may persist through the market's recovery causing commensurate shifts in many organizations' revenue mix.



"We have actually grown a lot during the recession because of stimulus funding and other opportunities. So on one hand, it's been harder in some areas, but we've had to be quicker, and more flexible, and really reactive."

The survey went beyond recession-specific questions to better understand nonprofit business models, financial health, and executive and board attention to these aspects of leadership. Among three income sources—individual donations, foundation grants, and government contracts—government contracts were most likely to comprise 50% or more of an organization's budget. More than one in four organizations (28%) was majority government funded, and these groups tended to have smaller cash reserves. Fifty-six percent (56%) of nonprofits that are majority government funded—typically those providing direct human services—reported an operating reserve of less than three months, compared with 42% across all organizations.

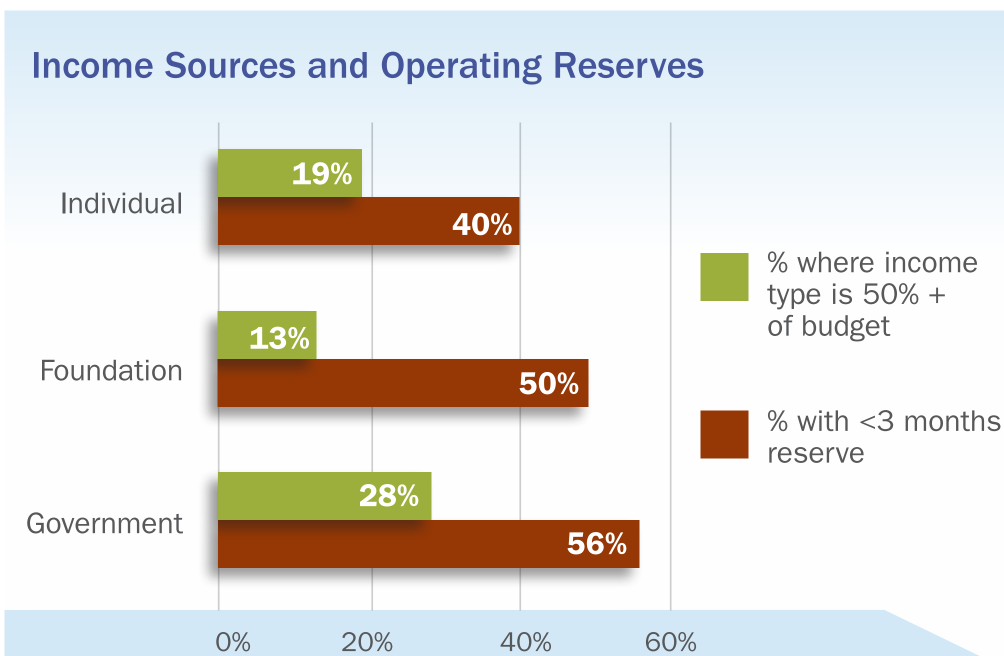
Further, executives struggling to meet an increased demand for services due to the economy's effect on their communities were frustrated by their partnership with government funders. In fact, 58% of executives reported government funding relationships as somewhat depleting or depleting, compared with 28% and 20% for foundations and individual donors respectively.

"The complexity of the funding sector has evolved rapidly. The days of somebody knowing you, believing in you, and funding you based on that relationship are gone. The whole issue of return on investment and measurement makes it harder to stay true to our mission—as unimpacted by external forces as I would want to be."

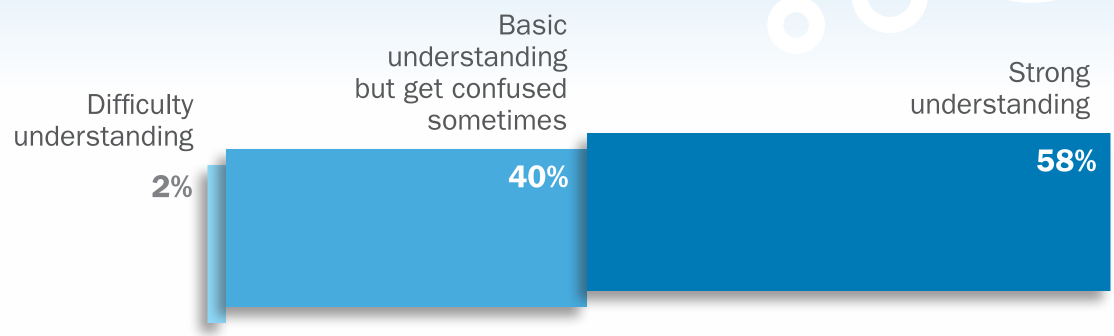
"Government is a nightmarishly bad partner that's trying to get worse."

"It's like our little version of Hal, but as opposed to a computer, it's the bureaucracy that has evolved with its own 'mind' to herd you in all sorts of different ways and it makes you wonder, 'Do I need to change what I am doing? Do I need to spend more time lobbying?' It's exhausting to think about, to worry about, and even to complain about."

With respect to financial leadership among executives and their boards, the findings indicate some areas of concern. First, a significant minority of executives are not deeply financially literate. When asked how comfortable they are with financial analysis, 40% assessed themselves as having only moderate literacy. Similarly, when asked whether their role in finance energizes or depletes them, a significant minority described their role in finance as depleting (7%) or somewhat depleting (32%).



Executive Self-Assessment of Financial Analysis Skills



At the board level, executives reported relatively high levels of financial oversight compared with other potential aspects of board engagement such as fundraising or public policy; 73% of executives said they had someone on the board providing significant effort to support the organization in financial oversight compared with 47% in fundraising and 32% in public policy by comparison. But given the common refrain among respondents about the challenges of getting a board of directors to fully understand the organization it is governing—and the fact that 39% of leaders reported that they do not have board engagement in strategic decision-making—the degree to which board leaders are partnering with staff on fundamental questions of business model and sustainability remains in question.

"I've been trying to diversify my board into business people because I need members who know how to run a business and understand budgeting. Can you read the financial statements? Do you know what these mean? They have no idea."

Calls to **Action**

1

Increase Financial Literacy of Executives and Board Members

With small margins for error and an unpredictable economy, the pressure on nonprofit leaders to make good business decisions is high. Good decision-making requires competency and confidence in financial analysis.

- Executives should prioritize closing their own financial literacy gaps by taking classes, working with a finance coach or mentor, and tending to a strong partnership with their finance staff/contractors and board finance committee members.
- Board orientations need to include a thorough explanation of the organization's business model and walk-through of the monthly financial statements. Further, all board members benefit from an annual refresher—perhaps as part of the annual retreat—on how to review the monthly statements and what the key business drivers are to monitor for a given budget year.

2

Expand the Board's Role Beyond Financial Oversight

The recession has brought into relief endemic challenges in many organizations' business models and added new challenges to the mix. The work of shifting in fundamental ways what an organization does and how it finances its work requires a different set of conversations than traditional financial oversight.

- Executives and management teams can support the board's deeper engagement in questions of sustainability by creating a visual presentation of the organization's current business model—what is does, how it finances the work, and what differentiates it from other players in the market—in a concise, digestible format.
- Executives and boards can partner in identifying key sustainability questions and exploring intentional shifts in business model that may be necessary or advantageous. Consider expanding the functional emphasis of the board finance committee beyond review of past performance to exploration of business model strengths and weaknesses.
- Consider use of organizational dashboards or other visual reporting methods to present boards of directors with metrics around program, finance, and fundraising such that the interdependent elements of an organization's business model are regularly reinforced.

3

Advance the Conversation Among Funders about Sustainable Nonprofit Business Models

These data suggest particular challenges for executives relying on government funding for a majority of their organizational revenue, but continued dialogue among all funder types about nonprofit sustainability—and how specific funding practices may contribute to or undermine it—will benefit the sector generally.

- Program officers should prioritize closing their own financial literacy gaps; those with business or public administration training will benefit from developing nonprofit-specific literacy.
- Whether their funding is technically restricted or not, funders can advance the dialogue about nonprofit sustainability by engaging with nonprofit grantees in ways that:
  - demonstrate concern and support for organizational health, including the accumulation by grantees of adequate cash reserves;
  - encourage and pay for best practices directly associated with good program delivery such as evaluation, adequate compensation, and staff professional development; and,
  - regularly examining the administrative requirements of their own funding practices to reduce the transaction costs for nonprofits of their grantmaking.

Daring to Lead 2011 has multiple components:

- *Daring to Lead 2011: A National Study of Nonprofit Executive Leadership*
- Three topical briefs: *Leading Through a Recession, Inside the Executive Director Job,* and *The Board Paradox*
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Please visit daringtolead.org frequently to hear what sector leaders are saying about the findings and to engage in the ongoing dialogue about their implications for nonprofit executives and boards, philanthropy, and capacity builders.

Note on terminology: We use the term executive and leader interchangeably in this report to mean both Executive Director and CEO.

For reference purposes, please use the following citation:
Bell, Jeanne, *Daring to Lead 2011 Brief 1: Leading Through a Recession* (San Francisco, CA: CompassPoint Nonprofit Services and the Meyer Foundation, 2011).
All charts are available to download at daringtolead.org.

CompassPoint NONPROFIT SERVICES   Meyer Foundation

Daring to Lead 2011

A National Study of Nonprofit Executive Leadership

BRIEF 2

Inside the Executive Director Job

Marla Cornelius, CompassPoint

KEY FINDINGS

Working externally with partners and collaborators is the most energizing aspect of the executive role; human resources is the most depleting.

Executives struggle to spend the right amount of time on core job functions, especially activities focused on resource development and sustainability.

If an organization receives a majority of its revenue from government contracts, the executive is significantly more likely to be engaged in policy and advocacy activities.

Shared leadership is a common practice among executives, yet it is often challenging to operationalize personal leadership practices into organizational systems.

Executives identify coaching, peer networks, and leadership development programs as the top three most effective strategies for leadership development and support.

Daring to Lead 2011 found that executive directors report very high levels of job satisfaction and leadership efficacy. Ninety-one percent (91%) reported that they are very happy in their jobs or have more good days than bad. The vast majority believe they are effective in all areas of leadership—inside and outside their organizations. To learn more about the reasons contributing to these feelings, the study asked executives how they spend their time, how they work with staff, how they feel about the core aspects of their role, and what strategies they find most effective for personal development and support. This brief provides a window into the executive's job to better understand the underpinnings of satisfaction ratings and learn more about an executive's day-to-day work.

Daring to Lead is a joint project of CompassPoint and the Meyer Foundation. This is the second brief in the Daring to Lead 2011 series. To see all reports and findings from the Daring to Lead national research project, visit: ***www.daringtolead.org****.*

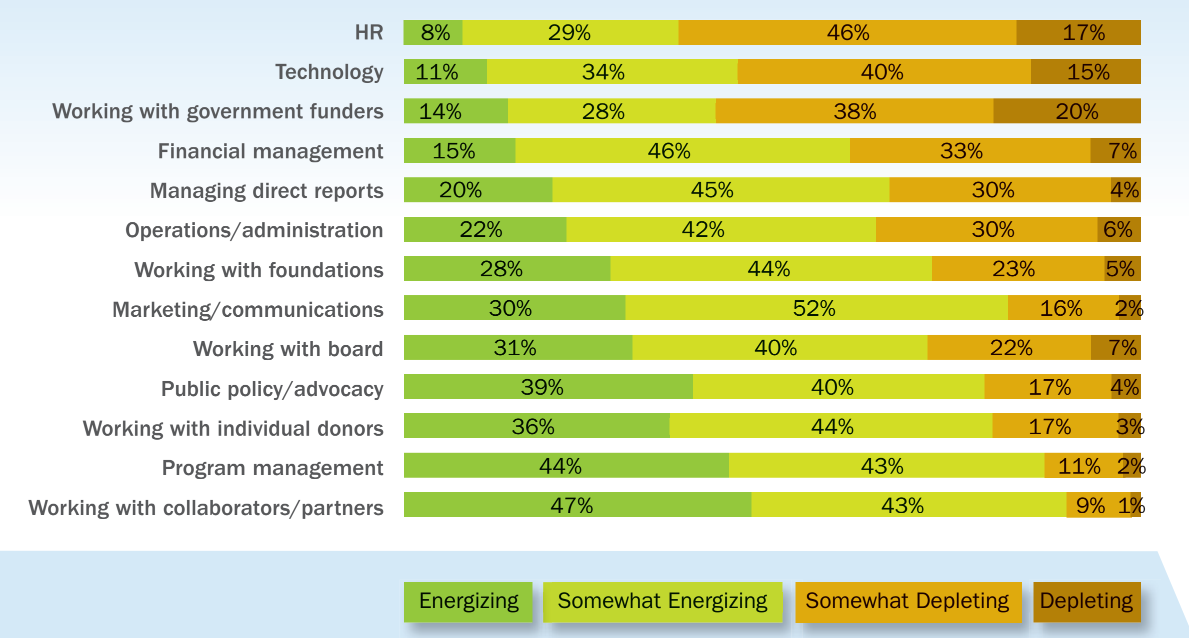
> "I really like the recognition of being an executive director and having lots of opportunities to do public speaking and being the face of the organization and speaking before my board. I feel like it's an opportunity to recognize my intelligence and my leadership abilities."

To better understand the dimensions of job satisfaction, the survey asked executives the degree to which core job functions energized or depleted them.[1]

Executives reported being energized by programmatic work, as well as work that engages them externally in partnerships and collaboration, in marketing and communications, and in policy and advocacy. Internal operational aspects of their roles were more likely to be depleting, especially human resources and technology. When asked how energized or depleted they were by their work with three kinds of funders—individual donors, foundations, and government agencies—leaders were dramatically more likely to be depleted by their work with government funders. Fifty-eight percent (58%) of executives reported government funding relationships as somewhat depleting or depleting compared with 28% and 20% for foundations and individual donors respectively.

1 For the purposes of this study, energizing job functions were defined as things that satisfy or rejuvenate executives and depleting job functions were defined as things that frustrate or burn out executives.

Aspects of Job: Energizing and Depleting

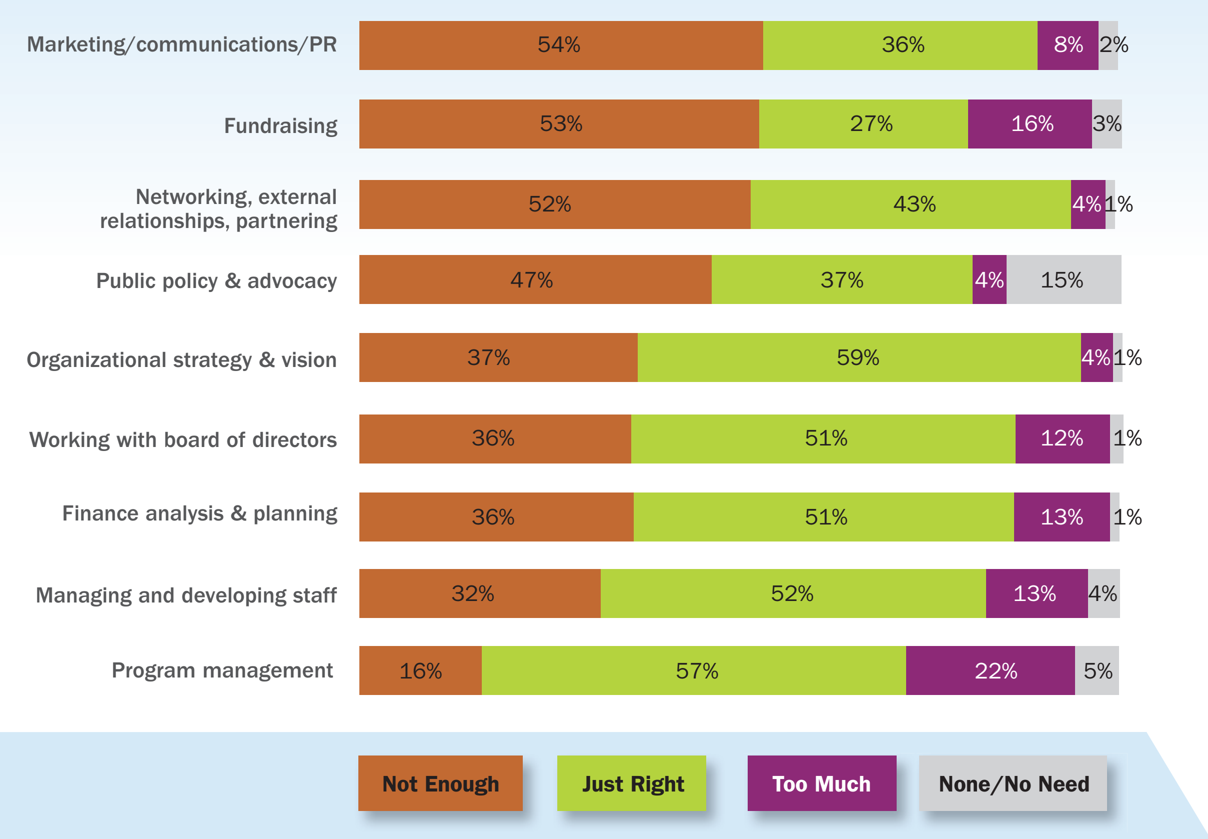


"The one thing I dislike about my job the most is challenging personnel issues. They can really be some of the most draining things that an executive director faces."

While executives tend to be more energized by outwardly focused job functions, they also reported struggling to spend enough time on them. The three areas where executive directors were most likely to report not spending enough time are communications and public relations (54%), fundraising (53%), and networking and partnership (52%). Considering that resource development is, in part, dependent on executives' ability to engage consistently in exactly these activities, their challenges in directing sufficient time here have important implications for organizational sustainability.

Given the severity of fiscal challenges across much of the public sector—and the resulting funding cuts and threats to many nonprofit services—we were particularly interested in the degree to which executives are engaged in policy and advocacy. A large majority—85%—do in fact spend some time on policy and advocacy related activities. Of those, 47% believe

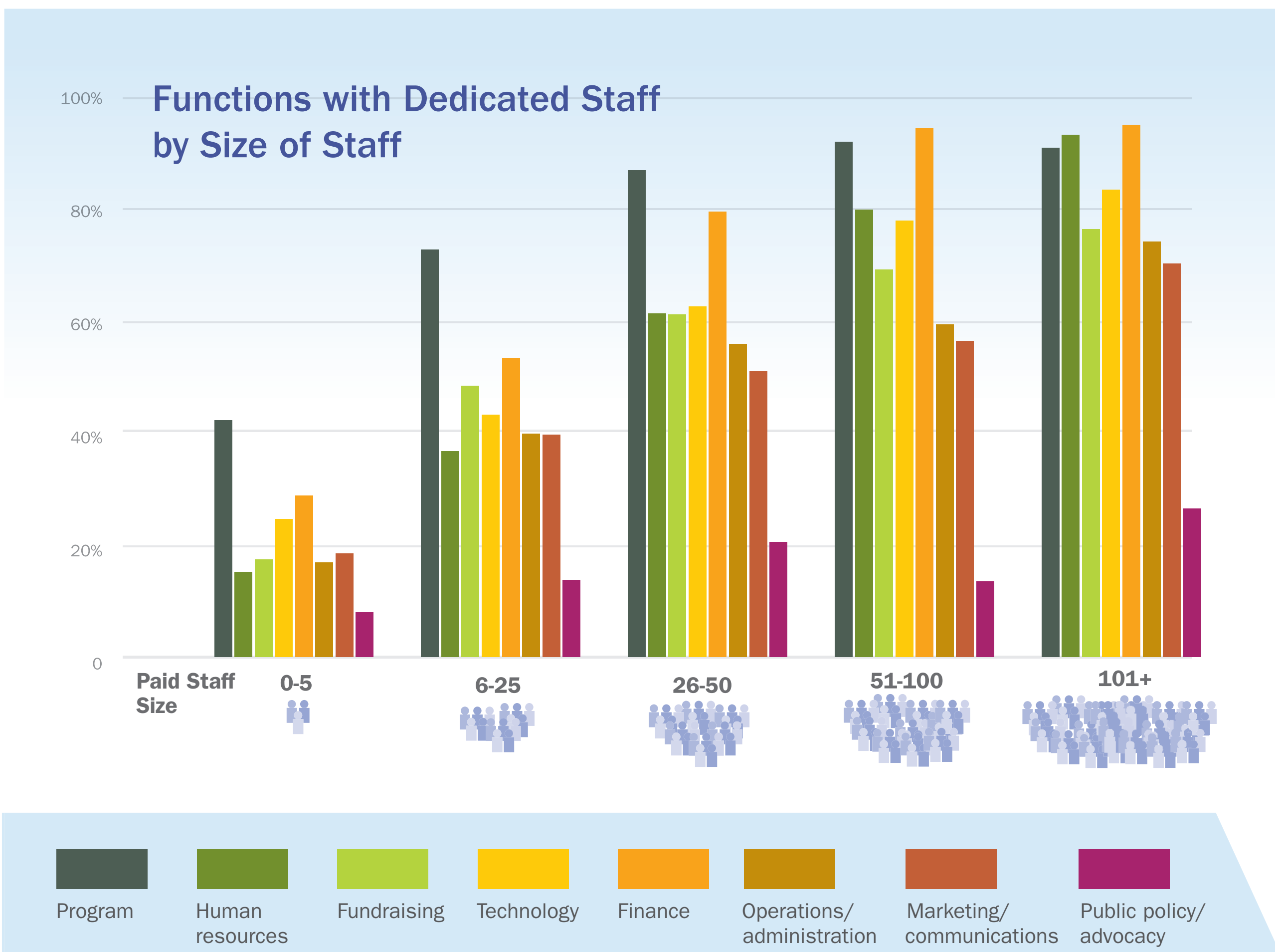
Executive's Feelings about Amount of Time Spent on Job Functions



"The currency of leadership is attention. If you have currency, you have to invest it; you have to make choices."

they do not spend enough time in this area. Regardless of the mission type of an organization, if it receives a majority of its revenue from government contracts, the executive was significantly more likely to be engaged in policy activities. Four percent (4%) of executives leading majority government funded organizations said they did not need to spend time on policy and advocacy, compared with 18% leading non-majority government funded organizations.

How executives spend their time is significantly influenced by whether their organizations are large enough to have dedicated management staff across core functions. For instance, many nonprofits with staff sizes under 25 people are large enough to have multiple programs and diverse revenue streams—leading to potential complexity in finance, human resources, and fundraising—but unable to afford senior positions in all of these arenas. In organizations of 6-25 staff members, there were only two functions for which a majority of executives reported having a senior manager other than themselves with primary responsibility, program (73%) and finance (53%).



"I need to be working with other people that identify themselves as leaders—whether it's board or staff or volunteers. You can be a leader in any of those positions. And so those are important people for me to be around. And I need time to think and be creative and feed myself."

Beyond the composition of executive jobs, the research also explored executives' views on their own leadership style and practice. A large majority of executives lead their organizations with a style that could be characterized as *shared leadership*, meaning an approach that is inclusive, collaborative, and shares leadership responsibilities with others throughout the organization. Fifty-seven percent (57%) said shared leadership very much describes their style, while 34% reported that it somewhat describes their style. Eighty-one percent (81%) of executives thought that the majority of their staff would describe them as practicing shared leadership as well. Executives also expressed confidence in the decision-making capabilities of their staffs, with 81% reporting at least one person on staff that they trusted to make important organizational decisions without consultation from them first.

Increasingly, succession planning frameworks include attention to building bench strength—the intentional development of leaders so that they may be prepared for executive leadership at their current organization or elsewhere in the sector. These data suggest that the shared leadership practices reported by many executives don't necessarily result in such organization-wide leadership development systems. Thirty-six percent (36%) of leaders said there would not be a credible staff candidate for the executive position should they leave today. While many organizations are too small to develop a deep bench, these data suggest a significant minority of large organizations have not done so either. Among executives with staffs larger than 100 people, 27% reported no credible candidate for their job on staff. The fact that 32% of leaders reported not spending enough time managing and developing staff no doubt contributes to the problem. Consistent face-to-face time with an executive is invaluable leadership development, providing insight for staff into how executives prioritize issues, process information, and arrive at decisions. Without visibility into the executive job, it is difficult for even high potential leaders to prepare to step into the executive role.

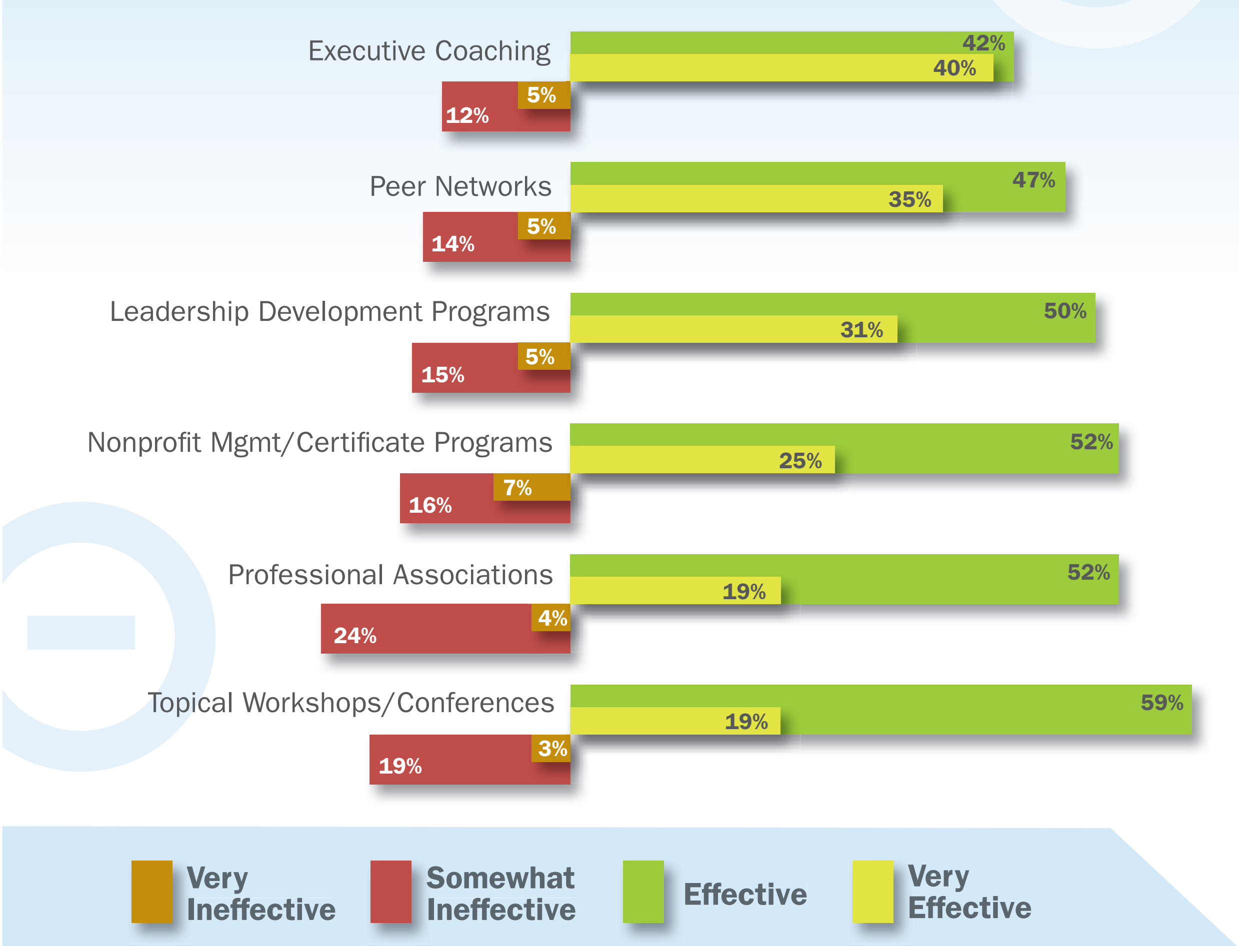
With respect to their own development as leaders, executives reported employing a range of strategies to keep learning and access support. Of all professional development strategies utilized, executives were most likely to rate executive coaching, peer networks, and leadership programs as very effective. All three of these strategies include non-didactic elements—an opportunity for skilled executives to grapple with the universal challenges of their roles and reflect on their own leadership practices in a safe environment. Engagement with peers—whether formally constituted or informally convened—was frequently mentioned as an effective way to mitigate feelings of isolation and to develop personal leadership skills.

For newer executives who are learning the ins-and-outs of the job, access to peers appears to be especially important: *"I came in as ED and didn't know: How do you*

"I have a small little support group of EDs, not necessarily in my field, where we have confidential communications about some of the challenges that are unique to EDs—working with the board, dealing with problematic staff and funding."

do a fundraising event? How do you do an annual budget? How do you do 75 other things that lots of people know how to do and have templates for? I've very successfully learned to go ask other people what I can borrow. I think that's been really great. Mentoring each other and supporting each other as EDs has been a great resource to me and a key way that I've gotten support." This was echoed by another new executive who was being mentored by a more experienced peer. She said, *"I think mentorship is probably the single most thing that helped me to feel effective because I feel like it wasn't the finance or the fund*

Effectiveness Ratings of Professional Development Activities Utilized



"It's just that we're so under-resourced that I'd much rather spread professional development around. And if there are free opportunities for me, whether it's a community event or something like that, I'm much more likely to view that as my professional development."

development stuff but more the intangible dynamics… the insight of someone who had been an ED before, they could help me to really understand and see it." In fact, 13% of executives reported that they are in an explicit mentoring relationship (as the mentor) with another executive director.

Affordability was a barrier to accessing professional development for some executives, and many saw providing for other staff as a higher priority than taking care of their own needs. Though certain funders around the country have invested in executive leadership development specifically, the majority of leaders nationally have not received such support. Eighteen percent (18%) of executives reported receiving philanthropic support for their personal development within the past three years.

Calls to **Action**

1

Influence Legislation: Engage in Policy and Advocacy

With the recession and subsequent cuts to nonprofit service providers, the absence of a collective nonprofit voice in national debate and the dearth of efforts to influence legislation are troubling. State nonprofit associations have mounted campaigns to enlist their members in such efforts and numerous reports make the case that nonprofits need to think about advocacy more broadly and connect it to the needs of their clients and their mission objectives.

- Executives can optimize the influence that their title affords them and leverage organizational resources to have a greater impact in their communities.
- Leaders should consider developing organizational strategies that incorporate activities aimed at influencing legislation, including the engagement of staff, board and clients to ensure that their voices are heard locally and across the country.
- Dedicate resources to coordinate and manage these efforts.

2

Systematize Leadership Development

It is in the best interests of executives, staff, and their organizations to put systems and structures in place to operationalize shared leadership and systematically develop staff.

- Leadership development is essential for an organization's long-term sustainability. To ensure that it is resourced, nonprofit leaders should include and protect those funds in the budget.
- Professional development plans should be integrated into all performance reviews—at every level—and adequate resources to pay for continuous skills and knowledge development should be prioritized during budgeting.
- Boards need to hold their executives accountable for good supervision and intentional development.
- Thirty-one percent (31%) of executives report that they are mentoring someone on their staff; more leaders might consider this strategy as an effective way to nurture emerging leaders.
- Develop succession plans for the executive director as well as other key leadership positions in the organization.
- Funders frequently pay for grantees' leadership development, but it is often limited to the executive. By investing in the leadership development of all staff, a funder is investing in the capacity of an entire organization. Paying for the development of an emergency succession planning process is one effective strategy to support this effort.

3

Develop a Professional Development Plan Focused on Technical Skills and Personal Support

The past 10 years in the nonprofit sector has seen a tremendous amount of attention given to the skills-building and leadership development needs of executive directors. This study now has data to better understand which professional development resources utilized by executives are the most effective.

- Funders who are not already investing in the development of their executive grantees through core operating support or capacity building grants should consider making this a regular part of their grantmaking strategy. Providing funds for coaching, workshops and conferences, and registration fees for leadership development programs are simple and cost effective ways to increase the impact of a grant investment.
- Every leader should have an articulated development plan that distinguishes between technical skills-building, knowledge development, and personal leadership development and support.
- For very individualized support, executives might consider joining an existing peer network or forming their own group, mentorship, or coaching—strategies that are low-cost and can often be done over the phone or in person.
- Those with sufficient financial resources might explore leadership development programs designed specifically for nonprofit executive directors.

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For reference purposes, please use the following citation:
Cornelius, Marla, *Daring to Lead 2011 Brief 2: Inside the Executive Director Job* (San Francisco, CA: CompassPoint Nonprofit Services and the Meyer Foundation, 2011).
All charts are available to download at daringtolead.org.

CompassPoint NONPROFIT SERVICES   Meyer Foundation

Daring to Lead 2011

A National Study of Nonprofit Executive Leadership

BRIEF 3

The Board Paradox

KEY FINDINGS

While executive directors tended to give boards relatively high marks when asked about overall performance, their responses to more specific questions often contradicted that assessment—and suggest that boards are neglecting critical governance responsibilities.

Despite these board performance challenges, most executive directors are not spending a significant percentage of their time working with and supporting their boards.

Executive directors who spend more time working with their boards demonstrate higher satisfaction with board performance.

Rick Moyers, Meyer Foundation

The relationship with the board of directors is a critical aspect of the professional life of every executive director. While boards are responsible for policy and financial oversight, they can't carry out those responsibilities in isolation—boards need information, support, and guidance from the executive director to help focus their attention and do their work. Partnering effectively with the board can be a significant amount of work for executive directors, who are stretched thin across many other responsibilities. And the board also functions collectively as the executive director's supervisor—adding yet another dimension to a complicated and sometimes contradictory partnership.

Daring to Lead 2006 reported that lackluster board performance was a significant contributor to executive director burnout and attrition. To explore the board-executive partnership in more depth, the survey for *Daring to Lead 2011* included new questions about board member engagement, the executive director's relationship with the board chair, and the amount of time executive directors spend supporting and working with the board.

The results echo and illuminate findings from the previous *Daring to Lead* studies.

Daring to Lead is a joint project of CompassPoint and the Meyer Foundation. This is the third brief in the Daring to Lead 2011 series. To see all reports and findings from the Daring to Lead national research project, visit: ***www.daringtolead.org****.*

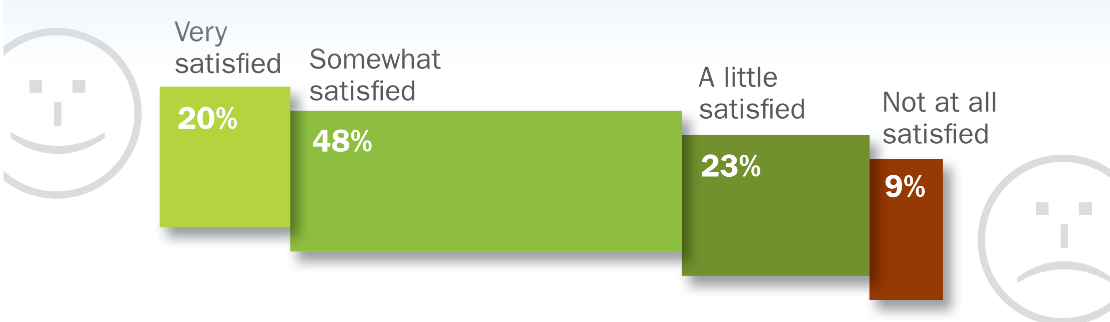
“It’s a real partnership with my current chair. A lot of chairs don’t do that; they just run the meeting while you sort of sit there. I have had a lot of chairs in 17 years, but I have never had this kind of energy and it has helped me so much.”

When asked about their boards’ performance, executive directors tended to respond positively. More than two-thirds (68%) were at least somewhat satisfied with their boards’ performance, and of those nearly 20% were very satisfied. The remaining respondents—nearly a third—were either very unsatisfied or only a little satisfied. Among all respondents, the largest number (48%) were only somewhat satisfied with board performance.

Other positive responses included the percentage of executives who felt they could be honest with their boards in sharing their mistakes (89%), and the number who believed that an ideal successor to their current board chair was already in place on the board (75%).

Most respondents felt positive about their partnership with their board chair. A majority (52%) described the relationship as functional, and a large number (38%) described the relationship as exceptional. Only a small minority (9%) reported a dysfunctional relationship.

Executives Satisfaction with Board Performance



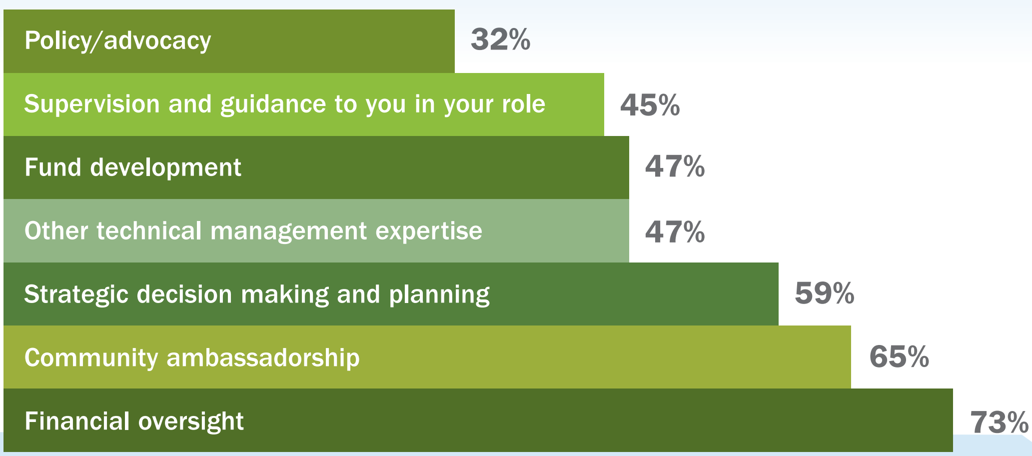
Despite executives’ many positive impressions of their boards, the survey results also revealed significant shortcomings in board performance. For example:

- Forty-five percent (45%) of survey respondents said they hadn’t had a performance review within the past 12 months—a noteworthy finding, since reviewing the executive director’s performance is one of the most basic core responsibilities of a functioning nonprofit board.
- Even among the majority of executives who did have a review within the past year, only about a third (32%) said it was either somewhat useful or very useful, with the remaining two thirds reporting that it was only a little useful (53%) or not useful at all (15%).

The survey asked executive directors to respond to the following question: *Does anyone on your current board of directors provide a significant amount of effort to support the organization in any of the following areas?* A majority of executive directors answered yes in only three of seven areas.

Nearly three-quarters (73%) of respondents reported strong support from board members in the area of financial oversight. While this number is high (and the highest reported for any area), it does not necessarily suggest increased financial sustainability. As noted in the main *Daring to Lead 2011* report and in the companion recession brief, focus group participants pointed out that financial oversight activities, such as approving the budget and reviewing the audit, don't necessarily require board members to have a deep understanding of the organization's business model and financial drivers. Without that understanding, boards are unlikely to be able to help their organizations chart a path to sustainability—despite being actively engaged in financial monitoring and oversight.

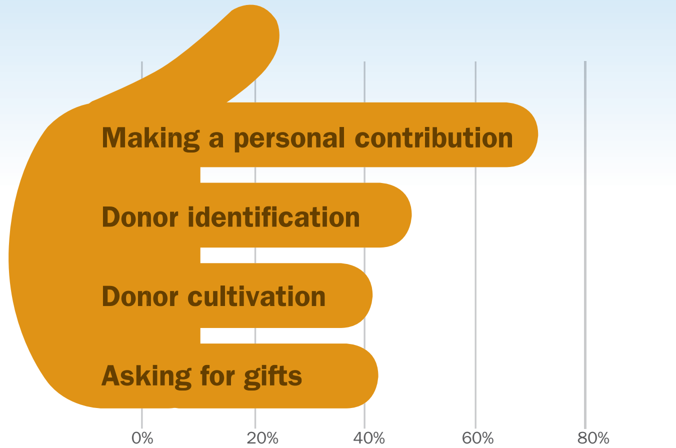
Percentage of Executives Reporting Significant Board Support by Area



In 2006, executive directors identified fundraising by an overwhelming margin as the area in which their organizations needed improved board performance. The finding was so striking that one of the goals for this follow-up study was to better understand what executives perceived as board deficiencies in this area. Because fundraising is not a single activity, and because board involvement in fundraising is primarily an individual rather than a collective responsibility, this study included a series of questions about individual board member engagement in fundraising.

When asked about board member engagement in specific fundraising activities, executives reported even lower participation rates than in other areas of board responsibility, with the exception of board members making a personal contribution (71%). Fewer than half of respondents reported strong board member participation in donor identification and prospecting (48%), asking for gifts (42%), and donor cultivation (41%)—activities frequently cited as areas in which board member participation is critical. The fact that less than half of executives report board member participation in those areas highlights a possible disconnect between the traditional view of the board's role in fundraising and the day-to-day realities experienced by executives working in partnership with boards.

Board Participation in Fundraising Activities



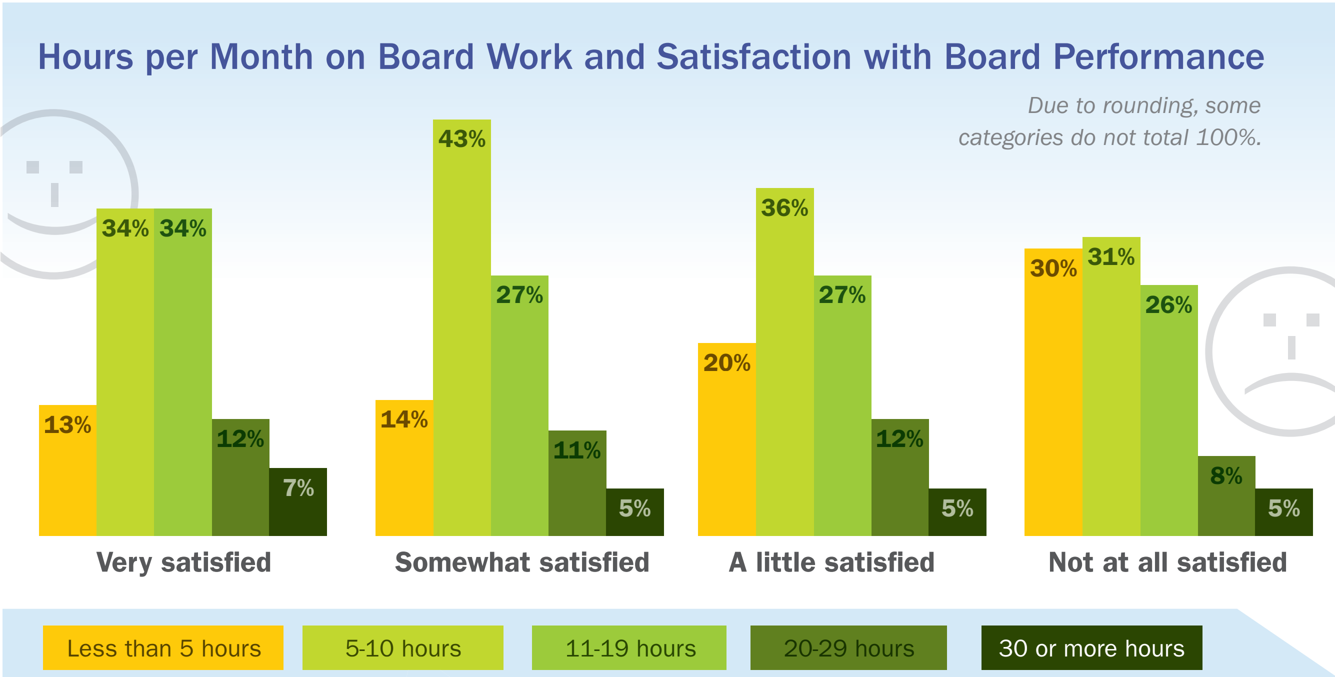
Overall, the survey results leave a mixed impression. While significant numbers of board members are supporting organizations in a variety of ways, a majority of executives report strong board participation in only a handful of areas.

Despite these board performance challenges, most executive directors are not devoting a significant percentage of their time to working with and supporting the board. The majority of respondents (56%) reported spending 10 hours or less per month on board-related activities. Ten hours may sound significant, but translates to just six percent of a full-time executive director's time. Only about 17% of respondents reported spending 20% or more of their time on the board.

"I don't think I ask my board to do enough. And I think I'm happy when they just support what I pitch to them and show their trust and say, "Yay, team. You're doing a great job. See you in three months."

More than a third of respondents (36%) said they needed to spend more time on the board. However, with the exception of program, a large percentage of respondents acknowledged that they needed to spend more time in every area about which they were asked. And the percentage of executive directors who said they should be spending more time on the board was much lower (each by at least 10 percentage points) than those who thought they should be spending more time on marketing, fundraising, networking, and public policy.

Since respondents did not characterize working with their boards as depleting or frustrating (in fact, more than 70% said they found working with the board energizing), it's not clear why more executives don't feel they should be investing more time in their boards. Perhaps executives fail to see the immediate benefit of spending more time on the board, since the activities on which the largest number of respondents said they needed to spend more time—marketing and fundraising—produce tangible results.



"I think one of the biggest problems for nonprofits is that we are so reliant on volunteers to do a lot of things that they don't actually know how to do. Despite our best efforts and their best intentions, I think it's fundamentally unrealistic to expect board members to do all we expect of them when they have busy lives of their own. So I think part of the challenge is being realistic about what they can do and what they can't do."

Although this study does not examine relative return on investment when executives spend additional time on a range of activities, it does offer evidence of a significant benefit when executives invest more time in strengthening the board. For example, there is a strong positive correlation between time spent supporting the board and executive directors' satisfaction with board performance.

Among executive directors who spend 10 hours or less per month on board-related matters, only 17% said they were very satisfied with the board's performance. Of those who spent more than 10 hours per month working with the board, 23%—nearly a quarter—were very satisfied with board performance. This correlation is evident throughout the survey results. For example, executives who spend more than 10 hours per month working with the board were more likely to have had a performance evaluation within the past 12 months, and were much more likely to report that the evaluation was very useful.

These findings highlight the paradoxical nature of the relationship between the executive director and the board. For overextended executive directors who are frustrated with weak board performance, investing even more time working

"I think the most challenging thing for me is to utilize board members well—use them in a way that keeps them connected to the organization. Not to overuse them. So it's really about knowing them as individuals and how some people are willing to give more time."

with the board may not seem worthwhile. Focus groups for this and previous *Daring to Lead* studies offered evidence that some executive directors do view their boards as a necessary nuisance, are skeptical of boards' ability to add value, and therefore put forth the minimum required effort to help the board function. However, the results of this survey suggest that time invested by executive directors in supporting and working with the board contributes to improved board performance and increased board member engagement.

Calls to **Action**

1

Invest Time in the Board

The findings in this study suggest that a significant number of executives are spending too little of their time supporting and working with their boards of directors—and that executives who invest more time in the board are more satisfied with board performance. Executives should:

- Recognize their own essential role in helping to improve the performance of the board.
- Invest time, in partnership with the board, in identifying and cultivating new board members.
- Build their own financial management skills, and provide information and context to help the board better fulfill its role in both financial oversight and ensuring financial sustainability.

2

Implement Board Practices Widely Recognized as Effective

As noted elsewhere in this study, despite decades of research and a growing body of literature about effective practices for nonprofit boards, many boards are not fulfilling their most basic responsibilities or taking even simple measures to improve their performance. Some basic steps all boards should take include:

- Creating a job description or list of responsibilities for the board as a whole, and recruiting board members who have the skill sets needed to help the board fulfill those responsibilities.
- Creating a statement of expectations for individual board members, and conducting an annual or periodic assessment to determine whether board members are meeting those expectations.
- Conducting an annual performance review of the executive director.
- Conducting periodic training for board members on how to read the organization's audit and financial reports.
- Engaging in financial or business planning to better understand the organization's financial sustainability.

3

Develop New Strategies for Strengthening Boards

Beyond changing the behavior of executive directors and boards, other stakeholders—including funders and organizations that work in capacity-building—have roles to play in advancing knowledge about board effectiveness and improving the performance of boards. These include:

- Developing improved systems for placing and training board members that can address the huge, ongoing demand for skilled and engaged board members.
- For funders, increasing the attention paid to boards and becoming more explicit in their expectations around effective governance—along with increasing the funding available to help organizations strengthen their boards.

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Moyers, Rick, *Daring to Lead 2011 Brief 3: The Board Paradox* (San Francisco, CA: CompassPoint Nonprofit Services and the Meyer Foundation, 2011).
All charts are available to download at daringtolead.org.

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