

Frequently Asked Question

The Nonprofit Chief Executive Officer

Should every nonprofit have a chief executive officer (CEO)?

Regardless of size, volunteer or staff, or title every nonprofit organization should have this function. The Boardsource book *The Nonprofit Board Answer Book* clearly articulates this fundamental issue.

“Every nonprofit organization should designate one person to function as its operational leader. That person's title does not have to include the words chief executive or chief executive officer, but the bylaws and other policy documents should identify which position carries the authority and responsibility of running the organization day to day reporting to the board of directors. The following are some reasons why:

- A board needs one point of accountability
- Staff members need to know where the buck stops
- Donors need to identify the leader
- Other external constituents need to know who is in charge
- Planning needs a facilitator
- The organization needs one spokesperson¹

What is the proper title for this person?

The title of persons leading nonprofits has changed over time. Historically that person has been known as the general secretary, director, secretary, superintendent, executive director, etc. The most common designation during the rapid development of the nonprofit sector in the mid-20th century was Executive Director. In the final decades of the century the title of President and CEO became more and more common. As the sector becomes more staff intensive and businesslike, this title tends to more accurately reflect common understanding of role and authority. The following will seek to define the role and relationship of the board of directors with regard to the chief executive officer.

What is the Board's Role in Engaging the CEO?

The board has the responsibility of hiring one person - the chief executive officer. There are four components of the employment of a CEO: engagement, support, evaluation and termination. Each is important for the success of the CEO as well as the organization.

How Should the Board Engage a New CEO?

The board of directors may be hiring the first CEO or replacing a CEO that is retiring, moving to a new position or is being terminated. Whatever the reason the board should undertake the task in the same way. The plan, activity and decision for this leadership transition should be governed by an aggressive, patient and intentional search rather than a passive seeking of applicants.

First, the board needs to develop a current job description reflecting the current organization and its environment. (See Appendix A for a sample job description.)

The board needs to delegate its authority to a Search Committee. That committee initiates a process of identifying candidates. While most nonprofits utilize volunteers in this identification

process, an increasing number of larger nonprofits are engaging search firms that have developed a nonprofit search practice. (Most major metropolitan areas search firms have developed such services and are able to conduct national searches.)

It is difficult to overemphasize the danger of this time for the organization and its future if the board does not take this task seriously. Boards all too often focus on getting “it over with” by promoting an internal candidate or informally selecting someone from the board or community. “Unfortunately, the landscape is littered with the results of poorly planned and managed leadership transition. Diminished careers, disillusioned boards of directors, dysfunctional management teams, bewildered constituents, and all too frequently cynical public reaction flow from an inept transition.”² We urge the board leadership to expend resources and seek assistance. That assistance can facilitate the interview of candidates including review of credentials, experience and performance.

When the board makes a decision there are two forms of engagement - letter of engagement or contract. The latter is a legal agreement between the board and the CEO usually for a fixed term of time. The former outlines the terms of employment without a time limit. The primary advantage of a contract is a built in review of the contract with potential of non-renewal rather than the difficult volunteer task of evaluation and involuntary termination. While both forms of engagement are practiced with success, we believe a letter of engagement with strong support and evaluation provides for a collegiality that strengthens the working relationship and the organization.

Appendix B contains a sample letter of engagement. It should be noted that it not only sets forth compensation and beginning date, but also the critical elements of **support, evaluation and termination**.

How does the board carry out the support component?

While the term “support” describes the entire relationship between board and CEO, it is used here to describe specific commitments of the board as it delineates the conditions of employment as well as the dynamic commitments during the time of employment.

The following outlines critical components of this support:

- The compensation and benefits established in the employment of the CEO need to be carefully articulated in the letter of engagement and reviewed on a regular basis. Those benefits should reflect a current survey of what is appropriate for this position in the marketplace as well as being in line with the organization's resources.
- It should be cleanly established that the Chair of the Board is the CEO's direct supervisor and as such both persons should set up the mechanisms for a successful and dynamic relationship.
- The board through its job description and training agrees to fulfill its other nine responsibilities as outlined in the FAQ about Governance and Boardmanship.
 1. Vision and Mission
 2. Policy
 3. Strategic Planning
 4. Fiduciary

5. Resource Generation
 6. Community Liaison
 7. Government Relations
 8. Board Development
 9. Leadership
- The board should commit to a regular evaluation of the CEO as a way to support growth in the job. (The board is well advised to have a conflict resolution process in place while there is no conflict.)
 - The board will establish a succession planning process to assure an appropriate board response when the inevitable occurs - the CEO leaves.

Each of these will ensure that the working relationship between board and CEO will be collegial rather than separate at best and adversarial at worst.

How should the board evaluate the CEO?

The board should conduct an annual evaluation of the CEO. The CEO should be an active partner through self-evaluation. In addition the job description and the CEO's annual work plan are primary documents utilized in this review. Many boards have developed a method of getting input from the various constituents of the organization including supervised staff. The formal method of doing this is called a "360 review." There are excellent instruments available through Boardsource and other national resources. (See additional resources at the end of this FAQ.)

Normally, the Executive Committee conducts the evaluation. It is all too common that the Executive Committee or (worse) the chair does not share the evaluation and compensation level with the board. Such lack of transparency is not in the best interest of the organization, board or CEO. It is important that the evaluation be shared with the full board.

For larger nonprofits we would suggest they utilize outside expertise in conducting the evaluation. If they contract with a firm to do an annual independent audit why not utilize a human resource firm or qualified consultant to conduct the CEO review?

In Appendix C there is a sample process and form taken from the Free Management Library website (<http://www.managementhelp.org/>). The material was written by Carter McNamara, MBA, PhD, Authenticity Consulting, LLC. Copyright 1997-2008 and adapted from the *Field Guide to Developing and Operating Your Nonprofit Board of Directors*.

The issue of termination of the chief executive officer

A nonprofit board must be prepared for the inevitable - the departure of the CEO. That departure can take several forms - retirement, illnesses, job change, and forced resignation. In speaking to a national conference about executive transition, Frances Hessilbein emphasized that succession planning should begin on the CEO's first day. Few things throw a nonprofit more than the sudden departure of a CEO and the board should have a plan in place to cover several crucial issues.

- The board needs to have clarity of expectations so that in the event of a planned or unplanned departure there is clear delegation of responsibility and authority for who does what.
- Once the operational aspects of the organization are in place the board needs to do a thorough self-assessment.

- As a part of the annual evaluation of the CEO there should be review of the CEO's future plans seeking to minimize surprises.
- Finally a succession plan should detail the necessary steps to undertake an emergency transition plan.
- The process for the search for a new CEO should also be laid out in the succession plan.

A good succession plan can help the board maintain its appropriate role of governance so that it can stay out of assuming management responsibilities. Or if circumstances dictate the necessity of taking on management responsibilities the plan will help the board (or Chair) back out when a new CEO begins.

Conclusion

The issues involved in the topic of the “Nonprofit Chief Executive Officer” are numerous and complex. We would urge organizations to be proactive in education and training for its CEO and board. The ASU Lodestar Center offers courses through its Nonprofit Management Institute as well as topical workshops. The Center is developing a symposium for CEOs and Board Chairs that will be a valuable resource. In addition there is a wealth of literature on the internet and in print. Some of that is listed as Additional Resources at the end of this FAQ. When considering how dynamic this issue is consider the following:

“If your organizations are changing - and they are,
 If the CEO role is changing - and it is,
 If the role of the board chair and the board itself is changing - and it is,
 Then it is totally logical to assume that the relationship between the CEO and the board is changing too.”³

Notes:

¹The Nonprofit Board Answer Book: Boardsource, Jossey-Boss, San Francisco. 2007 p 231

²Hesselbein, Frances Hesselbein on Leadership (Jossey-Bass: San Francisco, 2002) p. 42.

³Peter Goldberg, President of the Alliance for Children and Families, speaking at a Board Chair/CEO Institute, February 7, 2009.

Related Resources

- Boardsource *The Nonprofit Board Answer Book* (John Wiley and Sons, Inc: New York, 2007)
- The Web site of Boardsource. Inc <http://www.boardsource.org/>
- National Council of Nonprofit Associations: <http://www.councilofnonprofits.org/>
- Free Management Library website. Carter McNamara, MBA, PhD – www.managementhelp.org
- Hesselbein, Frances *Hesselbein on Leadership* (Jossey-Bass: San Francisco, 2002)
- Wilbur, Robert H. ed. *The Complete Guide to Nonprofit Management* (John Wiley and Sons, Inc: New York, 2000)

- *The Jossey Handbook of Nonprofit Leadership and Management* (Jossey-Bass, San Francisco, 2004)
- ASU Lodestar Center website - http://www.asu.edu/copp/nonprofit/index_lodestar.htm
- ASU Lodestar Center website for Nonprofit Management Institute - http://www.asu.edu/copp/nonprofit/edu/nmi_front.htm
- Tierney, Thomas “The Leadership Deficit” Stanford Social Innovation Review, Summer 2006
<http://www.ssireview.org>

(This article “Should every nonprofit have a chief executive officer (CEO)?” has been developed by the many persons and organizations seeking assistance from the Lodestar Center for Philanthropy and Nonprofits Innovation. We invite you to add your questions and reactions through the “Ask the Nonprofit Specialist” section of the center’s website so that we might improve and expand these FAQ.)

Appendix A - Sample Job Description

Sample Job Description for Position of Chief Executive Officer

(The following job description should be reviewed and customized by an organization to meet the needs and nature of the organization.)

Job Title:	Chief Executive Officer
Function:	<ul style="list-style-type: none"> • To implement the strategic goals and objectives of the organization • With the chair, enable the Board to fulfill its governance function • To give direction and leadership toward the achievement of the organization's philosophy, mission, strategy, and its annual goals and objectives
Reports to:	Board of Directors
Major Functions/ Accountabilities:	<ol style="list-style-type: none"> 1. Board Administration and Support -- Supports operations and administration of Board by advising and informing Board members, interfacing between Board and staff, and supporting Board's evaluation of chief executive 2. Program, Product and Service Delivery -- Oversees design, marketing, promotion, delivery and quality of programs, products and services 3. Financial, Tax, Risk and Facilities Management -- Recommends yearly budget for Board approval and prudently manages organization's resources within those budget guidelines according to current laws and regulations 4. Human Resource Management -- Effectively manages the human resources of the organization according to authorized personnel policies and procedures that fully conform to current laws and regulations 5. Community and Public Relations -- Assures the organization and its

	<p>mission, programs, products and services are consistently presented in strong, positive image to relevant stakeholders</p> <p>6. Fundraising (nonprofit-specific) -- Oversees fundraising planning and implementation, including identifying resource requirements, researching funding sources, establishing strategies to approach funders, submitting proposals and administrating fundraising records and documentation</p> <p><i>Job description last revised and authorized by Board: [insert date!!]</i></p>
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The above sample description is taken from the Free Management Library Web site. Carter McNamara, MBA, PhD – <http://www.managementhelp.org/>

Appendix B – Sample Engagement Letter

Dear _____,

Is it our pleasure to offer you the position of (title) of (organization’s legal name) beginning on (date). The formal job description outlining title, function, and accountabilities is attached as part of this letter of engagement. The board has carried out a thorough search and decision making process. In making this offer it wishes to pledge itself to the following three components of the organization’s relationship to you as chief executive officer.

Support:
Your beginning compensation shall be (amount) annually. The board shall review your compensation on an annual basis. In doing so the board shall take into account performance, organizational resources and appropriate compensation levels in the market.
In addition the organization shall provide support through the following benefits: (Sampling: vacation, sick leave, expenses, professional development, bonus, retirement, etc.)
The Chair of the Board shall provide direct supervision and communication with the rest of the board.

The board will carry out the responsibilities of the board in support of those the organization serves, staff, volunteers and CEO. The board pledges to support and participate in board training as well as board evaluation as a means of ensuring this commitment.
As is appropriate in a change in leadership the CEO shall work with the board in initiating and completing a strategic planning process within one year.

Evaluation:
The board will conduct an annual performance evaluation. The evaluation will utilize your accepted work plan, self-evaluation, and feedback in providing an evaluation that endeavors to recognize accomplishments and areas of future growth. Where growth issues are identified the board pledges to work with you in developing professional and person growth plans that will help you succeed. The evaluation will be shared with you and the full board.

Termination:

In offering this letter of engagement the board recognizes that succession planning needs to be in place throughout what we hope will be a long and prosperous relationship between you and the organization.

Therefore the board will develop with you a succession plan that will include the following:

- The identification of a person or persons who will be available to provide leadership in the event of your absence.
- The identification of a process of professional development of staff who may one day succeed you or other officers of the organization
- The plan for normal operations and authority in the event of a sudden unexpected loss of key leadership including volunteer leadership.
- The process for the board to initiate in the event of your permanent departure as CEO.

The Chair and CEO shall be jointly responsible for the development and presentation of this succession plan to the board within six months of the beginning of your engagement as CEO. The term of this engagement shall not be fixed and your service shall be at the pleasure of the Board of Directors. If you accept the terms and intent of this letter of engagement please sign one copy and return it to the Chair of the Board.

Sincerely yours,

(Name), Chair

Accepted: _____ Date: _____

Appendix C – Sample Evaluation Form for CEO

This sample should be customized to the particular culture and purpose of the agency by modifying the performance criteria (in the following table) as appropriate for the organization, inserting those criteria in the table below, and conducting the evaluation using the updated table.

Directions:

1. The Board establishes a policy for evaluating the Chief Executive and establishes a current or ad hoc committee to carry out the evaluation. See "[Guidelines for the Board's Evaluation of the Chief Executive.](#)"
2. Board, working with the Chief Executive, establishes performance criteria and inserts them in the table below. References organizational goals and the Chief Executive's job description.
3. The Board assigns specific weighing factors for each of the major categories below. Factors depend on what the Board believes should be priorities for the Chief Executive during the evaluation period. The factors should total 100%. Example weightings might

be finances 15%, revenue 20%, human resources 15%, products/programs 20%, facilities 10%, planning and governance 20%.

4. Each Board member and the Chief Executive complete the table below about the Chief Executive's performance during the evaluation period. Each criteria is ranked from 1-5, with
1 = Unsatisfactory, 2 = Partially within expectations, 3 = Meets expectations, 4 = Exceeds expectations, and 5 = Far exceeds expectations. This numerical ranking system tends to give perspective more than commentary. Rankings with commentary is ideal.
5. Multiply each ranking by the category's weighting factor. Put the answer in the score column.
6. On a separate sheet of paper, provide any commentary that addresses rankings below 3. Consider adding commentary for high ratings as well.
7. Provide evaluation sheet and commentary to the Board member who is assigned to collate the sheets (usually the Board Chair).
8. The Board may decide to provide the Chief Executive an average ranking for each category. Similarly, commentary can be summarized or each comment provided to the Chief Executive.
9. The evaluation committee provides the evaluation report to the Chief Executive and schedules a meeting with him or her shortly thereafter.
10. Ensure the meeting is update and ends on a positive note.
11. Ensure plans are made to address ratings below 3, including specific actions by specific dates.

Sample Basic Form for Evaluating Chief Executive

Name of Preparer	Ratings	Weight Factor	= Score
<p>Finances, consider:</p> <ul style="list-style-type: none"> • No loss of operating funds; no prolonged legal difficulties • Develops realistic budgets and stays within them • Maintains needed cash flow • Receives a "clean" financial audit <p>Comments:</p>			
<p>Revenue, consider:</p> <ul style="list-style-type: none"> • Raises enough revenue to accomplish significant program goals and maintains or builds a financial balance keeping with organizational policy <p>Comments:</p>			
<p>Human Resources, consider:</p> <ul style="list-style-type: none"> • Maintains or increases productivity of staff • Maintains sufficient and effective volunteer corps(<i>nonprofits</i>) • No undue staff turnover; no ongoing personnel complaints <p>Comments:</p>			

<p>Products/Programs, consider:</p> <ul style="list-style-type: none"> • Maintains or expands programs per plans • Program evaluations demonstrate effectiveness • Meets yearly program goals and objectives <p><i>Comments:</i></p>			
<p>Facilities, consider:</p> <ul style="list-style-type: none"> • Maintains professional surroundings and safe working environment <p><i>Comments:</i></p>			
<p>Planning and Governance, consider:</p> <ul style="list-style-type: none"> • Has in place a clear mission statement and strategic plan • Maintains an active Board that provide good governance to the organization <p><i>Comments:</i></p>			

Please note that websites frequently change and while we endeavor to keep links current, some might not work. When you encounter such a problem you can help us by sending an e-mail to robert.duea@asu.edu so that we might investigate and make changes to our information and links.

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