



HOW TO FIND THE RIGHT CEO FOR YOUR NONPROFIT: Finding and Selecting an Executive Search Firm For Small-to-Midsize Nonprofit Organizations

By David S. Martin

***Author's Note:** This article is aimed at helping Board Members who need to find a new Chief Executive Officer to lead nonprofits with operating budgets in the \$1 million to \$10 million range. For purposes of this article, we have used the term Chief Executive Officer (CEO) throughout to describe the executive. Alternate titles might include President or Executive Director.*

INTRODUCTION

Recent research confirms a current and upcoming wave of CEO retirements from nonprofit organizations of which many nonprofit boards are already aware. That is, many nonprofit CEOs are already in the process of retiring or have plans to do so in the next few years. In their 2011 follow-up study to the 2006 report, *Daring to Lead*,¹ co-authors Maria Cornelius, Rick Moyers, and Jeanne Bell surveyed 3,000 executive directors in the U.S. and found that 7% have already given notice and 67% anticipate leaving within five years.

While having a solid succession plan in place may be the most desirable way to fill the CEO spot, many smaller nonprofits either do not have the “bench strength” of senior staff who can be promoted into the top job, or many qualified senior staff simply may not be interested in taking over the executive role. Filling a top-level job with an outside hire can be a somewhat complex, time-consuming process which is why, increasingly, nonprofits are seeking the assistance of a professional executive search firm to help them replace the CEO. Hiring the right firm will broaden your pool of candidates, provide you with valuable market information and greatly assist in your management of the search process. A thorough process by the firm will introduce candidates beyond those who simply “apply,” thereby increasing the number of high quality candidates from which to choose.

¹ *Daring to Lead* | A joint Project of CompassPoint Nonprofit Services and the Meyer Foundation, 2011.

GETTING STARTED

If you are a smaller nonprofit with a relatively small budget and staff, and you have decided to hire a firm to assist with your search, where do you start? With some 6,000 executive search firms located in the United States, the selection process can be a little daunting. Some boards take the approach of contacting someone they know who is in the recruiting business, focusing more on the relationship with an individual or firm rather than on the search firm's specialty or expertise. But selecting an executive search firm on this basis often leads to unsatisfactory results.

Decisions about selecting executive recruiters should not be based on an internal stakeholder's relationship at the expense of finding a firm with nonprofit sector expertise. Boards and search committees sometimes make this mistake. Nonprofits are unique organizations, and many search firms in the United States (and globally) have either never conducted a search for a nonprofit organization, or they devote a very small amount of their energy to this area. And even though a firm may specialize in working with nonprofit *clients*, that doesn't mean they will necessarily restrict their search to finding only nonprofit *candidates*. Boards are increasingly considering different types of experience in their leadership.

One of the most important aspects of evaluating a search firm is whether or not they have expertise in the nonprofit sector. After all, you're selecting a partner to help you find an executive who has the right skills, background, character, and dedication to lead your organization for years.

So in searching for and selecting a firm in today's world, you will want to do some objective Internet research to find a well-qualified firm that has experience in the nonprofit sector. But there are several additional approaches to also consider. For example, your organization's current or outgoing CEO may have developed relationships with some firms and are aware of those that work in the nonprofit space. In fact, it's a good practice for CEOs to cultivate these relationships during their careers. You might also ask each governing board member to identify a list of four to five firms. Using this approach, some firm's names may be mentioned several times. Also, organizations such as the American Society of Association Executives (ASAE), The Riley Guide, and the American Council on Education (ACE) list on their websites search firms that specialize in working with associations, nonprofit organizations and educational institutions.

SEARCH INDUSTRY OVERVIEW

As with other professional services fields such as accounting and law, the field of executive search has a "Big Five" of international firms, as well as many other medium-sized firms or smaller "boutique" firms that specialize in specific industries or even functional areas. (*Full disclosure; this author previously worked for Korn/Ferry International, the world's largest firm.*) As a practical matter, for many smaller nonprofit organizations, using one of the larger, international firms may simply not be financially feasible. And although there are many fine search professionals in the larger firms, they do tend to focus their work with larger organizations so you may find you won't get the level of attention you would hope for – we'll

focus on how search firms set their fees in a minute. The big firms have “specialty practice” areas such as association/nonprofit, financial services, information technology, etc., so obviously you want to be working with the partners who know your area.

LOCAL OR NATIONAL

Another consideration is whether to use a local firm in your area or one located in another city. The answer is a definitive “it depends.” As in virtually every other field, technology has had a significant impact on the way search firms go about their work. The ability to identify, contact and interview almost anyone, anywhere in the U.S. or globally, has been made infinitely easier through the use of Internet-based research tools, databases, social media, organization websites, and the like.

THE FIRM’S NATURAL NETWORKS

Boards would probably be better off focusing on asking about the search firm’s “natural networks;” that is, is the firm doing a lot of work with other clients that are somewhat similar to yours? If so, this gives the firm a big head start in the search process. They are also more likely to have an understanding of the unique operations of nonprofit organizations; they are more likely to have worked with volunteer boards; and they are more likely to understand the mission-focused concept.

For example, if you are a nonprofit organization with a \$5 million budget located in Austin, TX seeking a new CEO, do you go with a search firm located in Chicago that specializes in conducting nonprofit CEO searches on a national basis, or do you select a local Austin-based firm that primarily conducts searches for engineers in the energy sector? This author would strongly argue that you should go with the former. Or do use the services of board member’s friend who runs a temporary staffing agency in your area, or do you go with a specialist nonprofit search firm located in New York? Again, we would argue that you should go with the specialist firm because they; 1) have expert knowledge of the unique nature of nonprofit organizations and boards, and 2) likely have a network of contacts or the ability to access those networks better and faster than the other two firms provided in the above examples.

UNDERSTANDING FEES: PROFESSIONAL FEES/BUDGET REQUIRED IN EXECUTIVE SEARCH

Professional fees charged by search firms can vary quite widely, so below we provide some general, rule-of-thumb guidelines.

The “industry standard” fees are 1/3 of the first year’s total compensation for the executive being hired. For the purposes of nonprofit organizations where bonuses vary widely or are nonexistent, “total compensation” would be considered the first year’s salary and generally would not include benefits such as health insurance, vacation, deferred compensation, etc. For example, under this pricing scenario, if your executive is hired with a base salary of \$150,000, your total professional fees would be approximately \$50,000.

As you might imagine in a competitive marketplace, there can be quite a variation on this pricing, ranging from different percentage levels of the compensation (i.e. 30% vs. 33-1/3%) to flat fees and hourly rates. However, the above can serve as a guideline. If you see something that is dramatically different from this, be sure to review very carefully the services being provided. Many firms charge a minimum fee, which is self-explanatory but something to be aware of.

Another area where we find a lot of confusion with clients has to do with “when the fee is paid,” i.e., is it retainer-based, or is it contingent upon the successful hiring of the candidate.

RETAINED FIRM OR CONTINGENCY: THE DIFFERENCES

Generally, the retained search firm is “retained” by, or under contract to the client organization on an exclusive basis to conduct a search to find qualified candidates for a specific position, usually at an executive level of the organization. Before the search begins, the client nonprofit organization may review multiple proposals and interview several firms before selecting one firm to conduct the search. Once selected, the client pays a portion of the search fee up front (typically one-third of the total fee) as an initial retainer to get the search started. The standard terms for the larger firms are generally described as “a third, a third, a third,” meaning, 1/3 of the total fee paid up-front to get started, 1/3 paid at 30 days and the final 1/3 paid at 60 days.” The variations proceed from there in terms of payment schedule, percentage, etc.

Paying a retainer fee is obviously an important consideration because the nonprofit is making a substantial financial commitment to the search firm. In turn, the search firm makes a resource commitment to the nonprofit in the form of expertise, databases, research, interviewing time, professional staff, etc., to find well-qualified candidates for the nonprofit client. The relationship is, and should be, a serious one and also a real partnership. You, the client, have committed financially, and the firm makes a commitment to find stellar candidates to complete your search.

An alternative arrangement is where the fee is based contingent upon successful hiring of the candidate, or “contingency.” This is not an approach we would recommend for a CEO level search, although there are high-quality contingency firms in the marketplace. You might think of it more along the lines of having different tools in your toolbox for different jobs.

On the surface, making no up-front financial commitment may seem like a logical alternative and approach, but in making no financial commitment to the firm, they also have no particular commitment to you, the client. It’s kind of a no-strings-attached approach, and either party can walk away. So if the position becomes too difficult to fill, or the firm runs out of candidates in its database, then what? Where does that leave you in terms of filling your position?

Furthermore, the contingency approach really provides an incentive to the firm to present “volume over quality” because if the firm presents enough candidates to the client, hopefully, one will eventually “stick.” We don’t want to delve too much further into this aspect of conducting a search, as it is probably a topic for another article in and of itself. Suffice it to say that for a CEO or other “C-level” search, using a retained search firm is the better tool for the job.

In addition to the professional fees, clients should expect to see the following in a search firm contract: Reimbursement to the firm for out-of-pocket expenses such as travel, lodging or meals associated with the search; advertising expenses if you have asked the firm to post the position (some organizations, such as universities, have a legal requirement to publicly post open positions); and indirect expenses. “Indirects” are administrative overhead fees that some firms charge for such items as faxing (does anyone still do this?), courier services, printing and other administrative support items. *(Tip: these indirect fees can often be a good item for negotiation with the firm.)*

Frequently heard comments regarding search fees are often along the lines of, “That’s a lot of money!” or “I didn’t know the fees were that much!” Thought about in the longer term, hiring the right CEO can dramatically benefit the organization, making the fees seem a relatively inexpensive investment. Similarly, NOT hiring the wrong CEO can also save your organization a lot of expense and problems. Beyond this, of real value in using a knowledgeable, expert firm in conducting your search (and often one of the primary reasons to utilize a firm) is that they are going to surface candidates who would not otherwise have applied for your position if you decided to just post it and see who responds. An experienced, top-quality firm gets to know your organization inside and out at the start of the search and can attract stellar candidates who didn’t know about the search or had made any plans to consider applying for your position. In short, they convert the “un-candidate” into a candidate. The process is really somewhat of a courtship, with you the client in a partnership with the firm to seek out and attract the very best.

WHAT TO EXPECT FROM THE FIRM

The services can range somewhat widely among search firms, so you will want to get a full written proposal from them providing not only details of the fees, but also an overview of their process and services provided.

For example, you will need a well-developed position description (PD) to present to potential candidates and sources. If you don’t have one already written, or an older one needs to be updated, the search firm should be able to help you with that. Between previous position descriptions the firm has used for other searches and other PDs that are readily available on the Internet, a draft position description can be developed by the firm as a good starting point. Then, as the firm conducts interviews with the search committee members and senior staff at the start of the search, specific position requirements and responsibilities can be added to the draft to make it a more customized document for your CEO position.

The position description should provide a good summary overview of the organization. Make it accurate but also exciting so it will help attract top candidates! It should provide an overview of the position responsibilities and then go into more detailed bullet points about specific responsibilities. A good PD provides a solid description of the experience required for the successful candidate as well as educational or certification requirements. It should also conform to Federal legal standards such as having no references to desired age, gender reference, marital status, etc.

OTHER INFORMATION THE FIRM SHOULD PROVIDE

Since you have selected a firm that has experience conducting searches similar to yours, they should provide you with an overall assessment of the marketplace – what the compensation levels are and how the “talent marketplace” is looking. The firm should also provide an assessment of challenges you/they may face in recruiting top candidates.

For example, is the outgoing CEO the founder of the organization? Or have they been in place for 20 years? Potential candidates want to know what they are getting into, and there are plenty of candidates who accepted a CEO job following a founder, only to find out the board and staff may not have been prepared for any changes.

With regard to how the search process is proceeding once underway; the client should expect regular updates from the firm. Ask them how and how often they plan to provide updates, or let them know how you would prefer to be updated. Ask what information they provide in their updates. (Since you are a savvy buyer, you may have already asked them this information during the initial proposal review process!)

It goes without say that you should expect to interview already carefully screened, well-qualified candidates who meet or exceed the position requirements and qualifications. Beyond this, a *critical* component of a successful search takes place behind the scenes during the search process well before interviews with the search committee. What I am referring to is the ongoing communications that are taking place between the candidate and the search firm that lead up to the interview process with the search committee. Often, in fact, candidates almost always have questions about a range of issues regarding the search process and your organization. This is an area where search committees can question a potential search firm more deeply, to gain an understanding of how they interact (and with whom from the firm) with candidates on an on-going basis.

But beyond questions about the organization and the CEO position, candidates are likely thinking about issues related to their current job that effect their timing and ability to accept an offer if one is extended. There may be issues around their family situation – kids in certain schools, spouses/partners who can’t relocate, homes that will have to be sold and a myriad of other issues that a candidate may not feel comfortable discussing with a potential employer.

PITFALLS OF RIDING SOLO

Here is a common scenario: Quite often we hear that an organization decided to conduct a search on their own without a firm, and they were able to identify a candidate that they liked. But when they extended an offer to the candidate, it was turned down because there was some behind-the-scenes issue that the organization was either unaware of or thought could be overcome. Thus, all the time and energy invested by the search committee is wasted with an unsuccessful result. A really good recruiter will have their antennae highly attuned to these candidate issues and provide advice on how they might be successfully addressed, or if they are insurmountable, pull that candidate from the process so as not to waste everyone’s time with someone who was not seriously ready to make a job change.

Additional services the firm should provide include conducting reference checks on finalists; where they speak with former employers (not relying on reference letters) such as board members, staff who reported to them, possibly funders and so on (i.e., people who interacted with them on a day-to-day basis). Separately, ask the firm about background checks, which are distinct from references, in that the firm checks and verifies such areas as academic degrees and conducts credit and criminal background checks. Making formal inquiries in these last areas requires, under Federal law, that the candidate sign a release form giving permission to the firm to make checks into these areas.

Lastly, the firm should provide logistical support and take the lead in managing the whole search process from start to finish. Many firms will assist in developing interview questions for the search committee and participate on-site in the interview process with the committee to provide consultation and logistical support.

CONCLUSION

Hiring the CEO is an investment in your organization's future, and you want to get it right the first time. There is a growing trend for nonprofit organizations to utilize the services of a professional search firm to assist in conducting their CEO search. Beyond the usual reasons nonprofits use search firms such as the screening and interviewing of candidates, a top-quality, expert firm will identify and attract a broader range of candidates to the process beyond those who simply "applied." The firm should provide valuable market information, provide on-going support, and help to ensure that the search process moves ahead deliberately and on track with a search plan defined at the start of the search. The experience, networks, and impartiality that an executive search firm can bring to the process will help to ensure that the ideal candidate is attracted to your organization.

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