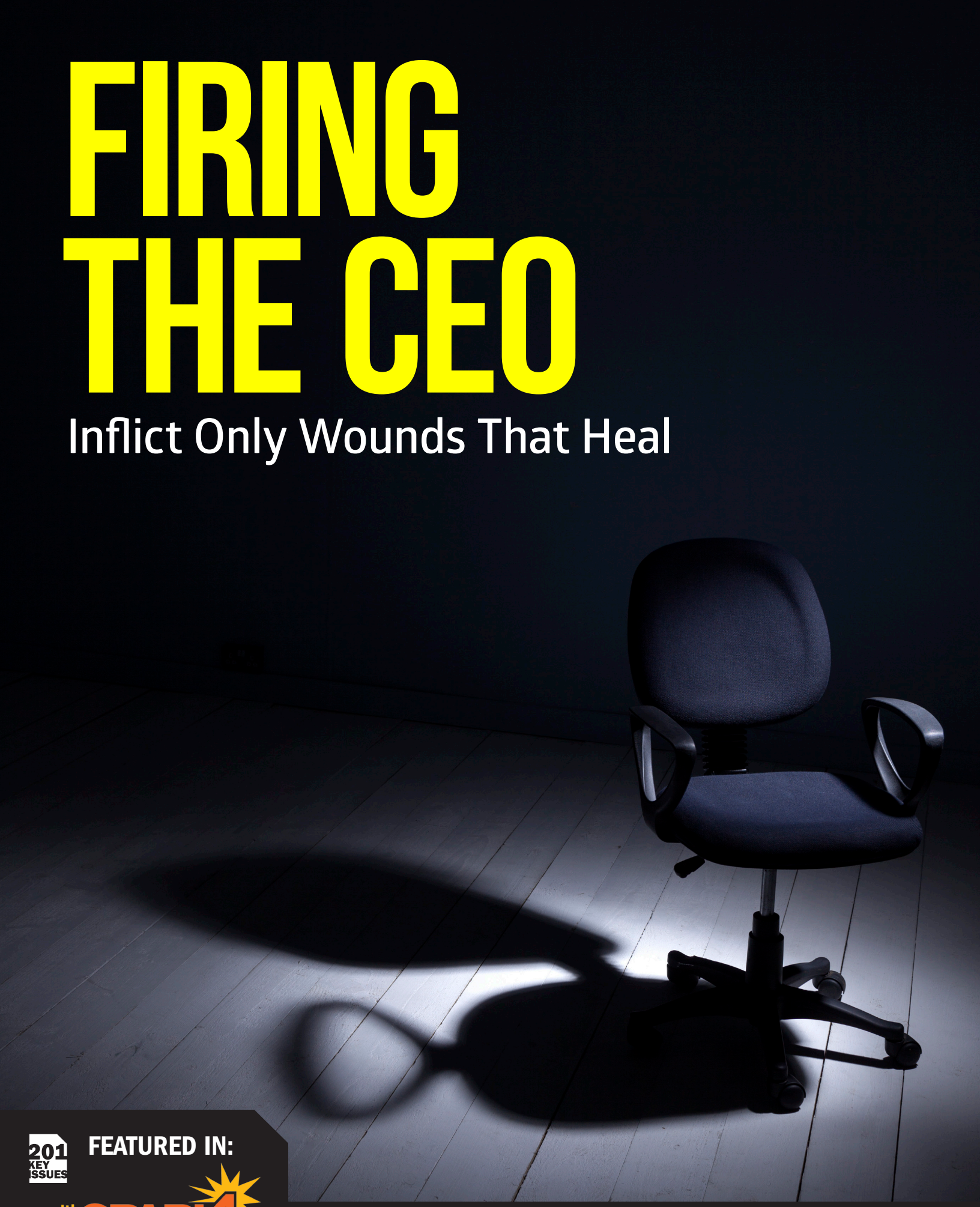
FIRING THE CEO

Inflict Only Wounds That Heal



201 KEY ISSUES

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When a nonprofit board faces the painful decision to part ways with its chief executive — whether it be through an immediate dismissal, a coached resignation, or a forced retirement — it is often guided more by urgency, fear, and discomfort than by organizational or personal values. And, for that reason, it can do great and unnecessary damage to the organization.

Having spent 20 years serving as an interim chief executive for nonprofits in major transitions, I have often followed a CEO who was fired. I have been the beneficiary of separations handled with wisdom, respect, and delicacy, and I have had to struggle through the opposite. This article represents an effort to share with readers some suggestions on how best to manage a separation derived from both experiences.

Mission. Integrity. Clarity. Accountability.

On my first day in the corner office at one client organization, two senior staff members walked in, saw me sitting at their beloved former chief executive's desk, and broke into tears! Conversely, I have been greeted by senior personnel who actively campaigned for the removal of their CEO, but instead of being relieved, they were afraid that they would be next.

These types of experiences, as well as others, have led me to conclude that a decision to fire a CEO cannot be contemplated, much less implemented, without pain. The good news, however, is that I also believe that the board can pursue both the deliberation and the implementation in a way that serves the organization's mission, embodies the highest integrity, enhances organizational clarity, and embraces and enforces full accountability. By honoring that simple template, the board is likely to inflict only wounds that heal and, in healing, leave the organization stronger.

Mission and Integrity

Some of the most hurtful, disrespectful, and diminishing dismissals I have observed have occurred at organizations with explicit commitments to fairness, respect, and even nurturing. How can that be? Often, it's because the board did not look to its values statement for guidance. Almost invariably words like "respect," "dignity," and "honor" are present, along with words describing the board's duties of care and obedience as they relate to the organization and its mission.

As noted throughout this article, I believe much damage can be avoided if an organization's own values, as well as simple fairness and respect, are brought to bear, from start to finish, on this difficult process.

Clarity

Sometimes, the possibility of dismissing the chief executive surfaces in response to a major organizational setback, such as an unexpected and alarming budget shortfall, an allegation of illegal or disreputable behavior, or a serious programmatic failing. Such causes usually (and should) prompt an emergency board meeting.

Often, though, the possibility of dismissal creeps up incrementally and is first discussed by two or three board members in unofficial conversations. These conversations should also lead to a meeting of the board. A change of CEOs should not be deliberated at any length in small groups. The board is a body that makes decisions collectively and this critically important decision requires collective deliberation.

Counsel. To help achieve this clarity, I strongly urge all boards to consider engaging a strong human resources attorney as soon as dismissal becomes a serious possibility. It usually won't be necessary to include counsel in every hour of deliberations, but he or she should help map out a deliberation process and be accessible whenever the board deliberates on this issue. Select carefully — your attorney may be the only expert and the only dispassionate party in the dialog. His or her good judgment, good equanimity, and good values matter as much as his or her good legal skills.

And, as the attorney will tell you, the board needs to review all relevant documents very early in the process. These documents may range from employment contracts, to offer letters, to performance evaluations, to internal policies, to official and unofficial communications with the CEO. If a board member ever sent an angry note saying, "I'll see you

fired for this," you want to know that right away. In the interest of fairness and of minimizing liability, identify the constraints these documents impose and work within them.

Timeliness. If the wounds of the dismissal process are to heal, arriving at clarity may require hours of deliberation but ordinarily not weeks of indecision. I have seen boards stretch firing decisions out over many weeks or even months, sometimes from fear of constituencies and sometimes from sheer internal indecision. Frequently, this allows for a leak of information. But even if confidentiality is maintained, constituents usually sense, over time, that something is afoot. This sometimes makes the chief executive so miserable that he resigns or behaves badly, which may help justify the firing but tarnishes the process. Delays also often damage staff morale, undermine the effectiveness of the organization, and can personally debilitate the chief executive. Further, they also sometimes give rise to bad behavior in board members, which may strengthen the bargaining position of the outgoing CEO, who will cite it in threatening, or filing, a law suit.

The board should set a reasonable timeframe — denominated in days, not months — for making the decision. If it does not find both grounds and votes for the dismissal, it has an obligation to rally around the chief executive, clarifying expectations with him or her and offering its full support. If the chief executive stumbles further, then the process can be repeated. It cannot responsibly be protracted into an act of attrition.

Please note, however, that while the process should not stretch out on the calendar, it usually requires a substantial investment of the clock. Give it its due.

At some point in the discussions, the idea of firing the CEO may gain a special momentum. This may lead to the right decision, but it is also a dangerous juncture, as the board comes to see the potential firing as evidence of its strength and decisiveness. Subtleties get lost. Words can become angry, even arrogant, and overheated. Documentation gets sloppy. Momentum builds. An illusory clarity presents itself. It is precisely here that the board should step back and attempt to look at the issues from as many angles as possible. How would this decision serve the mission? How would it affect the people we serve? Our funders? How would it look to a dispassionate judge? These aren't reasons for timidity but opportunities for further clarity.

The Reasons. The reasons for dismissal should be clearly identified and should focus on the needs of the organization rather than the failures of the chief executive. The board's responsibility is to advance the mission and protect the interests of the organization, not to berate or punish an outgoing employee.

The Vote. Put the board members on record as supporting the decision. Work very hard to get to a unanimous decision. Again, though, recognize that a board is not a jury. Unanimity is not required, and delay is more damaging than a divided vote.

As part of the vote, delegate the responsibility for delivering the message and negotiating the terms. Most often, this responsibility goes to the board chair and at least one other person. More than two or three participants will feel like ganging up. Often the second person is the attorney, especially if you anticipate anger and/or litigation. Otherwise, a board member who has a close relationship with the chief executive might be a good choice. Including a board member with a history of antagonism toward the chief executive is not a good choice, as it invites controversy and will feel like salt in the wound to the chief executive. Including a staff HR person represents a similar indignity.

The Terms of the Offer. Most boards offer to accept a resignation. This may not be possible if the outgoing chief executive is recalcitrant or if the board intends to prosecute for criminal behavior or feels it has grounds to invalidate an employment agreement. However, offering to accept a resignation is a gesture of respect and it makes arriving at agreement on communications much easier.

Boards very often, out of emotional fatigue and self-protection, try to decree that there will be no negotiations. There almost always will be, so why pretend? The range of issues (e.g., severance, communication, nondisclosure, liability waivers, etc.) is simply too great for the board to anticipate all of its own needs, much less those of the departing CEO.

Severance is an important gesture of respect. If it is economically feasible, and unless the decision is prompted by a very serious failing of character, the board should prepare a severance offer in advance, along with guidance to the negotiators as to their latitude in adjusting that offer. Within a range, the negotiators should be able to commit the organization without returning to the board for approval. Suspending a decision to reassemble a board quorum is painful for everyone and, unless the proposed change is a very large departure from the original offer, it is unnecessary.

A severance offer typically includes some kind of cash payment, or continuation on payroll and/or benefits. However, the organization's attorney should be certain that board members understand the implications of this. I have seen organizations offer benefits to departing CEOs that violate the terms of their insurance policies and even federal law!

And, of course, negotiations will sometimes net a better solution for both parties. In one organization, the chief executive accepted the board's offer, which included a period of health insurance, without much reflection and then realized that he could move to his wife's health policy and improve his coverage at little cost. It was to the organization's advantage to drop him from its insurance plan and share the cash savings with him. A take-it-or-leave-it tone will often preclude such productive adjustments.

The Communications Plan. It is also very important to arrive at agreement on a communications plan, and the chief executive will have needs or concerns he or she would like to see accommodated. I have known departing CEOs who wanted the staff to know everything (rarely possible), some who wanted them to know nothing (never possible), and many who wanted them to get a special spin on the decision.

The communications plan should address such questions as: Who gets to know what? When do they get to know it? (The communications will likely roll out in tiers, and some constituents may require personal notification before a public announcement). Who delivers the message? Who answers questions? What can and cannot be said?

These are tricky issues, all with the potential to have an impact on reputation, morale, and legal liability. And, the board typically must determine, without staff counsel, how to approach at least the first few communications to the staff. Once the senior staff members are informed, though, it is crucial to engage them in refining and finalizing the plan. They know the day-to-day relationships with the chief executive far better than board members.

In counseling on these communications, attorneys will often want to err on the side of minimizing legal liability at some risk to reputation and morale. So, having professional communications counsel from the beginning can be of great value both in announcing the departure and in ensuring that the announcement of the new CEO is consistent with the original plan. If the organization can't afford this help, the board chair might poll board members about friends in the business who could help through the transition.

Finally, the board is responsible for setting the tone, as well as the substance, of the communications. One important message from the earliest conversations is that schadenfreude is unacceptable. Often, there are staff members who wanted to see the CEO go. Occasionally, someone will want to gloat. This is ugly and destructive behavior that can spread like a virus. The board, and the succeeding CEO, should discourage that by their behavior and, if necessary, by responding firmly to prevent the contagion.

Succeeding the CEO. The board has a responsibility to make an unequivocal decision as to who will be in charge after the CEO is dismissed. I encourage you to not rush a search for the next chief executive. When the board concludes that it has to hire quickly, it almost automatically lowers its standards, reduces its options, and cheats itself of the opportunity to think deeply about what is needed. Take your time to identify a long-term chief executive, and, in the meantime, appoint a temporary "acting" or "interim" chief executive.

The interim CEO can come from within the senior team or the board. There are examples of significant success with both — as well as issues the board should take into consideration as it contemplates such a move. For instance,

the distinction between governance and management can be muddied when a board member serves in an executive role, and his or her eventual return to a pure governance role can be difficult.

Relying on a staff member also can present problems. He or she must now, typically, fill his or her own role as well as the chief executive's role with very little time to think about how to adapt to that new role and to balance the two. And, unless officially appointed the new CEO, he or she must then return to the prior position.

In both instances, it is rare that the person elevated to the acting or interim role has any experience with how to deal with the emotional or operational dynamics of an organization facing this kind of disruption.

For these reasons, many organizations opt to hire an interim chief executive from outside the organization who will typically not be a candidate for the long-term position. It is, increasingly, a tenet of the field that being a candidate undermines the stature and objectivity required of an interim leader.

As someone who has served nonprofits as an interim chief executive, I always suggest the board consider arranging a meeting between a strong candidate for the interim position and senior staff members a day or two after they have been notified of the chief executive's departure. The board chair can frame this meeting in this way: "Although the board is responsible for hiring the interim chief executive, we want to ensure that the fit is right. For that reason, we want to give the candidate an opportunity to hear from you about the organization's strengths and weaknesses and give you a opportunity to share your impressions of him with the board." After the meeting, the chair can follow up with one of the team members to ask about the conversation. It is important, though, that the senior staff see this as an opportunity for the interim candidate to learn about the organization and as an indication of the board's respect for the senior staff, not as an opportunity for the staff to veto a candidate.

The Dismissal Conversations. The process of conveying the board's decision to remove the CEO, more than any other part of the process, should be driven by the best values of the organization and conducted with basic fairness and respect. This, I think, is true even when the firing is warranted; even, for instance, if the CEO is believed to have committed a crime.

So, first, meet with the CEO in person. Famously, a few years ago, Carol Bartz, the CEO of Yahoo, was fired over the telephone. That kind of disrespect reverberates through the staff for months, undermining their confidence in the character and commitment of the board.

Those responsible for conducting the conversation should think carefully about the venue. Using the CEO's office can excite staff concern and doesn't allow him or her a period of time to gather thoughts before seeing staff. Public places, on the other hand, make emotional reactions even more embarrassing. The office of a board member may be the most appropriate venue.

Script the conversation. You will find some clear counsel on this from Ben Horowitz at http://www.bhorowitz.com/preparing_to_fire_an_executive. Among his wise suggestions: "Be clear on the reasons" and "use decisive language."

A useful positioning for the severance offer is: "The board has considered this carefully. We have attempted to be more than fair. We will, of course, entertain questions and suggestions. You should talk with your attorney and get back to us by X date (often set by state law)." That language neither invites nor precludes negotiations.

Be prepared to talk about allowing the CEO to remain in place for a few days or weeks. Attorneys will sometimes treat "walking him or her out the door" as the only option because it limits business risks. It is not the only option. There are, of course, risks associated with letting him or her remain; but there are also deep relational, morale, and cultural risks associated with the "walk out" strategy. And even a deeply wounded CEO who has both character and self-control may handle a departure period remarkably well. On the other hand, if the board does have concerns about either character or self-control, the "walk out" option may be the only responsible one.

The general wisdom is that the fired CEO should not overlap with the incoming CEO (whether acting, interim, or long term). I endorse that as a general presumption, but as an interim CEO, I have agreed on three occasions to some overlap, and, in each instance, because I had partners of great character, we made it work. That said, there should be a compelling reason for it (e.g. allowing a founder to leave with dignity), and the board should make clear to the two CEOs that the outgoing CEO is there at the discretion of the newcomer. Ordinarily, no one else need know that fact.

Executive Team/Senior Staff. The board, in dismissing a CEO, owes respect to the senior team as well as the departing leader. Senior staff members may have been carrying heavier loads as the CEO struggled but they will definitely feel additional burdens during the transition. And, the board's demonstrations of respect for them will create comfort, mitigate impulses to leave, and allow them to reassure other staff.

The board leadership should meet with the senior staff, as a team, prior to any announcement to staff and the public. The HR person should be a part of this conversation, even if not a member of the senior team. Use the meeting to tell the team of the change in leadership and to prepare them for questions from their reports. Some, like "What did George do wrong?" they can't answer; others, like "What will we do for leadership in the short term?" and "What will this mean for my job?" they can and should answer.

Develop a retention and backup plan or ask the acting/interim chief executive to do so. Determine who should be offered specific reassurances or even "golden handcuffs." As an interim chief executive, I often sit down with key members of the senior staff to strike a deal: "If you ever find yourself thinking about leaving, please let me know immediately — not after you have begun looking. Tell me what your concerns are and give me an opportunity to address them. For my part, I promise to tell you if I can't address them. If I can't, not only will I not push you out prematurely, I'll actively support you in your search. If I ever have concerns about your fit here, I'll let you know that immediately and, if you want, help you resolve them. Do we have a deal?" I have never been told "no" and only once have I felt the commitment was broken.

All Staff. The board also is responsible for communicating with the staff. Do not ask the senior staff to assume this duty. The board made the decision, and the staff needs to see the members own the communications and the consequences! They need to see your commitment to the mission and your empathy for the outgoing CEO and for them.

Within a day of the senior staff meeting, the board chair and at least one more board member, preferably one admired by the staff, should meet with the headquarters staff in person and others by the warmest medium available (a conference call is the least desirable) to share the news.

Avoid promises unless they have been carefully considered in advance. For instance, you can't promise how long the search will take but you can promise regular communications.

The positioning with the staff will, of course, be a part of the communication plan. It might go something like this: "(Name of Outgoing CEO) and the board have agreed that it's time for new leadership. The board shares the staff's deep belief in our mission and has great confidence in the senior team and staff. We anticipate identifying an acting/interim CEO shortly. We see a great opportunity, during this period, to further strengthen board/staff collaboration and our joint contribution to the mission. Though we're sure you'll understand that we can't answer all questions at this time, we are eager to make this process as transparent and collaborative as possible. We'd love to begin that dialog now, and we will create channels to keep you posted and to permit further input from staff."

Allow ten or fifteen minutes for Q&A. Often the staff will be so discomfited that the questioning won't last that long. As soon as the questioning loses momentum, bring the conversation to an end, but take care to do so in a way that suggests the beginning, not the end, of a dialog. You might, for instance, promise a semi-weekly email update from the board chair, or better yet, offer a regular Google Group or other online dialog with the board chair or the chair of the search committee.

Legal counsel will sometimes suggest minimal communications with staff after the initial announcement. Experience tells me that heightens staff anxiety and drives it underground. More open communication, like a Google Group, requires some management but it serves as a pressure valve, allowing concerns to ebb and flow perceptibly rather than quietly building behind closed doors.

Other Constituencies. In formulating the communications plan, the board must determine who else needs to hear about the changes and from whom. This varies extremely widely. In most organizations, there is a circle beyond the staff, often funders and/or key business partners, who should get a personal communication. In some organizations, it may be necessary to communicate personally to the people the organization serves, though more often that can be done with a written announcement. Sometimes, with high visibility organizations, it will be necessary to communicate with the news media and general public.

There is no one-size-fits-all here, and, in many instances, these communications represent opportunities for other members of the senior team to gain visibility and for the organization to begin to broaden its connections. The only general rule I know here is that the board should partner with the staff to determine who should deliver messages to whom. In doing so, the board conveys its readiness to play the role that is best for the organization.

Accountability

The importance of accountability is, I hope, implicit in the discussions of mission, integrity, and clarity, above. The board must own the entire dismissal process. And in addition to being visible, sending the right signals to the staff, and helping communicate with other constituencies, it must respect the terms of the agreement.

Respecting the Terms. These are delicate matters that bear great weight for the mission, for the reputation of the organization, and for the careers of the outgoing chief executive and the remaining staff. To leak confidential terms, second guess the decision outside of the boardroom, or violate its terms are profound violations of trust. Board members who do so should be dealt with formally by the rest of the board, usually through expulsion.

Owning the Failure. More courageous, the board must co-own the failed partnership between the chief executive and the board and take a hard, honest, and systematic look at what went wrong and how to prevent a repetition.

That gesture of accountability, and the humility it conveys, can be the single best outcome of a dismissal process. It can reverberate through the culture for years to come, empowering the board, staff, and others to recognize error, accept responsibility, and find a course to correction. It conveys respect for role of the board, for the departed chief executive, for the staff who worked with him or her and, above all, for the mission of the organization.

The firing of a CEO will inflict wounds on an organization. That is as certain as a scalpel inflicting wounds on a patient. However, an organization that approaches the firing of a CEO with a commitment to mission, integrity, clarity, and accountability is very likely to inflict only wounds that heal. And, like a patient's scar, it will leave tougher tissue behind.

Pat Nichols serves as interim chief executive for nonprofits facing major, strategic transitions, including turnarounds, startups, and mergers.