Investigating Performance-Turnover in Nonprofit Organizations


Summary This article addresses the concept of performance-based turnover at the executive level within nonprofit organizations, previously only studied in the private and public sector. The research seeks to address various factors impacting executive director turnover based on financial performance of the organization, and how well it is fulfilling its’ mission. The study viewed 998 nonprofits in the arts, health, or human services categories in the top twenty largest metropolitan areas, with data collected from 2005 to 2010.

Who can benefit from this research This research would be incredibly beneficial for board members and executive directors alike. Understanding factors that could lead to or influence executive director turnover could help prevent it from occurring, and also help an organization be better able recover when turnover occurs, specifically due to poor financial performance.

Primary Findings

- A nonprofit organization that is performing poorly financially is significantly more likely to experience executive turnover than an organization that is financially stable or performing well. This was particularly true for organizations that experienced a 20% reduction in their overall expenses over the previous three years.

- Organizations that are highly dependent upon donations (not including government grants or contracts), and also in a poor financial state, have a significantly higher rate of turnover than less donation-dependent organizations. Although the donation decline might not be directly related to the executive director, they bear ultimate responsibility for the management of the organization, and therefore turnover is likely to occur.

- Organizations with larger executive boards tend to decrease the likelihood of turnover of the executive director during periods of poor financial health. However, this finding becomes less significant once you approach medium-sized boards of around thirteen members. Larger boards may be more hesitant to dismiss an executive from their role, because of their reliance on that person, or other staff, to maintain the functions of the organization.

- A nonprofit organization that pays its executive an higher salary and is in a state of poor financial performance is more likely to experience turnover, specifically involuntary turnover, than an organization that pays its executive less. For most organizations, salary is a direct reflection of that person’s experiences and accolades, and therefore it is expected that they maintain the financial health of the organization.

- In general, small to mid-size nonprofits were more likely to experience executive turnover than larger organizations. This could be due to a variety of reasons, including:
  - lack of organization or structure, inexperienced leadership, higher accountability for
executive with smaller staff, etc.

Future Considerations for Research  Although the study was able to solidify predictors of executive turnover due to financial health, no conclusions can be made to any particular reasons around executive turnover. More research will need to be conducted to address the reasons why executives leave their roles (ie. voluntary or involuntary separation).

Organizations (or missions) that might make the most use of this research

- The sample for the research utilized arts, health, and human service nonprofits, but the findings may be extrapolated to nonprofits in other mission areas as well.
- Given the findings, organizations that are donation-dependent or have a highly paid executive may have particular use for this research, given the high likelihood of turnover based on those factors.

When would this research be useful  The study would be most useful for organizations currently experiencing financial distress, or at the beginning of a financial decline. This research would help them anticipate future changes within the leadership of the organization if its financial state does not improve, and create contingency plans for eventual change.

How does this research inform practice

- Most private sector professionals have a view that nonprofit organizations are ineffective and inefficient; this literature changes that perception by validating that nonprofit organizations take their performance indicators and missions seriously, and that financial performance does impact leadership at a high level.
- By understanding predictors of executive turnover in relation to poor financial performance, organizations will be better able to predict when turnover might occur. In turn, this will help the board and organization staff have a plan in place, should that transition take place.
- This research solidifies that executive directors have a high level of accountability within the organization, and decisions about their employment can be and are made in relation to how well the organization is operating.

Keywords Executive transitions, performance-turnover, performance management, financial health