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## **Executive Change and Nonprofit Performance:**

### *An Empirical Test*

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#### **Abstract:**

Organizational leadership is critical to the work of nonprofit organizations. However, few studies to date consider how executive succession impacts organizations in the nonprofit sector. Such work is being actively advanced in business and public sector contexts and the potential application of such models to the nonprofit sector remains largely unexplored. This article uses an original dataset containing operational, financial, and contextual information about 162 Feeding America food bank affiliates to examine the performance implications of executive succession in the nonprofit sector. The findings from this study suggest that executive change – regardless of the reason for the change – has a positive impact on the social impact and financial performance of food bank organizations.

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## **Introduction**

Nonprofit organizations require executive leadership to maintain financial solvency and fulfill their larger social and civic goals. There is a vast literature on the difficulties the nonprofit sector faces in recruiting, training, and retaining highly skilled personnel to perform executive functions (Light 2000; Frumkin 2002; Tierney 2006; Kim & Lee 2007). Executive change is an increasingly common event across the sector, yet far too little is known about the causes and consequences of this significant organizational life cycle phase and the means by which organizations can best manage change. This information is critically important to the work of nonprofit boards. Hiring and firing executive leadership is in fact the most important thing boards do, and the means by which boards about the executive change process has far reaching implications for the nonprofit organization. “When one executive director leaves and another takes over, the transition is analogous to taking a nonprofit organization into the kiln” (Allison 2002, p. 341).

For much of the past 50 years, leading scholars of management and organizations have grappled with questions about how, when, and why managerial succession is related to organizational performance. However, much of the theory development and empirical work on executives, executive succession, and firm performance has been confined to for-profit firms and industries with minimal representation of nonprofit organizations. This state of affairs is certainly not the result of reduced significance of the topic as it crosses sectoral boundaries; “There is growing recognition that executive transitions are among the most important, challenging, and powerful opportunities nonprofit organizations will face” (Hinden & Tebbe 2003, p. 16). This view is fueled by many factors, which include exacerbated sectoral financial constraints, heightened professionalism, and the coming wave of nonprofit executive departures from baby boomer retirement (Richie & Eastwood 2006; Hwang & Powell 2009). Additionally,

The Annie E. Casey Foundation has invested heavily in best-practice research aimed at identifying ways in which the philanthropic organization can support grantees during leadership transition periods (Casey Foundation & Haas Jr. Fund 2004). However, few studies to date focus on theoretical development and rigorous empirical investigation of executive succession in the nonprofit sector. Such work is being actively advanced in public sector contexts and the potential application of such models to the nonprofit sector remains largely unexplored. This article uses an original dataset containing operational, financial, and contextual information about 162 Feeding America<sup>1</sup> food bank affiliates to examine the performance implications of executive succession in the nonprofit sector.

### **Executive Change in the Business Sector**

Pitcher, Chreim, and Kisfalvi (2000: pp. 626-627) offer the following summary of the questions fueling the executive succession research stream, which is among the most active in private sector strategic management research:

*Does poor performance trigger a succession and, if not, why not? If there is a succession, is the successor 'different' and, if not, why not? Does this successor pursue different policies and strategies and, if not, why not? Do these different policies and strategies result in better performance and, if not, why not?*

Chief executive officer (CEO) succession is considered to be particularly significant because the stakes are high for both internal and external constituencies, and CEOs carry with them tremendous symbolic and substantive weight (Kesner & Sebor 1994; Zhang & Rajagopalan 2004).

Allen, Panian & Lotz (1979) note that much of the early work on the subject focused on professional athletic teams as the empirical setting for various reasons, including organizational comparability (specifically when it comes to internal structure, size, goals, and environmental

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<sup>1</sup> Feeding America - formerly named America's Second Harvest and then just Second Harvest – is a national organization that provides certification, training, food, and other forms of support to nonprofit organizations distributing foodstuffs to frontline human service organizations (e.g. soup kitchens, food pantries, and shelters).

factors), perceived managerial importance, and the accessibility and quality of longitudinal measures of performance. Beyond external validity concerns, a glaring problem in these studies was their inability to disentangle the independent effects of succession frequency and type on performance, and a failure to control for past performance. Allen, Panian & Lotz (1979) employ multivariate statistical procedures to deal with these issues, finding that previous team performance is the most significant contributor to subsequent performance, but managerial succession also has some impact. Nevertheless, methodological advancements did little to settle the matter. In fact, Kesner & Sebra (1994) conclude that “when it comes to executive succession, there is little that we know conclusively, much that we do not know because of mixed results, and even more that we have not yet studied” (p. 327).

Moving beyond methodological considerations, Giambatista, Rowe, & Riaz (2005) suggest that executive succession research is “limited by its heavy reliance on agency theory as its theoretical lens and opportunism as its mechanism and motivator” (p. 983). They do note that the range of theory that is invoked is fragmented and variable, and much of the contemporary research fails to build upon and/or advance theory either because it gives scant attention to the extant literature or insufficiently develops and test hypotheses. Nearly every theoretical lens in organization theory and strategic management has been applied in some way to the study of executive succession.<sup>2</sup> Therefore, it should come as no surprise that chief executive change – a term which encompasses both chief executive turnover and chief executive succession<sup>3</sup> –

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<sup>2</sup> This particular study will focus on the contributions and implications of Upper Echelon (UE) and organization learning theories.

<sup>3</sup> While demarcating these two phenomena is by no means an exact science, Harrison, Torres, & Kukalis (1998) suggest that executive succession “implies an interest in what happens after the event” (p. 211). Virani, Tushman, & Romanelli (1992) conclude that “succession is a complex phenomenon that, when successful, balances organizational requirements for stability and continuity with environmentally demanded needs for change” (p. 73). The data employed in this study do not provide for a teasing out of these contextual and operational distinctions and the definition offered above is by no means uniformly applied by scholars writing in the strategic management field.

remains among the most important and richest areas of study in the field of strategic management.

Much of the literature on executive change looks at the chief executive in conjunction with other top management team members. There is significant attention directed towards understanding the influence and adaptability of senior ranking leaders under new administrations and the interaction effects of external executive recruitment. It is also posited that in isolation, “CEO succession may not introduce sufficient new and diverse experience or knowledge to alter established understandings and entrenched activity patterns” (Virany et al. 1992, p. 76). For example, Kesner & Dalton (1994) find in their study of all publicly traded in the United States with a new chief executive in the year 1980 that pre-change performance and insider CEO succession are negatively related to managerial turnover. However, they do not find a statistically significant relationship between managerial turnover itself and post-executive change performance.

The literature on organization learning posits that organizational evolution is driven by the learning that takes place during alternating periods of punctuated and incremental change (Virany et al. 1992). Virany et al. (1992) contend that organization learning (first-order) during periods of convergence is about building and bolstering the efficiency and coherence of current practice, while organization learning (second-order) during periods of reorientation is primarily about developing new procedures, processes, and routines. The perspective’s take on executive succession is described as follows: “Executive succession coupled with change in organizational activities shapes the nature of organization learning and, thus, in turn, affects organization performance” (Virany et al. 1992, p. 76). But the complexity of unpacking the executive

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As a result, the terms executive change, executive turnover, and executive succession will be used interchangeably in this paper. Nonetheless, future research in this area certainly has much potential and is necessary.

succession-organizational performance connection is not lost by scholars subscribing to this theory. Virany et al. (1992) note that, while executive change “facilitates second-order learning by affecting the demography of the senior team and its communication and decision-making processes,” it has the potential to liquidate learned competence (p. 75).

Kesner & Dalton (1994) highlight the three prevailing theories specific to chief executive succession, which include common-sense theory, ritual scapegoating, and the vicious cycle perspective. Common-sense theory posits that new chief executives are hired in response to poor firm performance, and it is the responsibility and within the capacity of the newly appointed leader to redirect the enterprise towards greater profitability. This can be the result of the resources and knowledge they bring with them to the job or the strategic change they unleash on the organization. The theory of ritual scapegoating contends that the replacement of the existing chief executive with a new leader in times of poor performance is primarily a symbolic act meant to send a message to stakeholders that the firm is serious about performance. Finally, the vicious cycle perspective suggests that the replacement of the chief executive is commonly associated with a period of disruptive organizational change which has ripple effects that damage relational and behavior patterns throughout the firm, particularly amongst other top management team members. As a result, firm performance suffers.

### **The Influence of Organizational and Environmental Contingencies**

Much attention is specifically paid by strategic management researchers to untangling the influences of moderating and mediating variables and a host of contingencies in the executive change-organizational performance linkage. Zhang & Rajagopalan (2010) find in their study of manufacturing firms experiencing CEO succession between 1993-1998 that the relationship

between firm performance, as measured by return on investment (ROI), and level of strategic change, is the same for internal and external chief executives during the early phase of leadership tenure, but over time insiders are more successful in leveraging strategic change to boost performance. Shen & Cannella, Jr. (2002) expand the successor typology by disaggregating insider chief executives based on the circumstances surrounding their predecessor's departure. They find that whether an insider succeeds a retiring or ousted chief executive has significant performance implications, particularly when the moderating and interactive influence of senior management team turnover is also considered. Fondas & Wiersema (1997) go beyond the insider-outside dichotomy by invoking socialization theory in their study of the relationship between executive and strategic change. Specifically, they highlight how a more nuanced consideration of prior work experience (e.g. role, industry, career path), educational background, and personal characteristics of new chief executives, along with situational demands (e.g. characteristics of socialization agents and top management teams, job discretion and roles, performance expectations), can allow for greater understanding of strategic change and strategic inertia.

There are a host of contingencies – including environmental turbulence, industry distinctions, and historical firm performance – that are thought to moderate the impact of executive change on subsequent firm performance. In fact, Miller (1993) concludes that executive succession “may be most useful when organizations are experiencing dangerous strategic stagnation, when their environments are changing, and when performance is deteriorating” (p. 656). Datta & Rajagopalan (1998) find some support for the view that “firms that achieve a closer fit between the successor CEO's characteristics and industry structure will realize higher improvement in postsuccession performance” (p. 848). Tushman & Rosenkopf

(1996) use longitudinal data on the domestic cement industry to test the power of organizational change, learning, and adaptation in explaining post-executive succession organizational performance variation. They develop measures for both environmental and organizational turbulence. The authors find that when environmental turbulence is held constant, executive succession has a positive impact on organizational performance, but executive succession has a negative effect on organizational performance when it takes place in turbulent contexts.

Virany et al. (1992) highlight the difficulty of isolating the independent effect of executive succession on firm performance, particularly detached from second-order learning. In their study of microcomputer firms founded between 1968 and 1971, the authors find that strategic reorientation has a positive impact on organizational performance when the executive succession variables are controlled for in the model. It is suggested that in turbulent environments, organizational change, regardless of the change agent, has positive performance implications. But the interaction of executive succession with strategic reorientation is found to be statistically significant over and above their independent effects. In his reanalysis of a longitudinal dataset containing at least two decades worth of information about 36 companies, Miller (1993) finds that executive succession is related to a widening of power dispersion, greater organizational change, and heightened information processing in the face of poor performance. These studies suggest that consideration of both personnel and process matter when it comes to maximizing the impact (and fully understanding the implications) of executive change on organizational performance.

Task environment is a relatively nuanced contingency that receives much attention in the literature. As a result, it is necessary to more fully explicate the concept's meaning, measurement, and mechanics. Dess & Beard (1984) wrote the seminal piece on the subject,



laying out the dimensions of the task environments that firms encounter. They specifically elucidate the following three dimensions: (1) environmental munificence, defined as the degree to which an environment can support organizational growth, promote stability, and generate slack; (2) environmental dynamism, defined as the predictability and rate of environmental change; and (3) environmental complexity, defined as the variability of inputs and outputs. In Tushman & Rosenkopf (1996), environmental turbulence is defined as years marked by punctuations from technological and/or regulatory change and/or war, while an organizational performance crisis is defined as two successive years of reductions to the firm's ROA.

### **Insights from the Public Sector**

The public sector faces many of the same challenges as the nonprofit sector – along with some of its own unique difficulties – in the empirical study of executive change. Hill (2005) comes to the following conclusion: “Despite the recent surge in quantitative studies of public management, one issue that has not been explored is the extent to which organizational performance is affected when top management is changed” (p. 585). But this is not the result of a lack of interest. O’Toole & Meier (2003) contend that “few ideas these days seem as retrograde as the quaint notion that stability can be helpful in the world of public administration” (p. 43).

Boyne & Dahya (2002) utilize contingency theory to construct an executive succession model applicable to chief executives of British local governments – along with more general public sector applications. Specifically, they posit that executive change is most significant when the new executive has different motives and cognitive schema than the predecessor, but the performance implications are moderated by internal and external variables and constraints. Hill (2005) reduces the model to three components: means (power, personal considerations, and fit);

motives (managerial style or orientation); and opportunities (internal and external constraints on strategy). Two active streams of executive succession research aimed at unpacking the performance implications of public sector leadership have emerged from the foundational theory presented in Boyne & Dahya (2002).

The first set of research looks at public schools in the State of Texas over an extended period of time. Hill (2005) tests the model with Texas public school superintendents, ultimately finding that external successors have a short-term, negative effect on district performance, but, over time, executive succession positively impacts performance. However, the mechanism hypothesized to be driving the performance bonus, chief executive networking, is not found to be statistically significant. O'Toole & Meier (2003) look at the impact of personnel stability – including leadership (superintendent) stability – on school district performance in Texas (controlling for various other district-level and personnel characteristics). While superintendent stability is important for district performance, it is another personnel stability consideration – that of instructional staff – that is most important. Boyne & Meier (2009) look at the impact of environmental turbulence – both munificence (financial resources and class sizes) and complexity (student demographics) – on organizational performance in Texas schools. Two measures of organizational stability – vertical and horizontal structure – are considered. The findings from the study suggest that structural change during periods of environmental turbulence negatively impacts performance.

The second stream of research on executive change in the public sector focuses on local governments in Great Britain. Specifically, the research utilizes comprehensive performance data collected by English local governments covering a 5-year period. Boyne, James, John, & Petrovsky (2011) suggest that top management turnover (which includes the total sum of senior-

level positions) has the potential to hurt organizational performance because partners/funders may withhold support until the direction of the organization becomes clear and succession events can distract other personnel and/or lead to intraorganizational conflict. However, the authors hypothesize, and ultimately support empirically, that the impact of executive change on public sector organizational performance is contingent upon prior performance. Specifically, they find that top management turnover negatively impacts performance at high baseline levels, has no clear impact on performance at middle baseline levels, and positively impacts performance at low baseline levels. They note that consideration of baseline performance is a novel and critical consideration in executive succession research. Additionally, they suggest that English local governments have relatively low levels of discretion, so the fact that they are able to find a relationship between executive change and organizational performance utilizing this data suggests that the significance and effect size in other public administration contexts may be much larger.

### **Executive Change in the Nonprofit Sector**

Very little work to date has examined executive change and organizational performance in the nonprofit sector. Santora, Sarros, & Esposito (2010) conducted a literature review and thematic analysis on nonprofit executive change research over the last 50 years, ultimately finding 18 case study articles on the topic. Of the 18 cases, only 2 (written by the same authors) considered the consequences of executive change, and the most common theme in the published work related to issues surrounding the departure of an organizational founder. The most notable work on executive succession in the nonprofit sector, albeit published in journals not focused on nonprofit sector issues, has used Protestant congregations as the empirical setting. Many of the

reasons given for this industry choice closely correspond to the usage of professional sports team in mainstream executive succession literature (Mentzer 1993). Smith, Carson, & Alexander (1984) study a stratified random sample of 50 Methodist ministers in Ohio over a 20 year period to more fully explain the relationship between leadership and organizational performance. Specifically, they look at the impact of ministers on church attendance, membership, congressional charitable giving, and organizational budget size. They also look at performance of an auxiliary group that the minister hypothetically should not impact. The results of the study suggest that despite the significant, positive impact of highly effective leaders<sup>4</sup>, executive succession considered in isolation does not have a disruptive or advantageous influence on organizational performance.

Mentzer (1993) revisits this question by matching a random sample of 75 pastoral charges (akin to congregations) of the United Church of Canada experiencing an executive succession in the year 1987 with similar charges that maintained their existing leadership. The author finds that executive succession has a significant, positive effect on performance when measured as growth in church attendance, but no effect when the dependent variable is total funds raised. Interestingly, leader ability, measured both in terms of experience and compensation, is found to be insignificant. Mentzer (1993) suggests that these findings may be indicative of a novelty or newness effect. This makes sense in the context of church attendance measured in the short-term, as congregants are likely to be inquisitive about the new leader's worship style.

Some factors make executive change in the nonprofit sector more complex than in the

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<sup>4</sup> The use of ministerial salaries as the indicator for exceptional performance is a bit problematic. Smith et al. (1984) and Mentzer (1993) suggest that ministers in congregations with insufficient financial resources will have the opportunity to transfer to more lucrative posts. This ignores the significant expressive motivations that may shape the employment decisions of religious leaders, distorting a seemingly efficient labor market.

business or public sectors. Hull & Lio (2006) remind us that nonprofits are unique, especially in terms of their heightened concern for – and focus on – social responsibility and impact, strong attachment to vision and mission, “ownership” structure, employee incentives, and financial and strategic management constraints emanating from their privileged tax status. Additionally, Hull & Lio (2006) contend that nonprofits are more risk-averse, lack the internal expertise necessary for innovation, and are more concerned with maintenance than expansion.

Beyond structural and operational distinctions, nonprofit organizations differ from firms operating as for-profit entities in other important respects. Determining and developing organizational goals and metrics for gauging an organization’s achievement in regards to established criteria is among the most significant.<sup>5</sup> Frumkin (2002) notes that “there is little consensus on what constitutes good evaluation within the nonprofit sector, what should be measured, and how performance indicators should be used by funders and clients in assessing the effectiveness of services” (p. 85). A significant amount of scholarly work has been published on the problematic nature of performance measurement in the nonprofit sector, highlighting the lack of traditional market measures of performance, their amorphous goals and intangible services, and value conflicts and disparate notions of effectiveness (Forbes 1998). The prevailing standards for assessing nonprofit organizational performance focus on goal attainment, resource procurement, and reputation, although social construction is an emerging paradigm (Forbes 1998). Sowa, Selden, & Sandfort (2004) propose a multidimensional integrated model for assessing the effectiveness of nonprofit organizations, explicitly focusing on managerial and

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<sup>5</sup> Determining appropriate performance measures for executive succession studies in the mainstream management literature is by no means a settled matter. Some have raised concerns that the operationalization of performance in strategic management studies has been too loosely connected to the hypothesized role of chief executives. While traditional financial accounting measures remain heavily utilized, consideration of abnormal stock returns became common practice in the middle-to-late 1980s and early 1990s (Kesner & Sebor 1994). Pitcher et al. (2000) suggest that performance measurement issues continue to plague the research stream’s development.

programmatic effectiveness. Ebrahim & Rangan (2010) offer a contingency framework for social performance measurement based on the relative focus or complexity of an organization's theory of change and operational strategy.

Hill (2005) offers the following generalization about the driving forces behind executive turnover/succession at large: "The assumption most often associated with managerial change is that it occurs because the previous manager was ineffective or inefficient, and that a new manager is assigned to transform the organization" (p. 586). The accuracy of this assumption when it comes to the nonprofit sector can be debated. Given the ambiguity surrounding performance and the strength of solidarity and emotive bonds across the sector, the performance-turnover linkage remains a question open to further investigation. There is strong anecdotal evidence to suggest that much of the executive turnover in the nonprofit sector is driven by retirement and promotional opportunities as opposed to performance failures (either real or perceived). If this is the case, the performance implications of executive change are ever less transparent and the applicability of theoretical and empirical work from the for-profit/corporate and public sectors is called into question.

### **Study Setting**

A food bank is defined as a "charitable organization that solicits, receives, inventories, stores, and distributes donated food and grocery products to charitable agencies that directly serve needy clients" (Mabli, Cohen, Potter & Zhao 2010, p. 10). While 80% of food banks in the United States are affiliated with Feeding America, local food banks are independent nonprofit organizations (501c3 entities in most cases) that select their own leadership and are governed by freestanding boards (Mabli et al. 2010). Many of these nonprofit organizations operated for

years, even decades, prior to receiving Feeding America certification and joining the network, and there is tremendous variation across food banks in terms of size and managerial, operational, and financial practice. For example, the 2009 food bank food distribution figures ranged from 923,182 pounds (Community Food Warehouse of Mercer County) to 70,000,000 pounds (St. Mary's Food Bank Alliance). The percentage of 2009 expenses related to fundraising efforts ranged from 0% (9 different food banks) to 29% (Gleaners Food Bank of Indiana).

The roots of food banking and Feeding America can be traced back to a social entrepreneur named John Van Hengel who, after relocating to Arizona from Wisconsin in the late 1960s, began distributing excess commercial food out of an abandoned bakery building provided by the Franciscan religious order (Poppendieck 1998). The impact of the hunger assistance network – including food pantries and soup kitchens that receive food from Feeding America's affiliated food banks – has grown dramatically in recent years. Between 2005 and 2009, the number of clients served increased by 46%, from 25.4 million to 37.0 million (Mabli et al. 2010). Warshawsky (2010) contends that “non-profit food banks no longer just work in partnership with government; rather, they now control how emergency food service systems operate in metropolitan regions” (p. 773). Crutchfield & McLeod (2008) suggest that Feeding America's efforts to promote professionalism and efficiency in the food banking sector have contributed to greater food distribution and have helped these nonprofit organizations persevere in periods of extreme financial distress and growing community food insecurity. Most importantly for the purposes of this study, there is a prevailing viewpoint that executive leadership matters when it comes to food bank performance.

Food banks arguably offer the most promising empirical setting for exploring the performance implications of executive change in the nonprofit sector. Like professional baseball

teams and religious congregations, food banks affiliated with a national organization have much in common as a result of isomorphic, historical, and functional forces, influences, and constraints. Compared to other nonprofit organizations, particularly human service organizations, food banks have a somewhat coherent and simple primary goal: provide sufficient nutritious food to food assistance organizations for distribution to people facing food insecurity (hunger). While the national organization has increasingly entered into the political fold, the local chapters have strongly resisted energy being directed away from their food collection, storage, and distribution functions (Crutchfield & McLeod 2008). For the purposes of this study, the social performance measure will be pounds of food distributed per impoverished person (100% poverty threshold) in the food bank's service area.

The 18% executive change rate (29 out of 162) for food banks between 2006-2009 offers a sufficient degree of variability to study the effects of the phenomenon. Additionally, food banks have come to embrace professionalized and rationalized practices to varying degrees. And unlike religious congregations, local food banks are independently governed so leadership decisions, and the implications thereof, can be more closely connected to the individual organization. Food banks offer a unique opportunity to study on one narrow type of human service nonprofit organization in an extremely diverse sector. The merits of this approach when it comes to researching executive succession are many, particularly when it comes to isolating independent effects and developing valid performance indices.

## **Research Questions**

Despite the voluminous private sector work and small, but growing, set of research from the public sector, the performance impact of executive change remains a question open to debate



and empirical testing. This is particularly true when it comes to the nonprofit sector, as only a few studies to date have explicitly examined this question and the applicability of models built upon assumptions from other sectors is unclear. This study aims to advance knowledge in this area through empirical analysis aimed at answering the following research questions:

- 1) Does executive change improve or hurt organizational performance?
- 2) Does the performance impact of executive change differ for financial and social impact performance measures?
- 3) Is the impact of executive change on organizational performance moderated by measures of prior performance? Specifically, does executive change when interacted with financial performance measures (earned income revenue generation, net asset growth during period leading up to change event) hurt performance?
- 4) Is the impact of executive change on organizational performance moderated by environmental turbulence? Specifically, does executive change during periods of environmental turbulence hurt performance?

## **Data and Methods**

The original dataset for this study was constructed in the following manner. Food bank figures for the year 2006 were extracted from the state-level reports made publicly available in “The Almanac of Hunger and Poverty in America 2007” section<sup>6</sup> of the Feeding America website. Food bank figures for the year 2009 were provided in a spreadsheet by the research staff of Feeding America. The lists were compared based on the federally-issued Employer Identification Number (EIN) provided in both reports. The two years of data from those food banks that appeared in both reports were merged into one file. Food banks with sparse data in either of the two reports were also removed, as were those food banks that were listed as Food Recovery Organizations (FROs). Fewer than 25 organizations appeared in one of the two reports but were eliminated from the merged file as a result of one of the reasons listed above. An

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<sup>6</sup> Feeding America Website: <http://feedingamerica.org/our-network/the-studies/hunger-almanac-2007.aspx>

additional set of food banks (approximately 15) were removed from the study because the food bank operation was part of a larger, multi-purpose nonprofit organization. To supplement the data obtained via Feeding America courses, the original 990 tax filings of the food banks were obtained from the website of the National Center for Charitable Statistics (NCCS),<sup>7</sup> a free nonprofit data clearinghouse run by the Urban Institute. Financial information – including revenues and expenditures (broken down by type), net assets, and other performance data – was extracted from the two filings that most closely corresponded to the two periods covered by the food bank dataset. Incomplete data led to the deletion of three food banks, and variability in financial reporting cycles proved somewhat problematic. Due diligence was taken to ensure consistent data collection.

The first set of variables included in the regression models are general control variables. The variable lb./person 06 is computed by taking the natural log of the figure that results from dividing the total number of food pounds distributed by the total poverty population in the food bank's service area in 2006. It is included in Models 1-3. NetAsstGrowth 06 is the percentage change in the net assets from the start of 2006 to the end of 2006. NetAssets06 is the natural log of the total food bank net assets at the end of 2006 (the beginning of the period under examination). These two variables are included in Models 4-6, as they are relevant with financial performance as the dependent variable. Controlling for previous performance is important as it allows for greater examination of the isolated impact of executive change. Facility Size is the natural log of the food bank facility size (in square feet) in 2006. It is included to control for the potential influence of food bank size on executive succession performance implications. Logarithmic transformations were performed on variables in which there was a severely skewed distribution and concerns about

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<sup>7</sup> NCCS Website: <http://nccs.urban.org/>

heteroskedasticity. Organization age is the total number of years that the food bank has been in existence according to Feeding America; it is designed to capture the potential impact of operational longevity.

The next set of variables capture the contingencies hypothesized to moderate the impact of executive succession on food bank performance. Poverty % Change is a continuous measure of environmental turbulence, defined in this study as the percentage change in the poverty rate for a food bank service area. It is included in both sets of models. One financial performance measure is introduced. Earned Income 06 is the percentage of total revenue in the base year (2006) that a particular food bank generated from program service revenue (as opposed to donations, government grants, and invest income). Earned income strategies are thought to be markers of effective organizational leadership in the nonprofit sector. Additional performance moderators were considered, but multicollinearity concerns ultimately restricted their inclusion.

The next variables are the primary variables of interest in the study. ExecChange is a dummy variable for executive change between 2006 and 2009 (1=yes). ExecChange\*EnvTurb is the interaction term designed to test the moderating impact of environmental turbulence on organizational performance. ExecChange\*Earned Income 06 is the interaction term designed to test moderating effect of prior performance.

Two models, each with different dependent variables, are used in this study. This is in line with recent nonprofit management scholarship and practice which advocates for multidimensional performance measurement. Kaplan (2001) discusses the importance of financial and nonfinancial measures in the Balanced Scorecard approach. lb./person Change is the dependent variable used in the first set of models (#1-3), computed by first dividing the total pounds distributed by a food bank by its poverty population in the two years of interest, and then subtracting the final year quotient by the base year quotient. The justification for this measure is

that the ultimate goal of food banks is to ensure that sufficient food is available for distribution by frontline providers. While they cannot be held fully responsible for seeing to it that an appropriate and sufficient supply of food is requested and consumed by those in need, it is part of their mandate to help develop and support the channels that serve that end. NetAssetGrowth is the dependent variable used in the second set of models (#4-6), computed by subtracting the food bank's net assets at the end of 2006 from the 2009 total, and then dividing that figure by the 2006 net assets. This is a general trend measure of the organization's solvency and financial position. The summary statistics for the control, interacted, and dependent variables are included in Table 1.

-- Table 1 about here --

A series of "nested" Ordinary Least Squares (OLS) regression equations were run on the data to explore the isolated effect of each control and independent variable on the dependent variable, as well as to get a sense of the explanatory value of each model. Models 1 and 4 only includes control variables. Models 2 and 5 only include control variables and the executive change variable. Models 3 and 6 include the control variables, executive change variable, and the variable interaction terms.

## **Findings**

In response to research question #1, executive change is found to have a positive impact on organizational performance defined as both financial and social impact performance. In response to research question #3, the interaction of prior performance, as measured by earned income generation, and executive change is found to negatively impact financial performance

but not social impact performance. The unmoderated prior performance measures show interesting relationships to the dependent variables. Earned revenue generation has a negative effect on social impact performance, but no effect on financial performance. The initial net assets of the food bank have a negative effect on financial performance, but the net asset growth in the period just prior the study has a positive effect on financial performance. In response to research question #4, the interaction of environmental turbulence with executive change has a negative relationship to social impact performance (albeit a statistically weak one), but no impact on financial performance. Environmental turbulence in isolation has a statistically strong, negative impact on social impact performance, but again, no impact on financial performance. Based on these findings, the answer to research question #2 is that financial and social impact performance are nuanced concepts with unique relationships to executive change.

-- Insert Tables 2 & 3 About Here --

## **Discussion**

Executive change is a complex concept and area of inquiry. Results from this study support some of the findings based in the private and public sector literature. However, there are some interesting results worthy of further discussion. Most notably, the impact of executive change on firm performance is found to be positive devoid of contingencies. In regards to this finding, the fact that mainstream theories are not found to be particularly applicable to a nonprofit case lends further credence to calls for scholarly engagement in this area by academics studying nonprofit organizations. While the interaction of executive change with environmental turbulence is found to have a negative effect on social impact performance, the finding is statistically weak. Additional tests of this contingency are necessary, but there is some initial evidence to suggest that executive change during periods of environmental turbulence can be

particularly problematic. Another interesting finding from this paper is the nuanced impact of executive change on financial and social impact performance.

The findings of the study must be interpreted with caution for three different reasons. First, the performance measures employed in the study are among many possibilities that could be justified. Second, the model is underspecified in several respects based on the review of the literature. Details about executive directors and basic information about food bank senior leadership are not available in this dataset, nor is information about the circumstances surrounding the executive change. Finally, external validity and generalizability concerns must be critically examined. To be sure, there are potential ways of improving the study. For example, it would be preferred to have some food banks outside of the Feeding America network included in the study. Additionally, data from more fine grained time increments would allow for more specific testing of the executive change phenomenon. Finally, reputational information and staff opinions about executive directors would be helpful.

## **Conclusion**

It is critical for the nonprofit sector to deepen their knowledge about executive succession as nonprofit organizations face mounting financial pressures, performance imperatives, and demographic shifts. Chapman & Vogelsang (2005, p. 2) offer an honest assessment of the leadership challenges facing the nonprofit world: “As baby boomers retire, the devolution of government funding increases, competition from other sectors becomes more intense, and the workforce shrinks, we can expect the leadership mantle in the nonprofit sector to become evermore precarious.” This study is among the first efforts to help address this issue through systematic and robust research. It will hopefully engage scholars and practitioners on questions

about the nature and function of executive leadership in nonprofit organizations. Specifically, the findings from this study should lead the nonprofit sector community, particularly board members, to re-examine the widely held notion that executive stability benefits the financial and social impact performance of nonprofit organizations. Executive change has the potential to be a powerful tool to help nonprofit organizations achieve success. It may be that the nonprofit sector, a sector that places a strong emphasis on human resources and social relationships, is too change resistant when it comes to executive leadership within organizations.

Future research on nonprofit executive succession and change needs to be more expansive across both setting and function, as well utilize more complete data sources. Additionally, the nonprofit sector needs to enter into conversations with the business and public sectors and the strategic management scholarly community. While the nonprofit sector certainly has unique characteristics, there is potentially much to be learned from work in the sectors, particularly when it comes to identifying best practices that others are utilizing to deal with shared generational and professional trends.

**Table 1: Summary Statistics & Correlation Matrix**

DESCRIPTIVE STATISTICS			CORRELATIONS			
Variable	Mean	Std. Dev.	lb./person Change	NetAsst Growth	Exec Change	ExecChange* EnvTurb
lb./person Change	7.24	27.70	1.00			
NetAsstGrowth	1.63	10.65	0.04	1.00		
ExecChange	0.18	0.38	0.13	0.16	1.00	
ExecChange*EnvTurb	0.02	0.08	-0.11	0.12	0.57	1.00
ExecChange*Earned Income 06	0.02	0.08	-0.04	-0.02	0.43	0.13
Poverty % Change	0.12	0.16	-0.31	0.02	-0.01	0.34
NetAssets 06 (ln)	0.20	0.54	0.06	0.87	0.13	0.10
lb./person 06 (ln)	4.19	0.51	-0.12	-0.24	-0.17	-0.17
Earned Income 06	0.09	0.15	-0.17	-0.06	-0.01	-0.07
Facility Size (ln)	10.62	0.73	-0.10	-0.03	-0.04	0.00
Organization Age	27.89	4.37	0.12	0.02	-0.05	-0.08

ExecChange*E arnedInc 06	Poverty % Change	NetAssets 06	lb./person 06	Earned Inc 06	Facility Size (ln)	Org Age
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lb./person Change							
NetAsstGrowth							
ExecChange							
ExecChange*EnvTurb							
ExecChange*Earned Income 06	1.00						
Poverty % Change	-0.06	1.00					
NetAssets 06 (ln)	-0.03	0.00	1.00				
lb./person 06 (ln)	-0.09	0.12	-0.19	1.00			
Earned Income 06	0.44	-0.03	-0.11	-0.07	1.00		
Facility Size (ln)	-0.04	-0.04	-0.07	0.10	-0.06	1.00	
Organization Age	0.04	-0.03	0.01	-0.03	0.01	0.31	1.00



**Table 2: Social Impact Models**

<i>DV: lbs/Poverty Change</i>	<b>1</b>	<b>2</b>	<b>3</b>
<b>ExecChange</b>		*8.69	***17.82
<b>ExecChange*EnvTurb</b>			*-55.81
<b>ExecChange*EarnedRev</b>			-30.27
<b>EnvTurb</b>	-54.86	***-55.11	***-45.58
<b>Lbs/Poverty06</b>	** -4.31	-3.14	-4.15
<b>EarnedRev06</b>	***-36.67	***-36.17	** -30.52
<b>Facility 06</b>	** -6.61	** -6.57	** -6.25
<b>Age</b>	** 1.70	**1.11	**1.09
<b>constant</b>	**75.62	**67.59	**67.51
<b>Adj-Rsquared</b>	0.15	0.16	0.16

Significance levels

\* p<.10   \*\*p <.05   \*\*\*p<.01

**Table 3: Financial Performance Models**

<i>DV: NetAssetGrowth</i>	<b>4</b>	<b>5</b>	<b>6</b>
<b>ExecChange</b>		1.22	**3.34
<b>ExecChange*EnvTurb</b>			-7.29
<b>ExecChange*EarnedRev</b>			** -13.87
<b>Env Turb</b>	0.14	0.18	0.98
<b>NetAsstGrowth06</b>	***14.59	*** 14.50	***14.04
<b>NetAssets06</b>	***-2.40	***-2.38	***-2.73
<b>EarnedRev06</b>	0.76	0.76	3.57
<b>Facility 06</b>	***2.75	***2.75	***3.07
<b>Org Age</b>	0.03	0.04	0.06
<b>constant</b>	4.18	3.62	4.66
<b>Adj-Rsquared</b>	0.78	0.78	0.79

Significance levels

\* p<.10   \*\*p <.05   \*\*\*p<.01

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