BERIT M. LAKEY

BOARD FUNDAMENTALS

UNDERSTANDING ROLES IN NONPROFIT GOVERNANCE

SECOND EDITION

BoardSource®

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Library of Congress Cataloging-in-Publication Data

Lakey, Berit M.

Board fundamentals : understanding roles in nonprofit governance / Berit M. Lakey. -- 2nd ed.

p. cm.

ISBN 1-58686-120-4

1. Boards of directors. 2. Nonprofit organizations--Management. 3. Corporate governance. I. Title.

HD2745.L246 2010

658.4'22--dc22 2010033261

First Printing, September 2010
ISBN 1-58686-120-4

Published by BoardSource
1828 L Street, NW, Suite 900
Washington, DC 20036

Note to readers: This book is the Revised edition of *Nonprofit Governance: Steering Your Organization with Authority and Accountability.*

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BoardSource envisions a world where every social sector organization has the leadership it needs to fulfill its mission and advance the public good. Our mission is to inspire and support excellence in nonprofit governance and board and staff leadership.

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CONTENTS

INTRODUCTION

The almost 1.8 million tax-exempt nonprofit organizations in the United States[1] span a wide spectrum of mission areas, resources, values, history, and stakeholders. They don't necessarily look much like each other. A 200-year-old university with a budget in the hundreds of millions of dollars is a very different creature from a newly established local alternative school. A national environmental advocacy organization does not look much like a local community health center. A chamber of commerce plays a different role in the community than does an animal shelter. However, despite their differences, as nonprofit organizations they share similar demands and challenges related to their governance whether their governing boards are called boards of directors or boards of trustees.

Serving on the board of a nonprofit organization involves serious obligations but also potentially significant personal satisfactions. On the one hand, it demands time, attention, and teamwork; on the other hand, it provides opportunities to contribute time and talent to a meaningful cause. To be effective and make a difference, board service requires knowledge and commitment. More than ever, it also requires accountability.

Highly publicized scandals affecting nonprofit organizations as well as for-profit corporations have raised questions about organizational governance. The public and the media want to know who was responsible. Was it the chief executive who fell down on the job? Was the board not paying attention, or did the board not understand its responsibilities for safeguarding the organization's future? Chief executives often feel as though they are the only ones held accountable for what does or does not happen when, in fact, ultimate accountability rests with the board. Board members worry and want clarification of their responsibilities. Most want the time they spend on board service to make a difference in accomplishing the organization's mission, but often they wonder whether it matters. Does the board serve as a strategic asset or is it time-consuming window-dressing? Does it meet primarily to fulfill a legal requirement?

This book, which builds on the previous edition, titled *Nonprofit Governance: Steering Your Organization with Authority and Accountability,* is designed to serve as an overview of effective nonprofit governance practices and seeks to answer four basic questions: What is governance? What is the role of the board? What is expected of board members? How does an effective board operate? The book is designed to introduce new board members to principles of nonprofit governance as well as to provide a refresher and new ideas for those with more experience. Hopefully it will

[1] Internal Revenue Service Data Book, 2009, Publication 55B, Table 25, p. 56. (Washington, DC: 2010).

also open a conversation between the board and the chief executive about their respective roles in organizational governance. Ultimately, the purpose of the book is to support boards throughout the nonprofit sector in strengthening their performance in advancing their mission.

Because all board members of a nonprofit organization must understand the meaning of their own organization's nonprofit designation, the first chapter of the book provides a short description of the nonprofit sector. This is followed by a chapter discussing the concept of governance (a concept that seems murky to many people) and by three chapters describing key governance roles and responsibilities of the board as a whole. Chapter 6 deals with the individual roles and responsibilities of members of the board, and Chapter 7 discusses the role of the chief executive, as seen as a partner with the board in organizational governance and leadership. The issue of how a board can most effectively carry out its responsibilities is the topic of Chapter 8. It covers issues such as board structures and meetings, committees, and board development — all areas where there has been much learning over the past quarter century.

At the end of each chapter there is a set of questions designed to engage boards in an exploration of their own practices. Boards that raise these questions in their board meetings are sometimes surprised by the answers and should use the opportunity to talk about ways to improve their governance.

While it deals with "how-to" issues, this is not a detailed "how-to" book. In some ways it will rather serve as a framework for and an overview of much of the material that is covered in more detail in other BoardSource publications and many other places. It does so by examining the work of the board through the wide lens of governance rather than through a more detailed discussion of discrete board responsibilities and ways of operating. Hopefully, it will help its readers recognize that governance is a system of interconnected roles and responsibilities, policies and practices. To serve its organization well a board needs both to understand its roles and responsibilities *and* how most effectively and efficiently to do its work — including how to make use of what each board member brings to the table.

Organizations described in the book generally represent composites from work with numerous clients over the years. At times, examples will be drawn from actual, but not always identified, organizations.

CHAPTER 1

THE NONPROFIT SECTOR

More than in most countries, economic and organizational life in the United States consists of three sectors: public, private, and nonprofit. Other countries often refer to the nonprofit sector as the civil or third sector and to organizations in this sector as nongovernmental organizations (NGOs). All three sectors serve their nations and communities in some way, but they serve different purposes and are supported in different ways.

- Public sector organizations exist to serve the public, the common good. They are part of governmental structures, are influenced by political trends and perspectives, and are financed largely by tax revenues.
- Private sector organizations exist to produce a profit for their owners. To do so, they must meet the needs or wants of constituencies, which value and will pay for their goods or services.
- Nonprofit sector organizations exist to serve a social purpose, a constituency, or a cause. They have no individual owners who can claim organizational assets for their own benefit. In general, they seek to meet needs that neither of the other sectors address. To do so successfully, they must earn or raise sufficient funds to cover expenses and safeguard the organization's future ability to continue to serve the mission.

In the United States, most nonprofits are incorporated in the state where they function and must follow the specific corporate statutes in their state.[2] Tax-exempt nonprofits are defined by the Internal Revenue Code (IRC) and are classified as IRC 501(c) organizations. They are exempt from paying federal income taxes. In most places they are also exempt from state and local taxes, although perennial local government budget shortfalls are beginning to challenge nonprofit exemptions from sales and/or property taxes.[3]

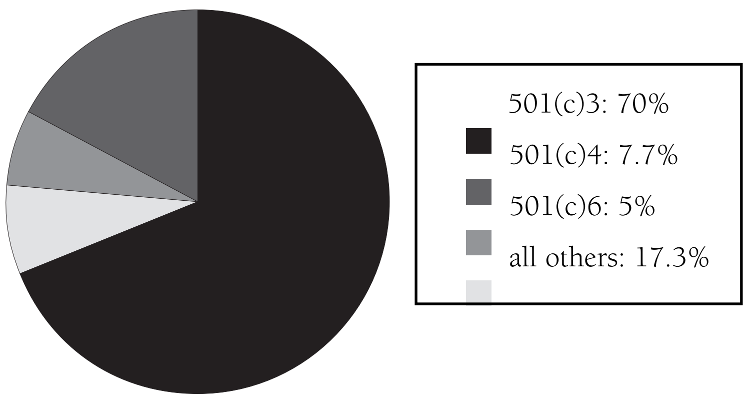
[2] The terms "tax-exempt" and "nonprofit" are often used interchangeably and refer to the same organizations. However, "tax-exempt" is an IRS term and "nonprofit" is used at the state level in connection with incorporation. Incorporation as a nonprofit organization is generally helpful in order to gain tax exemption. Unincorporated associations and trusts are also forms of nonprofit organizations.

[3] Panel on the Nonprofit Sector: *Strengthening Transparency, Governance, Accountability of Charitable Organizations: A final report to Congress and the Nonprofit Sector,* p.1. (Washington, DC: Independent Sector, 2005).

Rather than using the term "nonprofit" some people prefer to refer to organizations in the sector as "not-for-profit." They feel that the term "nonprofit" is incorrect because, although the purpose of such organizations is not profit making, they are not prohibited from making a profit. As a matter of fact, any organization that expects to exist beyond the current funding cycle must aim to generate sufficient surplus (profit) to build up reserves designed to deal with possible funding gaps in the future, as well as to allow for innovation and growth. Any surplus/profit must be used to support the organization's mission and cannot be distributed as private gain. (Reasonable compensation for services rendered is not considered unlawful private gain. For tax-exempt nonprofits, unlawful private gain is often referred to as "private inurement.")

COMPOSITION OF THE NONPROFIT SECTOR

The Internal Revenue Service (IRS) recognizes 27 categories of tax-exempt nonprofits. Three categories comprise more than 80 percent of the total number.[4]



As can be seen from the chart above, the largest category by far is that of 501(c)(3). It consists of organizations mainly established for scientific, educational, and religious purposes. Referred to as charities, these organizations must serve a public service purpose as opposed to the interests of specific groups. Financial contributions to 501(c)(3) organizations are tax deductible. In return for this benefit, these organizations must refrain from involvement in electoral campaigns and observe a number of other rules limiting their involvement in political action. The next largest categories comprise 501(c)(4) organizations, which serve social welfare and public advocacy causes, and 501(c)(6) organizations, which represent trade and professional membership associations. Both of these are permitted to lobby in support of a legislative agenda, but financial contributions to their work are not tax deductible. Professional membership associations that do not engage in lobbying tend to operate as 501(c)(3) organizations.

[4] Internal Revenue Service Data Book, 2009.

SIZE OF THE NONPROFIT SECTOR

The nonprofit sector contributes in significant ways to the economy of the United States. It employs more than nine million people (almost 10 percent of the American workforce) and contributes more than $300 billion in wages *and* the services of almost five million volunteers. If the budgets of all organizations in the sector were combined, the amount would exceed the size of all but six national economies in the world.[5]

While it is important to understand the differences among the three sectors, it is also necessary to reckon with the fact that their differences are increasingly blurred. Some nonprofits operate for-profit businesses. New entities, such as B Corporations and L3Cs, add to the complexity. B Corporations are for-profit corporations that have been certified to meet comprehensive and transparent social and environmental performance standards. As of this writing, seven states and two Indian nations have passed legislation allowing the establishment of L3Cs, limited liability companies (LLCs) that are expressly formed to serve the social good rather than maximizing shareholder value. "L3" refers to "low-profit, limited liability." With L3C legislation pending in many more states, this crossover phenomenon is likely to continue and escalate. Both nonprofit organizations and private companies act as proxies for government agencies when they deliver services through government contracts. In addition, what happens in one sector invariably affects life in the other sectors. Legislation passed in response to corporate scandals has led to increased demand for financial and legal oversight in the nonprofit sector. Decreased corporate earnings during economic downturns and corporate mergers have resulted in reduced contributions to nonprofit organizations and to lower tax revenues required to meet public needs. Public demand for accountability in all three sectors has probably never been higher. And accountability is a key feature of good governance, whether in the public, private, or nonprofit sector.

QUESTIONS FOR BOARD MEMBERS TO DISCUSS

1. What do our board members understand to be the implications of our organization's tax-exempt status?
2. How do we ensure that we always function according to state and federal laws?

[5] Kenneth T. Wing, Thomas H. Pollock, and Amy Blackwood. *The Nonprofit Almanac 2008.* (Washington, DC: Urban Institute) www.councilofnonprofits.org/telling-our-story/nonprofits-numbers.

CHAPTER 2

GOVERNANCE: THE WORK OF THE BOARD

The word *governance* comes from an ancient Greek word, *kebernon*. In current usage to govern means to steer, to control, and to influence from a position of authority. Governance deals with the distribution of authority throughout a system, whether a country or an organization.

Authority to govern a nonprofit organization may be granted by a variety of sources, from organizational members and supporters to public agencies or officials. When an organization is incorporated, the state in which the incorporation takes place assigns responsibility for the organization's affairs to a governing board, usually referred to as the board of directors, but in some institutions called the board of trustees. This means that the *state* grants to the board the legal authority to establish policies designed to shape the life and work of the organization and that the board is ultimately accountable to the state for the discharge of its legal responsibilities.

A nonprofit governing board is expected to represent the public trust by ensuring that the organization carries out the purposes for which it was established and as expressed in its mission statement and that it does so in a responsible and accountable fashion. The importance of governance and accountability was highlighted by the establishment in 2004 of the Panel on the Nonprofit Sector. Convened with the encouragement of the chairman of the Senate Finance Committee, the panel provided "a thorough examination of the sector's governance, transparency, and ethical standards," and published a set of guidelines designed to clarify what the public has a right to expect from organizations designated as nonprofits.[6]

THE LEGAL FRAMEWORK

An organization's articles of incorporation and its constitution and bylaws will determine how its board is to be constituted and organized. While boards vary in size and structure, as well as in how often they meet and how their members are selected, the board is where the proverbial "buck" stops, no matter how a board is structured and how it chooses to operate.

[6] Panel on the Nonprofit Sector: *Strengthening Transparency, Governance, Accountability of Charitable Organizations: A final report to Congress and the Nonprofit Sector,* p.1. (Washington, DC: Independent Sector, 2005).

In some organizations, the board must operate within parameters established by other bodies. For instance, in some membership associations, a representative house of delegates must approve changes to the bylaws or elect members of the board. In subsidiaries, certain decisions may require the approval of the parent organization board or must conform to a policy framework established by the parent board. Examples of such decisions include election of board members, changes in bylaws, sale or acquisition of property, hiring of the chief executive, or choice of management service provider. Such structural arrangements are sometimes referred to as shared governance. Each board must be aware of the extent and possible limits of its authority and to whom it is accountable.

The legal framework for nonprofit boards has evolved over time. For many years, laws related to trusts were used to determine issues of nonprofit board accountability. This framework assigned a great deal of responsibility to individual trustees and tended to foster a fairly cautious approach to organizational affairs. A number of court cases have since placed interpretation of nonprofit board accountability within the framework of corporate law. Now, legal responsibility in general rests with the board as a body rather than with individual trustees. Even so, each member of a nonprofit board, as well as the board as a group, is responsible for fulfilling three legal duties: the duty of care, the duty of loyalty, and the duty of obedience.[7]

The Duty of Care requires that board members "be reasonably informed about the organization's activities, participate in decisions, and do so in good faith and with the care of an ordinarily prudent person in similar circumstances." This has to do with attendance at board meetings and with participation in the work of the board.

The Duty of Loyalty requires that board members "exercise their power in the interest of the organization and not in their own interest or the interest of another entity, particularly one in which they have a formal relationship." Each board is expected to adopt policies related to potential conflicts of interest.

The Duty of Obedience requires that board members "comply with applicable federal, state, and local laws; adhere to the organization's bylaws; and remain guardians of the organization's mission." Decisions to authorize activities beyond the scope of the mission may have tax or other implications.

Beyond these legal duties, emerging standards for organizational governance include *effectiveness* and *efficiency* as well as *transparency*. Effectiveness implies getting results; efficiency deals with the way in which boards use resources, such as organizational funds or the time set aside for meetings. Transparency refers to communication and information flow that enables both internal and external parties to understand the whys and hows of organizational decisions. This is a crucial factor in establishing and maintaining public trust.

[7] Bruce R. Hopkins, JD, LLM. *Legal Responsibilities of Nonprofit Boards, Second Edition.* (Washington, DC: BoardSource, 2009).

THE THREE ROLES OF THE BOARD

Since to govern means to steer, influence, and control, the board has three major roles in the life of the organization: to establish mission and direction, to ensure that the organization has the necessary resources of funds and leadership to implement the mission, and to provide legal and fiduciary oversight on behalf of the people served, the organization's members and supporters, and the public. Each of these roles will be explored in subsequent chapters.

> Leadership is the ability to inspire and guide others toward building and achieving a shared vision. (American Dietetic Association Leadership Statement)

My work with dozens of boards over the years has led me to believe that board members frequently identify more with the "control" part of the definition of governance than with the "steer" part. The 2005 book *Governance as Leadership*[8] points to the fact that nonprofit boards too often fall short of their potential precisely because they do not realize that governance implies leadership. In order to lead, a board needs to understand both *what* it must do and *how* to do it.

While the board has the authority to establish the organization's mission and set major policies for how this mission will be fulfilled, responsibility for implementing these policies is usually delegated to management through the chief executive. In order to differentiate the work of the board from that of management, it is common to describe the work of the board as making policy,[9] while management is described as responsible for implementing board policies. This distinction frequently turns out to be overly simplistic but does point to an essential difference between the two parties.

Another way of describing the difference between the role of the board and the role of management is to envision the board as operating from 30,000 feet up in the air — seeing the organization in its wider context — and the chief executive as leading from five or 10 thousand feet — making sure that the parts on the ground are working well together.

Here is an example of how a board policy might be implemented through policies developed at different levels in the organization:

- A local art museum board established a policy granting equal amounts of annual leave for all staff regardless of exempt or nonexempt status.

[8] Richard P. Chait, William P. Ryan, and Barbara E. Taylor. *Governance as Leadership: Reframing the Work of Nonprofit Boards.* (Hoboken, NJ: John Wiley & Sons, 2005).

[9] A policy is a guiding and binding principle that helps in deciding a course of action. Stated differently, it is a guideline that limits options for acceptable actions.

- The chief executive developed a policy that annual leave would be severely curtailed for all personnel dealing with the visiting public during the busiest season.
    - The human resources department policy stated that the needs of employees with school-age children would be accommodated whenever possible when developing vacation schedules.
        - The person staffing the information desk developed an informal policy for herself that she would always take her vacation during times when there is a decrease in the number of visitors.

As this example illustrates; policies may be formulated at all levels of an organization, from the boardroom to the mailroom. However, policies developed at the board level shape decisions that have organization-wide implications, while management-level policies are limited to more specific situations. It may be helpful to think of an organization's policies as a set of nesting bowls, with each bowl fitting into a larger one. The largest bowl contains the policies established by the board (or in some organizations by a constituent assembly or house of delegates or by the parent organization). Policies established at the chief executive–level and at lower levels must support or fit within the policies adopted at the next higher level.

How a board understands its roles will change as the organization changes. The founding board may be composed of a group of individuals who share a passion for the mission and want to be intimately involved in the work. Or a founding board may be a collection of individuals recruited by the founder who see their role as supporting the founder but do not expect to be actively involved. In either case, the new organization may be vulnerable if the board does not understand its governance roles and responsibilities.

In organizations that have little or no paid staff, the board often functions as the management team as well. When this happens, the board may become so focused on operational issues that it forgets its governance responsibility. Strategic thinking and direction-setting tend to take a back seat to the more immediate needs of fundraising and getting things done, which, in the long run, may hamper the organization's further development. To avoid such a development, the board might delegate responsibility for implementing the organization's program to individual volunteers or committees. Even if board members continue to be involved in managing and operating programs, the board needs to set aside meeting time to focus on governance-related issues.

A neighborhood association is an example of an organization that rarely has paid staff. Its board might decide that a newsletter is needed to keep association members involved and aware of neighborhood issues. Having no staff, the board would need to find an individual or small group of volunteers who would produce such a newsletter. The board would also need to adopt policies designed to guide those with the responsibility of deciding what to publish and what not to publish. Such policies might deal with the kind of advertising to accept, whether to take positions on controversial issues, etc. Having established these policies and found the people to work on the newsletter, the board is free to deal with other issues rather than having to manage the publication and distribution of the newsletter.

In situations where the board consists of individuals recruited by the founder, the board often has limited information about what it means to be a board. It might be unaware of its responsibilities of legal and fiduciary oversight. As a result the whole enterprise would be at risk if management failed to act prudently and ethically.

GROWING PAINS

If an organization survives its founding stage and begins to grow, the board will at some point transition into more of a governing board, a process that is often fraught with tension. What worked in the beginning may need to be replaced by new ways of operating if the organization is to grow up. As structures are developed to deal with increasing demands, policies will be needed to guide the organization's operations and further development. In the process of the organization growing up, the board also needs to grow up. Some board members may have a hard time letting go of their old roles. New board members will expect a clearer differentiation between governance and management. Skilled leadership and fiduciary oversight become more of a necessity, possibly requiring founding board members to be replaced.

As an organization goes through its lifecycle changes, from newborn to child to teenager to adult, the world around it keeps changing as well. Challenges and opportunities must be dealt with. The board is ultimately responsible for ensuring a viable organizational future. To the extent that a board understands and claims its governance role as including both organizational trusteeship and leadership, it will be a strategic asset in support of the mission.

The next three chapters will discuss the three major roles comprising the board's governance functions: establishing mission and direction, ensuring the necessary resources, and providing oversight. It should be noted that there are no sharp boundaries between how these roles are exercised. Strategic thinking is needed whether planning for the future or attempting to understand and evaluate the past. Successful resource development will depend on effective oversight as well as on articulating a compelling mission and vision. To fill each of its key roles, a board must carry out a number of specific responsibilities, all of which involve either policymaking or policy oversight.

QUESTIONS FOR BOARD MEMBERS TO DISCUSS

1. What are the limitations, if any, on our board's authority to make decisions?
2. What does our board do to ensure that it operates in accordance with the duties of care, loyalty, and obedience?
3. How does our board exercise organizational leadership?
4. What are examples of policies that must be approved by the board?

CHAPTER 3

BOARD ROLE: ESTABLISHING ORGANIZATIONAL IDENTITY AND STRATEGIC DIRECTION

The demand for effectiveness and efficient use of resources continues to increase. The public in general, and funding sources in particular, are challenging nonprofit organizations to prove their worth. It is clearer than ever that boards must take responsibility for ensuring that the organization has a solid strategic framework for the work to be carried out and for ensuring that all efforts are geared toward shared ends. Not doing so means avoiding the authority that is vested in the board and undermining its ability to be accountable for the organization's work and resources.

The board and staff of most nonprofits work hard, but working hard is no guarantee of making a real difference. "Busy-ness" and constant activity can mask a lack of direction. Sometimes boards get caught up in responding to crises and pressures experienced at the staff level and feel that thinking strategically about the future is a luxury they cannot afford. The problem is that board members as well as staff members tend to burn out when operating in constant crisis mode or not having a shared sense of direction. To exercise their responsibility for organizational leadership, boards need to keep a strategic perspective and set aside time for serious thinking about the future rather than spending all or most of their time focusing on current problems.

An organization will rarely make a significant difference unless it pays careful attention to the intersection of its work and the environment in which it operates. However, instead of thinking only about what it should *do* to respond to needs in the environment, its leaders should also be thinking about what to *achieve* and *why*. Organizational effectiveness depends on operating with common understandings about what is important and what the organization as a whole needs to accomplish. Plans can then be made and resources be apportioned so that every program and every effort connects with the efforts of the others.

Setting direction requires looking beyond the immediate horizon. It means asking questions such as

- What are the issues we must confront in order to serve our mission in the years ahead?
- What are different ways of understanding some of these issues?
- Where should we be in five years?
- What are we committed to achieving?

Setting direction means taking the time to establish a framework for the organization's efforts. It includes taking a fresh look at the mission, articulating a shared vision for the future, establishing major goals, and outlining strategies for achieving goals. It also includes identifying how to measure progress and articulating guiding values for organizational action.

STRATEGIC PLANNING

Strategic planning is an effort to look at the organization in its environment and chart a future direction. Every board should set aside time periodically to consider the organization's reason for existing and what it intends to accomplish. Identifying the issues that must be dealt with if the organization is to survive and thrive means taking a serious look at the internal and external factors that may affect what it seeks to accomplish, for whom, and at what cost. Setting the organization's strategic direction involves thinking beyond next year. But these days, when change happens with increasing speed, it might be hazardous to think much beyond three to five years. Major goals and time frames established in a strategic plan will guide action in the desired direction and make it possible to monitor progress and, if necessary, to modify plans in response to new developments.

Generally, board-level planning focuses on five areas: mission, vision, values, goals and strategies, and resources. However, planning is rarely a straightforward activity, especially during a time of rapid change. It may require going over the same question repeatedly when new information comes to light. It requires the ability to consider how different factors will affect each other and to anticipate the effects of changes both inside and outside the organization. For instance, an organization's mission might need to be revised if major demographic shifts are happening, and its funding strategies might be vulnerable to changes in government funding priorities. Strategies for addressing issues and accomplishing goals might need to consider new developments in information technology or new research related to the mission area. The hardest part of strategic planning is often the need to establish priorities among issues to be addressed, which may mean determining what the organization will *not* do.

Strategic planning is the area where boards, chief executives, and senior staff most commonly work together. The chief executive and senior staff tend to bring more information and certain expertise to the task while board members, whose livelihoods do not depend on the organization's performance, bring a diversity of perspectives as well as more objectivity. How boards and staff members work together in strategic planning may differ from organization to organization, but it is imperative that the board should be involved in the formative stages when issues are defined, the mission is reviewed, a vision outlined, and major goals and strategies are formulated.

Governance as Leadership makes the case that boards are generally brought into the strategic planning process too late, mostly after the creative work of exploring the meaning and implications of information about the environment and organizational data have been completed at the staff level. The authors argue persuasively that the board should be more involved "upstream" in the strategic planning process rather than "downstream" where strategies are formulated and performance indicators are established. In any case, before plans are formulated, boards need to raise questions relevant to the organization's identity, its values, its role in the community, and its priorities. While the responsibility for eventually drafting the strategic plan is usually delegated to the chief executive/staff or a special task force, once the draft is completed, it should be presented to the board for review and approval.

> Every board should play a meaningful role in defining the organization's strategic direction and ensure that plans are developed for how to reach its goals. Without a clearly articulated direction and goals to accomplish, an organization may find itself working hard but moving in circles rather than forward.

A strategic plan need not be a long and complicated document, but it needs to contain the major features of what the organization expects to achieve over the next several years, strategies for moving ahead, and what resources will be needed. It becomes the basis for developing the business plan or the annual operating plan and budget.

Mission

As a board seeks to establish the direction in which the organization will move over the next few years, it is important to take a careful look at the mission statement. An organization's mission answers the question, "Why do we exist?" If the organization does not have a mission statement, the board should develop one in order to avoid scattering organizational efforts and resources. A mission statement is a concise expression of what an organization is working to achieve and for whose benefit. It should be brief and inspiring so that it is memorable both for board members and potential funders. The mission statement should not be a list of all the things an organization does but should be general enough that it covers the various programs it carries out.

> "Organizational advancement is predicated on clarity of mission; commitment to its implementation; and a continuing understanding that the mission reflects the shared values of the board, the staff, and the community. Nowhere should this be more evident than in board leadership." Kay Sprinkel Grace, Amy McClellan, and John A. Yankey, *The Nonprofit Board's Role in Mission, Planning, and Evaluation, Second Edition* (BoardSource, 2009)

Here are some examples of mission statements.

- The mission of Valley Community Health Center is to safeguard the health of its patients and to strengthen the community by making excellent primary health care accessible to everyone.
- The mission of the Wilderness Foundation is to preserve the ecological health of the region.
- As a group of politically independent citizens, New Options exists to serve as an incubator of creative and viable plans for the development of the River Junction waterfront.

A key step in strategic planning is to review the mission statement and consider whether internal or external changes will necessitate a change. The board's questions about mission should include

- Why do we do what we do and is this reflected in our mission statement?
- Is our mission statement clear?
- Is it still relevant?
- Does it inspire support?
- Should it be more focused or more general?
- For whose benefit do we work?
- Does our mission statement reflect what we consider to be our business?

Vision

A vision statement — a verbal picture of an organization's desired future — should generate energy and enthusiasm for moving forward. Without a vision of a better tomorrow that challenges and inspires, an organization may stagnate and, in the long run, decline. Having a vision statement makes it easier to focus all organizational efforts in the same direction.

A vision statement will take shape during strategic planning, as the board and key staff members together ask, "Where do we need to go, and what will it look like when we get there?" Answers will depend on a careful consideration of the organization's strengths and weaknesses and the opportunities and threats that exist in its environment, as well as on the values that are fundamental to the organization's existence. Vision statements may be specific to what an organization will be like or have achieved at some point in the future, or they may be more global in relation to the mission.

> "The vision inspires action: planning, fundraising, marketing, good governance, sound management. People want their dreams to come true." Kay Sprinkel Grace, Amy McClellan, and John A. Yankey, *The Nonprofit Board's Role in Mission, Planning, and Evaluation, Second Edition* (BoardSource, 2009)

The organizations whose mission statements are listed above might develop vision statements such as the following:

- In its new, state-of-the art facility, Valley Community Health Center will serve as a centerpiece of family-oriented health care in the area.
- The vision of the Wilderness Foundation is local communities actively and proudly engaged in safeguarding regional biodiversity .
- The River Junction waterfront will be a vibrant resource for the civic and business life of the city and surrounding communities.

Values and Principles

Values guide action. When there are no agreed-on values in an organization, progress may be impeded by conflicting messages or by efforts to control every action through enforcement of rules. In a rapidly changing environment, rules cannot be spelled out for every eventuality. Moreover, rulebooks are soon overlooked. Values enable people to figure out what to do when there is no one there to provide direction or when a new situation arises for which there is no known precedent. Moreover, organizational leaders, careful to ensure legal compliance, sometimes need to be reminded that just because something is legal, doesn't mean it's right.

Problems arise when individuals and groups in an organization have different guiding values. Sometimes they don't even know that they have different assumptions about what is important until a conflict arises. By working with staff and other stakeholders to identify the values that ought to guide individual and organizational behavior, a board helps shape the organization's culture and identity and bring the vision closer to reality.

Since values drive behavior, a board would be well advised to ensure that the organization has an ethics policy and that it is made available to everyone associated with the organization. Developing such a document and making sure that it has the support of key constituencies may take time and effort, but in the long run will save time and trouble. Not only will ethics policies assist in developing an accountable organization, they will also help the nonprofit sector gain public trust, much of which was lost through highly publicized scandals in recent years.

Values guide organizational planning as well as organizational operations. Often values are described as the principles that guide the work of the organization. As such, they should be of key concern to the board during the strategic planning process. By articulating these principles, the board and chief executive establish guideposts that help chart direction for years ahead.

Power of Values

During strategic planning, the board of a school for children with moderate developmental disabilities was challenged to establish a principle that the school's students deserved to be educated in mainstream settings. This led to a decision to change from educating children to educating teachers and administrators in regular schools about how best to support the needs of children with developmental disabilities. The principle resulted in the sale of some of its facilities. Action followed a clearly articulated principle.

When organizations are not clear about their values or principles, boards may be tempted to make decisions that follow the path of least resistance. They may be at the mercy of strong personalities or be swayed by the agenda of a significant funder. When this happens, an organization may be in danger of losing its soul, which will eventually result in a blurred image and questions about its integrity. This may also happen if organizational leaders, including the board, fail to live up to the organization's espoused values.

SAMPLE CORE VALUES STATEMENT

Core Values of Riverside Credit Union

RESPECT
We show respect by

- Listening attentively and seeking to understand
- Treating others as we would like to be treated
- Demonstrating kindness and thoughtfulness
- Appreciating differences

INTEGRITY
We show integrity by

- Being honest in everything we do
- Following through on promises
- Trusting and being trustworthy

INNOVATION
We show innovation by

- Taking ownership and fearlessly demonstrating initiative
- Recognizing the need for change and acting on it

EXCELLENCE
We show excellence by

- Surpassing expectations
- Doing things right the first time

PASSION
We show passion by

- Responding positively and energetically
- Loving what we do and taking pride in it
- Having fun and being enthusiastic

Here are two examples of situations where it would have been useful to have a set of articulated organizational values:

- A nonprofit organization that develops housing for low-income people is offered a substantial donation by a chain of liquor stores in return for support for a liquor license application in a neighborhood where the organization is renovating a row of houses. Some board members argued that the money would support valuable work in the neighborhood while others felt strongly that accepting liquor money would send the wrong message to the people they were trying to serve. Still others thought it wrong to “sell” the organization’s support.
- A community-chartered credit union had proudly just moved into its new building. It housed both the corporate office and the main office serving its members. The chief executive was happy finally to have roomy and pleasant administrative offices. Board members were glad that construction was completed and that credit union business could get back to normal. However, when they toured the administrative offices some of them were a bit taken aback at what they considered the elegance of the place. The expense that had gone into the furnishings became an issue in the chief executive’s performance review

after board members began hearing complaints from credit union members about how the credit union's money, their money, was being wasted on luxury. The chief executive felt misunderstood and resentful.

When there are no agreed-upon organizational values and principles, board and staff will bring their personal values, which may differ significantly, to bear on the situation. The solution may then depend on who has the most power or influence, not on what would be best for the organization.

Goals and Strategies

To achieve its vision and implement its mission, an organization must adopt major goals and strategies for how to reach them. This means working with the chief executive to figure out approaches for dealing with challenges both inside and outside the organization. It also means identifying how to build on the organization's strengths and how to take advantage of opportunities on the horizon.

Few organizations can manage to focus on achieving more than about half a dozen major goals. In other words, strategic goal setting has to do with establishing priorities rather than trying to be "all things to all people." Major goals are those things that must be achieved in order for the vision to become reality, and strategies are the approaches the organization will take to accomplish its goals.

Valley Community Health Center

- Goal: Secure funding for construction of the new facility
    - Strategy: Conduct a capital campaign that will raise 25 percent of anticipated costs prior to applying for a construction loan

Wilderness Foundation

- Goal: Improve public understanding of how biodiversity can benefit local communities
    - Strategy: Provide support for projects to develop media presentations for local distribution

New Options for River Junction

- Goal: Develop a well-researched plan designed to gain the support of the City Council
    - Strategy: Work with a professor at the nearby university to involve students in investigating what led to successful waterfront developments in other cities

Resources and Contingency Planning

For vision to become reality, resources are needed. The board must determine, at least in broad strokes, what will be needed in terms of funds, expertise, information, leadership, and time. A strategic plan without reference to resources may be more of a dream than a plan. Accomplishing the goals outlined in the plan might require a capital campaign. Others might need funds for expanded capacity related to a new venture or to investment in technology. Not until the board and the chief executive have estimated the costs involved in implementing their new plan and resources needed can they claim to have completed the planning.

Unfortunately, unforeseen events sometimes wreak havoc with the best of plans. Economic downturns and other challenges have led boards to include contingency planning as part of their strategic planning efforts. By developing best and worst case scenarios they identify ways in which to mitigate risks while they also prepare their organizations to take advantage of positive developments.

ANNUAL PLANS/BUSINESS PLANS

A strategic plan is only useful if it is followed. In order to reach its goals, a board must ensure that annual operational plans, sometimes referred to as business plans, are developed that will take the organization in the desired direction. Responsibility for developing these plans is generally delegated to staff. In organizations with minimal staff resources, the board's program and finance committees may take on these functions, or a special task force may be established for the purpose. In either case, the board should require that program plans and budgets be closely related and follow the strategic direction approved by the board. However, the board needs to maintain an overall perspective rather than get involved in operational details.

QUESTIONS FOR BOARD MEMBERS TO DISCUSS

1. What is our board's role in establishing our organization's strategic direction?
2. How does our board ensure that there is a shared understanding of and agreement with the organization's statements related to the mission, the vision for the future, values, and principles?
3. How does our organization's budget reflect the goals and strategies in the strategic plan?

CHAPTER 4

BOARD ROLE: ENSURING NECESSARY RESOURCES

The board is responsible for making sure that the organization has the resources needed to achieve its goals. Such resources generally include people to do the work, facilities in which to administer and carry out programs, funds to cover program expenses, and credibility with the public or specific constituencies on whose support the organization will depend. The board itself does not necessarily have to develop these resources, but it must make sure that people and systems are in place to make them available and that goals and resources are brought into alignment. The organization's size and complexity, structure, culture, and environment will determine how resource development responsibilities are allocated. In the next several pages we will look at the responsibilities of the board for ensuring capable leadership, adequate financial resources, and a positive public image.

CAPABLE LEADERSHIP

Chief Executive

In all but the smallest or mostly volunteer-driven organizations, staff is hired to coordinate and implement the organization's programs. Authority to manage the organization's affairs is delegated to the chief executive within guidelines established by the board. This authority generally encompasses hiring and managing other staff, developing operational plans in line with policies approved by the board, providing information and support to the board, and usually serving as a link to the world at large.

The board's responsibilities for ensuring that the organization has the necessary executive leadership include identifying the qualities currently needed in a chief executive, recruiting and hiring the executive, and then supporting the executive and evaluating his or her performance. Because conditions and organizations change, the qualities needed may change over time. When challenges outgrow the capacity of the current chief executive, the board must consider its options. If the problem is insufficient knowledge or skills, the board might decide to help the executive gain additional skills and knowledge. Granting time and financial support for participation in chief executive leadership programs or arranging for mentoring by a professional with the necessary qualifications are possible strategies to pursue. If the problem is the increased workload caused by organizational growth, it might be necessary to change the chief executive's job description and authorize funds to hire additional staff, such as a chief operating officer or a development director.

These days, few executives spend their lives in one organization. A 2006 study covering 2,000 chief executives in nonprofit organizations indicated that about three-quarters of them expected to leave their positions within the next five years.[10] This means that replacing a chief executive is no longer a once-in-a-lifetime event. In general, there are three reasons why chief executives might move on:

1. Their jobs are not satisfying (too demanding, poorly paid, not sufficiently challenging, boards that micromanage or are unavailable, etc.).
2. They get offers from other organizations that they cannot refuse.
3. Boards decide to replace chief executives because their skills, interests, or capacities no longer match the organization's needs.

In addition to these reasons for an executive's departure, we also know that even the greatest chief executive will eventually retire and that sometimes illness or accidents result in sudden executive office vacancies. In such cases the board must find a new person to fill the position in order to ensure that the organization gets the executive leadership needed for the foreseeable future.

Few board responsibilities are more important than hiring a chief executive. Every board should be prepared for the sudden departure of the chief executive. A well-thought-out succession plan should be in place in every organization. It should cover both a plan for how to ensure that capable staff leadership is available between the point when an executive leaves and when his or her replacement is installed and a plan outlining steps that need to be taken to find, hire, and install a new chief executive. Development of a short-term replacement plan includes asking the chief executive about the possibility of grooming one or two current staff members for a temporary position as chief staff leader. If that is not an option, the board needs to determine where to turn for temporary leadership in order to ensure that the organization's work won't be disrupted or poorly managed.

If the departure of the chief executive followed a very long tenure or a period of conflict or negative publicity, the board might choose to appoint an interim executive (usually recruited from outside the organization) charged with preparing the organization for the beginning of a new chapter in its life. This also applies when an organization's founder leaves the position as chief executive. Feelings of respect and loyalty may have kept the board from challenging both the founder and itself during the founder's tenure and may have resulted in an unbalanced board–chief executive partnership. When this is the case, the board will need to consider its own

[10] *Daring to Lead 2006.* CompassPoint and the Eugene and Agnes E. Meyer Foundation. www.meyerfoundation.org/downloads/4DaringtoLead2006d.pdf.

role in relation to that of the chief executive and not only the skills and experience needed in the next executive. Failure to consider its own role in organizational leadership is likely to result in a short-term tenure of the next chief executive. Questions to be addressed in a succession plan include

- What will be the role of the board and the board chair during the interim?
- How will we determine the qualities and capacities needed in a new chief executive?
- Will we use a search firm and, if so, what will we tell it to look for?
- How will the search committee be constituted, and what should be the charge to the committee?
- What process will the board use to make its hiring decision?
- What expertise will be needed for contract negotiation?

A board that has a well-crafted succession plan is less likely to rush the replacement process and risk making an unwise hiring choice.

> "The bottom line: Nonproft boards need to figure out how to make sure executive transitions are not a problem for their organizations but rather an opportunity to enhance capacity and add to mission impact down the line." Don Tebbe, *Chief Executive Transitions: How to Hire and Support a Nonprofit CEO* (BoardSource, 2008)

The Board

Since governance is the board's work and since governance implies leadership, the board must also be responsible for ensuring that it has the needed capacity as an organizational leader. This includes both board composition and board operations. Board development will be dealt with in Chapter 8 but needs to be understood in the context of the board's responsibility for ensuring effective leadership.

ADEQUATE FINANCIAL RESOURCES

Money is usually a crucial factor in implementing an organization's mission. Without money staff cannot be hired, and without staff with the necessary skills, knowledge, and time to get things done, little will be accomplished. Even all-volunteer organizations may need funds to carry out their program. For example, a local sports club may need to purchase equipment and pay for upkeep of facilities; a community chorus may need funds to purchase sheet music, etc.

All boards must adopt policies and plans related to financial resources, not only how much will be needed to carry out the organization's work but also how to ensure a diversified funding base. Organizations that rely primarily on one form of funding may be at risk when the financial environment changes. Charging for programs and services, obtaining government contracts, seeking foundation support, and raising funds are all traditional options. Membership associations usually rely on income from member dues and from educational and other program offerings.

In recent years, some nonprofit organizations have added for-profit ventures to their repertoires. For example, in Pennsylvania a number of nonprofit hospitals and insurers have established for-profit subsidiaries such as pharmacies and real estate companies. The Cystic Fibrosis Foundation did the same for home-health and direct mail operations. Through such ventures, nonprofit organizations can raise funds from activities that are not directly related to their nonprofit mission. Nonprofits may also choose not to spin off the unrelated business into a formal subsidiary and to pay tax on any profit achieved. An example might be a museum that operates a gift shop on its premises in order to diversify its funding sources (while also bringing more visitors to the museum's exhibits). An unrelated business income tax (UBIT) may be due on the profit of non–mission-related items, such as mugs, jewelry, or clothing.

Boards considering a for-profit venture should seek professional tax counsel and look at whether other factors need to be considered. Could the business damage the organization's reputation? Is there a potential conflict with the organization's values or mission? Would the attention needed to succeed in making a profit take away from the attention paid to the implementation of the mission? In some cases, creating a for-profit subsidiary may be the most viable option.

The board's responsibility for determining strategies and adopting policies for acquiring financial resources includes considering the possible hidden cost in accepting certain funding. For example, a grant that does not cover administrative costs may in the long run reduce resources needed for other projects or programs. The offer of funds to establish an endowment may require that the organization undertake actions or programs that are peripheral to or outside of the mission. Contributions from certain sources may have public relations ramifications. Funding for a pilot project may be contingent on the organization committing to raising the necessary funds to continue the program after the completion of the pilot phase. The board should be aware that the organization might risk negative publicity if a successful project is discontinued after the grant ends.

From time to time, borrowing money may be necessary. Some needs may be anticipated because of expected cash flow fluctuations. Expenses may be incurred for programs that will produce income at a later point, or a major portion of an organization's income may come in at a particular time, such as membership renewal season or an annual fundraising event. Other needs may be unexpected, such as equipment failure or the cost of an executive search. To prepare for such occurrences, whether anticipated or not, the board might authorize the establishment of a bank line of credit and develop policies for when and how to use it. It is usually advisable not to wait until the need arises in order to ensure that the funds will be available when needed.

Boards are responsible not only for the organization's immediate financial future, but for safeguarding its longer-term future. As part of its policymaking, the board must establish goals for developing financial reserves and consider issues related to possible endowments. Ensuring that funds are invested according to the organization's values and strategies is also a board responsibility.

Once a board has adopted policies related to financial resource development, usually with input from staff, it may delegate the responsibility for implementation to staff or to a committee or task force. If staff is assigned to work with such a group, responsibilities must be clearly defined. In an organization that solicits funds from the public or from targeted supporters or that arranges fundraising events, it needs to be clear whether the committee advises the staff, who is then responsible for raising the money, whether the staff serves in a support role to the committee that will be responsible for implementation, or whether it is a shared responsibility.

FUNDRAISING AND THE BOARD

Lack of clarity about fundraising responsibilities is a frequent source of dissatisfaction on nonprofit boards. This is an area where there are no hard and fast rules, which means that each board and executive must discuss how responsibilities are to be shared. Many board members would prefer that all resource development be assigned to staff, but this option is hardly ever satisfactory. Board involvement is crucial to fundraising success whether or not fundraising is a major part of the chief executive's job description. In some organizations, the chief executive serves as the chief fundraiser with board members in a support role; in others, the chief executive supports the fundraising effort through hiring and supervising a development director or making other staff available as support for the volunteer effort. However, no matter who takes the lead, the chief executive, as the chief spokesperson, has a direct impact on an organization's fundraising.

Increasingly, potential donors, including both individuals and foundations, routinely ask about board participation in providing financial support. The assumption is that "you don't ask others for money until you have made your own contribution." To clarify board member responsibility in this area, many boards adopt the policy that all board members are expected to make an annual financial contribution in an amount that is significant in terms of their own financial situation. Commonly, policies also stipulate that all board members will participate in the fundraising effort in some fashion. Connections and introductions to donors, participation in fundraising events, personal notes on solicitation and thank you letters, and direct solicitations are just a few of the ways in which board members can make a difference in terms of fundraising success. To avoid misunderstandings later, it is important that all potential board members be informed about this policy and what would be expected of them once they join the board.

THE TRIPLE A BOARD

(Kay Sprinkel Grace)

Board Member Roles in Philanthropy

Ambassador

- Has already made his/her own gift to the organization
- Is a role everyone should play
- Has key roles in cultivation of prospective donors and stewardship of continuing donor–investors
- Needs to be well oriented and coached in the message
- Is a master of the "elevator speech" (and the "elevator question")
- Is a catalyst for donor–investor renewal

Advocate

- Has already made his/her own gift to the organization
- On the golf course or in the car pool — has already been strategic in sharing information about the organization
- May also advocate on a more formal basis with city officials, foundation officers, and other partner–organizations
- Is informed about the case for support and is well integrated into the strategic plan and vision
- Is well coached on desired results of personal advocacy and handling objections

Asker

- Has already made his/her contribution to the organization
- Enjoys sharing his/her enthusiasm for the organization and asking for investment
- Is well informed, well trained
- Is "matched" with prospective donors (or current donor–investors) for maximum possibility of success
- Is teamed with another board "Asker" or staff leader
- Allows staff to organize the ask so the Asker's focus can be on the single purpose of getting (or renewing) the gift
- Benefits from the work of the Ambassadors and the Advocates

PUBLIC IMAGE/REPUTATION

An organization's image and reputation will influence what other resources become available. Most nonprofit organizations depend for their success on positive relationships with the world beyond their boundaries. These relationships are based both on the quality of the organization's programs and on what people know about its work. To develop a good reputation these days it is not enough to carry out great programs; effective methods need to be found to spread the word about the organization's mission, programs, and people. Failure to do so will put the organization at a disadvantage; it will lose out in the competition for public awareness, attention, and support.

As the guardian of organizational mission and resources, the board needs to ensure that organizational stakeholders and the public are kept informed of successes, issues, progress, and challenges. Without such information, support will eventually decline. Since image and reputation depend on what information is available to the organization's many publics, the board must work with the chief executive to make sure that there is an effective public relations strategy. It should be closely related to the strategic direction established by the board but must, of course, also reflect current programs, achievements, and challenges.

The chief executive is generally responsible for ensuring that all public relations and information services are guided by the organization's values and ethics principles, that information is not only accurate and understandable but presented in ways that reach the organization's different audiences. These days, boards should expect that their organizations will make use of rapidly developing technology and a variety of social networking approaches, especially for reaching younger audiences. An important feature of social networking is that it enables two-way communication between an organization and its constituencies as well as between those who support (or oppose) a cause.

While most boards assign the key spokesperson role to the chief executive (who in turn may assign specific responsibilities to staff), it is useful to clarify what role, if any, the board chair will take. In particular, it is important to identify who will respond to the media if anything happens that could harm the organization's reputation. In such cases, the chief executive may not be the most appropriate spokesperson because of a perceived conflict of interest. Accusations of sexual molestation in a school, bribes in a community development organization, or financial self-dealing in a religious institution are examples of such situations. Reports in the media about accidents to or within an organization's facilities tend to lead to questions about responsibility. If disasters should strike, there will be little time to figure out how to respond. Bad news travels with the speed of light and is easily exacerbated by a bungled response. Since nobody knows when potentially damaging information might show up, the board should make sure that an up-to-date crisis communications plan has been prepared. Depending on the organization's mission area and its exposure to the public, it may be wise to provide training for the chief executive and board chair so that they know what to do or not to do, particularly if there is potential legal exposure.

> "There are no secrets in the world, and everyone will eventually find out everything."
> Jack Welch, *Winning* (HarperBusiness, 2005)

Boards of membership associations have a special responsibility to ensure that members are kept informed, that they have opportunities to express their opinions, and that they are made aware of actions taken on their behalf. Newsletters, Web pages, blogs, e-mails, and conference calls with key contacts are some of the ways such boards stay in touch with their constituencies. Moreover, in many such associations, the board chair or president carries a major responsibility for staying in touch with the membership through visits to chapters, presentations at meetings, etc. When members feel out of the loop, apathy or negativity are likely results. This also happens if members begin to have a sense that they are told only partial truths. Boards should be aware that members are suspicious of "spin" and need to see signs that they can trust the integrity of association communications.

A board must understand that the organization's overall image depends not only on the quality of its programs but on reputations of board members. Whether fairly or unfairly, the public and an organization's stakeholders often make judgments about an organization based on what they know about the people who serve on the board and on the board's reputation as a whole. Do they see people who understand the issues facing the organization? Do they hear about a group that tries to micromanage rather than pay attention to direction setting? Do they see "important" people serving as active ambassadors in the community, or do they see names but little involvement? What people see will influence what they will give, whether in terms of funds or cooperation.

QUESTIONS FOR BOARD MEMBERS TO DISCUSS

1. What has our board done to prepare for an orderly replacement, when the time comes, of the chief executive?
2. What policies do we have to guide our organization's pursuit or acceptance of financial contributions?
3. What choices exist for our board members to fulfill their fundraising responsibilities?
4. What does our board do to ensure that the organization enjoys — and deserves — a positive reputation among its various constituencies?

CHAPTER 5
BOARD ROLE: PROVIDING OVERSIGHT

Most of what a board does to some extent involves both authority and accountability. However, in the board's oversight role, also known as its fiduciary role, the emphasis is on accountability. Being a fiduciary means making sure that organizational assets are safeguarded and that they are responsibly and effectively used to implement the mission. As far as the public is concerned, providing oversight, not only of finances and programs but also of an organization's legal and ethical conduct, is the most important reason for having a board. People have heard the stories about charity monies that were misused, programs that were mismanaged, and solutions that never materialized. They want to be assured that somebody is watching the store. They want to know that somebody is checking to be sure that the organization is making a difference and that resources are being used wisely.

A board must take its oversight role seriously, and the organization's constituencies must be made aware that the board is doing so. Not only does a board need to ensure that accurate information about organizational performance is readily available, whether through annual reports, Web pages, or other vehicles, it should also find ways to let constituencies know about the work of the board itself. All boards should be aware that the public can find out about their organization's work and finances by requesting a copy of its IRS Form 990 or downloading the information from the GuideStar Web site. Form 990 is the annual information return used by the IRS to determine whether or not the organization continues to fill the requirements of its tax-exempt status. In the spirit of transparency, many organizations now post their Form 990 on their Web site. Each board should see a copy of the form before it is filed with the IRS. In fact, the IRS asks on the form whether the board has received a copy and what its review process is.

Proactive Transparency

IRS Form 990 is a public document and one of the primary tools to shed light into the organization and its finances, activities, and governance practices. By posting the Form on the organization's Web site, the board is supporting and promoting methodical transparency.

An important aspect of the board's oversight responsibilities is to focus on outcomes, results, or ends of the organization's efforts rather than on the means, the hows of the organization's work that is generally delegated to management. Oversight has to do with "what did we accomplish?" and "did we follow established policies and legal requirements?" rather than "what did we do?"

In this chapter we will first address the board's responsibilities for financial oversight. We will then discuss risk management and program monitoring and evaluation before briefly pointing to the board's responsibilities related to the organization's legal and ethical operations. The chapter will conclude with a discussion of the board's responsibility for chief executive performance evaluation.

FINANCIAL OVERSIGHT

Responsible financial oversight means keeping track of the organization's financial health and initiating corrective action when necessary. It means asking hard questions.

Questions Board Members Should Ask

- Is our financial plan consistent with our strategic plan?
- Have we run a gain or a loss?
- Is our projected cash flow adequate?
- Do we have sufficient reserves?
- Are any specific expense areas rising faster than their sources of income?
- Are our key expenses, especially salaries and benefits, under control?
- Are we meeting guidelines and requirements set by our funders?

Financial oversight usually includes keeping track of the budget, long-range trends and needs, ensuring that financial management policies are in place, and requiring and reviewing the annual audit.

Adopting and monitoring the organization's annual budget is part of the board's fiduciary responsibility. However, monitoring implementation of the budget is rarely a favorite activity for board members. Unfortunately, many are happy to leave the task to the finance committee despite the fact that the board as a whole is ultimately accountable for ensuring the organization's financial health. Board members are ill equipped to exercise their fiduciary responsibilities if they do not keep up with financial information. Problems might be caused by board members not knowing what to look for in the financial statements or because the statements give either too much or too little information. Increasingly, boards are requesting their finance reports to be presented in ways that more effectively present the big picture and trends, such as using graphics and color coding, and brief statements concerning factors that influenced financial performance during the reporting period. Most boards could benefit from periodic reviews of the purpose, format, and frequency of financial reports and from clarification of respective board and finance committee responsibilities.

Board members sometimes think that financial oversight primarily means making sure that nobody is running away with the money. As a result, they worry that asking questions about the financial report might imply that the chief executive is not trustworthy. The fact is that board members have a responsibility to raise questions and a right to have them answered. That does not mean that board meetings need to be taken up with questions related to minor budget details that could be answered outside the meeting. But it does mean board members should not stop asking questions for fear of offending the chief executive or anyone else.

While the board certainly must guard against malfeasance and identify financial problems, this is not the only reason for financial oversight. Equally important is that the board as a whole be aware of the organization's financial condition, which has a significant impact on most other aspects of the organization's life. Financial oversight implies keeping an eye on the future and on trends in the environment as well as on what has happened or not happened in the recent past. For professional and trade association boards, this means a need for considering financial implications for their industries and members related to technological trends. For United Way boards, it means having to wrestle with the likely reductions in contributions caused by corporate mergers or by corporate headquarters moving out of the area. Hospital boards may need to evaluate the financial impact of demographic changes that are likely to influence reimbursement rates. In other words, effective financial oversight often requires using a strategic lens, not only because understanding the past and the present is a necessary condition for wise steering into the future, but also because the environment into which the board is helping to steer is changing in important ways.

A significant way for a board to exercise its financial oversight responsibility is to ensure that an outside auditor performs an annual audit. The auditor works for the board, not for the chief executive, although the auditor needs the staff's cooperation to gain access to the necessary documents. The auditor examines policies and tests practices to establish whether the organization's accounting is objective, fair, complete, and accurate. A clean audit means that the auditor has examined the books, financial statements, and financial policies and procedures and has found them to be in accordance with generally accepted accounting practices. Any concerns and recommendations for improvement will be contained in the auditor's management letter. It is the board's responsibility to ensure that plans are made to respond to the issues described in the management letter and for following up to monitor compliance. Boards need to be aware, however, that receiving a clean, unqualified audit does not guarantee that there has been no financial impropriety, since the auditor can only judge by the documents provided.

Following the adoption of the Sarbanes-Oxley Act in 2002,[11] boards of large nonprofits are now appointing separate audit committees and making sure that at least one committee member has the financial expertise needed to know which questions to ask. Appointing an audit committee to act as the board's representative with the auditor is a way to maximize the benefit of the auditor's efforts. Boards should be aware that the audit function now must be kept separate from other financial services. It is no longer appropriate to hire the auditor's firm for accounting or financial consulting services.

To increase the board's financial oversight skills some organizations use their meeting with the auditor not only to review the audit but also as an opportunity for learning how more effectively to use finance statements to gain a more productive understanding of the organization's financial condition.

RISK MANAGEMENT

The board's oversight responsibility includes safeguarding the organization's mission and future by establishing policies that guard against loss of resources — financial, human, and reputational. The goals of risk management are to protect the emotional and physical safety of people, conserve the organization's assets in such a way that it can pursue its mission, and ensure compliance with the law. Risk management, therefore, is an oversight function related to the full spectrum of organizational operations, from program and finances to legal and ethical issues. It may include ruling out certain kinds of programmatic approaches, instituting safety and security precautions, buying insurance, or knowingly deciding to accept and live with a certain form or amount of risk.

Consider the example of a local recreation center board contemplating building a new facility. The board is presented with the question of whether to install an outdoor swimming pool. Not only does it have to consider the cost of building and operating the pool, it has to consider the resources needed to prevent accidents during regular hours of operation and when closed to the public, the cost of insurance, and the value to the people who would use the pool. The only way to avoid risk is not to build the pool. Minimizing risk involves instituting policies and practices (including staffing, fences, and gates) that would make an accident very unlikely. By buying insurance, the financial risk would be transferred to or shared with a third party. But no amount of insurance could protect the reputation of a recreation facility where a drowning could have been prevented by proper safeguards.

The insurance needed depends on the organization's property and exposure to liability and should be periodically reviewed to ensure adequate coverage and cost-effectiveness. A board might establish a task force to carry out such a review and to

[11] Named after its sponsors in Congress, Senator Paul Sarbanes and Representative Michael G. Oxley, the law was adopted in response to major financial and accounting scandals in the corporate sector. However, a number of provisions are considered relevant and important for nonprofit organizations as well: adopting conflict-of-interest policies, whistleblower protection policies, document retention policies, and establishing separate audit committees.

make recommendations for change, if indicated. To protect its board members from liability in case legal actions are taken against the organization, for most nonprofits it is now strongly recommended that the organization buy Directors and Officers insurance (D&O).

While it needs to safeguard an organization's assets, a board cannot become totally risk averse. That attitude would compromise the mission, since practically everything an organization might choose to do involves some level of risk. Instead, the board needs to weigh possibilities and options and establish policies that minimize exposure to risk.

Nonprofit organizations are not sued very often. When they are, however, the suits often have to do with human resource issues, such as employment discrimination, unfair dismissals, unequal opportunities for promotions, etc. Making sure that the organization has adequate and up-to-date human resource policies is another way for a board to exercise its risk management responsibilities. Also related to risk management is adopting whistleblower policies. These are designed to allow individuals with information about possible legal or ethical wrongdoing to come forward without fear of retribution. Equally important, establishing a document retention and destruction policy will protect the organization if it comes under federal investigation.

PROGRAM MONITORING AND EVALUATION

In recent years, as competition among nonprofit organizations has increased and resources have grown scarcer, the calls for organizational accountability and the search for measures of effectiveness have grown ever more insistent. The issues of monitoring and evaluation have moved closer to the forefront. Boards ask how they can know the extent to which the organization is making a difference. This question is not easy to answer, and most boards seem aware that they need to improve significantly in this area.

Program monitoring means checking to see whether plans are being implemented and goals are being achieved. Program evaluation focuses on the quality of programs and services and on whether the results are worth the expenditure of funds and effort.

Monitor and Evaluate

Monitoring asks, "Are we doing what we said we would do?" Evaluation asks, "Are we doing the right thing? Are we doing it well enough?" Monitoring involves the collection and review of data, while evaluation involves strategic analysis of data.

Boards approach monitoring responsibilities in different ways, often influenced by factors such as the organization's age, complexity of programs, composition of the board, and relationship of the board to the staff. Unfortunately, some boards tend to get lost in operational detail while others ask little of program reports and prefer to accept the staff's judgment of how things are going. In recent years, the idea of developing a dashboard to monitor progress has gained currency. A board selects a few key indicators that will help it track progress without losing sight of the big picture. For a school, the indicators might include comparative figures on graduation rates and achievement test scores as well as end-of-year student evaluations. In an environmental advocacy organization they might consist of tracking changes in the number of hits on the Web site, the content of articles appearing in mainstream media, and legislation introduced. The board of a health care organization might track a reduction in the incidence of obesity among its patients or the vaccination rate among the children it serves.

Program evaluation is usually a more difficult task than monitoring. It is necessary, however, if a board is to be accountable for the effective use of resources in service to the mission. It is also the area where boards tend to see themselves as weakest and most in need of help. Most people would probably agree that a board has not only the right but the responsibility to ask questions about results being achieved through the organization's programs. Program evaluation asks, "How can we know about the impact of this program or service?" Since this may require special expertise, boards must be prepared to allocate funds for this purpose. Whether done by outside consultants or by staff, boards should expect their chief executive to build evaluation components into the way programs are planned, financed, and conducted.

Boards need to be alert to the possibility that particular program approaches may no longer be the most effective way of serving the mission. Once information is available about the effectiveness of a current program, boards then have to consider whether significant changes are called for. In this way, evaluation can be seen as the first stage of strategic planning. Evaluation outcomes become the basis for questions that need to be asked in terms of planning for the future:

- Is this program or service making enough of a difference for the people served?
- Is it cost-effective?
- To what extent is it still needed or wanted?
- Is there a more effective and efficient way to meet the need?
- What is another way to frame the issue we are trying to respond to?

Too many boards, particularly in membership associations, find it easy to add new programs and services but find it difficult to challenge the comparative value of established programs because they fear negative reactions from a segment of their membership. As a result, offerings grow, but strategic priorities suffer from insufficient resources.

LEGAL AND ETHICAL OVERSIGHT

Even though nonprofit organizations in the United States have a great deal of freedom in terms of what they do, how they organize themselves, and how they support their missions, they all have to operate within a framework of laws and regulations. Boards have to establish policies and provide oversight to ensure that legal boundaries are not breached. Federal laws and regulations such as civil rights laws, immigration laws, laws related to workplace safety and IRS regulations, all represent constraints on organizational action. State and local laws sometimes regulate fundraising practices. Failure to keep in mind these legal constraints may lead to lawsuits and penalties, which will cost time and attention as well as money and may lead to loss of nonprofit status or damage to the organization's reputation.

Lack of Vigilance

Here is a drastic example of what can happen when a board does not take its oversight role seriously enough: The board had not paid sufficient attention to the fact that the organization's finances were shaky and had trusted the chief executive to deal with the problems. He did but by disregarding IRS regulations. Employee tax withholdings were used to pay the organization's bills. Eventually, the IRS came calling. The organization was closed down, and it appears that board members were taken to court for lack of fiduciary oversight and for failure to exercise their legal duty of care.

Boards also need to keep in mind that they are obliged to operate in accordance with the organization's bylaws. Periodic reviews of the bylaws are necessary to ensure that they accurately reflect current or desired practice. When needed, they should be revised. Ignoring discrepancies between the bylaws and current practice is not an option.

In addition to legal compliance, a board must also be concerned with the organization's ethical conduct. In recent years, ethical shortcomings on the part of organizational leaders have harmed the whole sector, not just individual organizations. Since values change, and since organizational memberships and stakeholders change as well, boards would be well advised to review the ethical underpinnings of their own choices and of their organizations' actions. As mentioned earlier, codes of ethics are now being developed in all sectors. They are designed to guide the behavior of organizational members to ensure they meet ethical standards and comply with applicable laws and regulations. Once the board adopts such a code, however, it must assign responsibility for dealing with noncompliance. Otherwise, organizational credibility and reputation will suffer. In some situations, depending on the nature of the possible infraction, compliance issues are referred to the audit committee or to legal counsel.

CHIEF EXECUTIVE PERFORMANCE REVIEW

While the board is accountable to the organization's supporters and to the public for the organization's performance, responsibility for organizational management is usually delegated to the chief staff person, by whatever title. He or she functions according to the authority delegated by the board and is therefore accountable to the board for his or her performance. A board that does not provide an annual performance review with relevant feedback to its chief executive is remiss in its oversight role.

The process of assessing the performance of the chief executive has three main goals according to Jane Pierson and Joshua Mintz in *Assessment of the Chief Executive: A Tool for Governing Boards and Chief Executives of Nonprofit Organizations*[12]:

- to clarify expectations between the board and the chief executive on roles, responsibilities, and job expectations
- to provide insight into the board's perception of the chief executive's strengths, limitations, and overall performance
- to foster the growth and development of both the chief executive and the organization

Too often boards are reluctant to provide a formal performance review for the chief executive. They have many reasons: a perceived lack of time, hesitation to stand in judgment over someone they consider a peer or a friend, worries about a confrontation, or seeing no need to go to the trouble since everything seems to be going well. In the meantime, the chief executive may begin to feel invulnerable and overconfident, which may result in risky or careless actions. Without regular and thoughtful assessment the chief executive may also feel taken for granted and unappreciated or worry that his or her performance is seen as less than satisfactory, and, as a result, may be open to offers from other organizations.

To make the assessment a beneficial process for both the board and the chief executive, a mutually acceptable format must be found. The board must decide whom to ask for feedback, how to collect and compile the feedback, and how to share it with the chief executive. A temptation is either to look for a simple and quick rating instrument or to do an informal survey of board members' feelings about the chief executive. Both temptations should be resisted. Feedback to be collected must relate to the chief executive's job description and previously agreed-on goals and must be collected in a systematic and evenhanded way. To emphasize the fact that the chief executive works for the board, not just for the board chair or the executive committee, the whole board should be asked to participate by responding to questions in an assessment survey. The assessment should also include a chief executive self-assessment.

[12] Jane Pierson and Joshua Mintz, *Assessment of the Chief Executive: A Tool for Governing Boards and Chief Executives of Nonprofit Organizations.* (Washington, DC: BoardSource, 2005).

Once feedback has been collected, a summary report must be prepared prior to the results being shared with the chief executive. In most situations, the board chair and at least one other member of the board will meet with the executive to discuss the assessment report and its implications for the future, such as possible job description revision, remedial actions to be taken, compensation, etc. The annual review should result in the board and the chief executive agreeing on performance goals for the year ahead and other actions needed to ensure excellent executive leadership. These goals and action plans then become a basis for next year's evaluation.

Dealing with the issue of compensation should follow and be part of the chief executive's assessment. Clearly, the results of the assessment should have a bearing on the compensation, but other factors also come into play. Not only does the chief executive's compensation package depend on the organization's financial condition, but to avoid repercussions from intermediate sanctions regulations established by the IRS, boards should collect information related to executive compensation in similar organizations and similar markets before establishing their own chief executive's compensation. One of the issues that emerged from the Daring to Lead 2006 study was that perceived inadequate compensation is one of the reasons why so many chief executives are considering leaving their current positions.

Approve the Full Compensation Package

"We strongly recommend that the entire board review and approve the chief executive's salary and benefits. The board may delegate responsibility for producing recommendations and the data to back them up to a smaller group or committee of board members. However, the final compensation package should be approved by the board as a whole. There is one caveat: Only independent board members … should be involved in the final approval process."

Brian Vogel and Charles W. Quatt, *Nonprofit Executive Compensation* (BoardSource, 2010)

QUESTIONS FOR BOARD MEMBERS TO DISCUSS

1. How does our board ensure that all board members have a clear understanding of the organization's financial condition?
2. What does our board do to make sure that the organization has up-to-date risk prevention policies designed to protect the organization's resources and the people involved?
3. How does our board track progress toward strategic goals?
4. How does our board assess the chief executive's performance?

CHAPTER 6
INDIVIDUAL ROLES OF BOARD MEMBERS

Members of nonprofit boards serve their organizations in a variety of roles. They function as members of the governing body, as organizational ambassadors, and sometimes as volunteers in some aspect of the organization's work. When board members fail to recognize that these are different roles, which require different behaviors, misunderstandings and conflicts may result.

MEMBERS OF THE GOVERNING BODY

The key role of individual board members is to be participants in the organization's governance structure. When accepting board membership, they become part of a group that is vested with the authority to make decisions on behalf of the organization and that is also accountable for the effects of these decisions. This means they accept certain duties and agree to undertake responsibilities inherent in the position of board member. They "must exercise due diligence to see that the organization is well managed and that its financial situation remains sound. Fiduciary duty requires board members to be objective, unselfish, responsible, honest, trustworthy, and efficient."[13] Stated somewhat differently, being a fiduciary requires independent-mindedness, a quality that makes board members put the organization's interest above all else when making decisions. It implies not allowing "their votes to be unduly influenced by loyalty to the chief executive or by seniority, position, or reputation of fellow board members, staff, or donors."[14]

As members of the board they will participate in setting organizational direction, ensuring that the organization has the necessary resources, and providing oversight over the organization's life and work. To do so, they must attend board meetings, read board materials before the meeting, stay informed about the issues facing the organization, and from time to time accept responsibility for undertaking special board assignments. By developing board member job descriptions, boards can assist their members in understanding what is expected of them.

[13] Bruce R. Hopkins, JD, LLM. *Legal Responsibilities of Nonprofit Boards, Second Edition.* (Washington, DC: BoardSource, 2009).

[14] BoardSource. *The Source: Twelve Principles of Governance That Power Exceptional Boards.* (Washington, DC: BoardSource, 2005).

A Board Member Job Description

- Have a clear understanding of the board's responsibility for the organization's governance
- Regularly attend all board and committee meetings
- Actively and appropriately participate in the board's deliberations
- Review agenda and supporting materials prior to meetings
- Serve on committees and offer to take on special assignments
- Stay informed about the organization's mission, services, policies, and programs
- Keep up-to-date on developments in the organization's field
- Follow conflict-of-interest and confidentiality policies
- Respect the role of staff and refrain from making special requests of staff
- Support the organization with an annual personal financial contribution and through informing others of the organization's work

Authority and power are vested in the board as a whole. Individually, board members carry no special authority and power, except when expressly requested by the board to carry out specific functions, such as board offices. Bylaws usually spell out the authority vested in each office. For example, the board chair is typically authorized to call and chair board meetings and to serve as the voice of the board in relation to the chief executive.

Even though the corporate structure in general protects individual board members from liability for organizational decisions, they are expected to act in accordance with certain legal standards. These standards are commonly known as the duties of care, loyalty, and obedience. (See definitions of the duties in Chapter 2.)

Duty of Care

Known also as the "business judgment rule," the duty of care is defined as care that an ordinarily prudent person would exercise in a like position and under similar circumstances. This means that each board member is expected to stay informed and to have a basic understanding of issues requiring board action. Reading minutes and background materials related to proposed decisions, regularly attending meetings, asking questions when clarification is needed, and participating in board deliberations are examples of how to discharge the duty of care.

Duty of Loyalty

To be loyal means to be faithful to the organization. When making decisions, a board member must show undivided allegiance to the organization's welfare. The prospect of personal gain or gain for another party with whom the board member is affiliated must not enter into the decision. All boards should have conflict-of-interest policies that cover likely conflict situations, such as business dealings and nepotism. Many boards require that their members fill out disclosure forms at the beginning of the year (or even at the beginning of each meeting) identifying companies or nonprofit organizations with which they are affiliated that might present a conflict of interest for them. Policies related to conflicts of interest are needed to indicate how such situations will be dealt with. Some boards require that a person with a potential conflict of interest refrain from participating in the board's discussion, and most do not permit such persons to vote on the matter in question. It is important to recognize, however, that having a conflict of interest is not illegal. As a matter of fact, board members are often affiliated with a variety of organizations in their communities that might at some point present a conflict of interest. This is sometimes referred to as duality of interest. The important thing is to be clear about how to deal with such situations and evaluate each on the basis of facts and circumstances, always keeping in mind that conflicts of interest may have serious repercussions for the organization's and the board's reputation.

Examples of Real or Potential Conflicts of Interest

- The chief executive serves on the board of a similar organization.
- A board member serving on two boards is asked to solicit grants from the same foundation.
- A board member working for a publicly traded company recommends that the organization invest in his company.
- A close personal friend of the chief executive is being recruited for the board.
- A board member rents an office to the organization at an advantageous price. During the following year, the full board approves major renovations to the premises.
- A representative of a group that receives funds from the organization makes funding choices as a member of the board.

Source: *Legal Responsibilities of Nonprofit Boards, Second Edition,* by Bruce R. Hopkins, JD, LLM (BoardSource, 2009)

A confidentiality policy is also helpful to the implementation of the duty of loyalty. Such a policy is designed to protect proprietary information related to the organization's welfare, whether concerning finances, reputation, legal matters, current issues, or plans for the future. It requires board members to refrain from sharing information that has been designated as confidential, whether it is gained through meetings of the board or its committees or in written or electronic form. The policy also should remind board members that they are bound by this policy even after they leave the board and are no longer affiliated with the organization. To make sure that board members adhere to both conflict-of-interest and confidentiality policies, it is now common to have board members sign a statement each year indicating they have reviewed the policies and will abide by them.

Duty of Obedience

Board members are duty bound to ensure that their organizations comply with the laws of the land and relevant regulations, as well as the organization's own bylaws, and that they are faithful to the organization's mission. This means that board members need to pay attention to issues such as the organization's filing of needed reports with federal and state governments and payment of employment taxes. When considering possible new projects, board members also need to ask questions such as "how will this serve our mission?" and ensure that no action is taken that is inconsistent with the mission. This duty is related to the right of the organization's supporters to know the purpose for which their contributions or membership fees will be used and to be assured that the organization is operating within legal guidelines.

AMBASSADORS FOR THE ORGANIZATION

As ambassadors, board members represent the board outside the boardroom. At times they may take on specific tasks, such as recruiting a new board member, attending a community event, or soliciting support for an issue. At other times, they simply stand prepared to inform others about the organization's work and advocate for its issues and its opportunities. Being an ambassador also means bringing information back to the organization that might be relevant for its current or future actions. Such information may include feedback about the organization's work or about new and emerging opportunities or challenges.

Being an ambassador does not include expressing personal opinions as though they represent organizational positions or making commitments on the organization's behalf. The role of official spokesperson is usually assigned to the chief executive (who may in turn assign specific responsibilities to designated staff). To support board members in their ambassador role, it is often useful to provide them with talking points covering key information about the organization's services and its support needs and about where more specific information is available. They should be warned against responding to media requests for information or opinion and should be advised to refer such questions to the chief executive or designated communications staff. The point is to avoid “muddying the water” with inconsistent messages.

BOARD MEMBERS AS PROGRAM VOLUNTEERS

Serving as a volunteer in the program may give a board member valuable insights into the mission and the way in which the mission is served. Often board members are recruited from the ranks of actively engaged volunteers. However, as volunteers who take on responsibility for particular tasks in the implementation of the organization’s work, board members are no different from other volunteers. Examples of volunteer jobs that are sometimes held by board members include planning membership events, organizing benefits, conducting workshops, or doing research on legislative issues.

As volunteers, board members have no more power and carry no more influence than other volunteers. They have just as much responsibility for follow-through and deserve just as much appreciation as other volunteers. In their role as volunteers, they may be accountable to staff or to other volunteer leaders but should refrain from directing the work of staff or expecting special staff support. Sometimes volunteers who have been recruited for board service find that they are not really interested in the work of governing, that their interest and passion are better expressed through more direct involvement in the work of implementing the mission. Board leaders would do such board members and the organization a favor by finding a graceful way for them to return to their direct-service volunteer work.

QUESTIONS FOR BOARD MEMBERS TO DISCUSS

1. What does our board do to ensure that its members have a shared understanding of their roles and responsibilities?
2. Who is responsible for enforcing the policies related to conflicts of interest and confidentiality? How are board members made aware of requirements?

CHAPTER 7

ROLE OF THE CHIEF EXECUTIVE IN ORGANIZATIONAL GOVERNANCE

Even though the board carries legal responsibility for the organization's actions, the chief executive usually plays a significant role in organizational governance. The degree to which the board depends on the chief executive for information and ideas differs from organization to organization and from time to time. In practice, good governance requires that the parties agree on how to share responsibility for organizational leadership. Too often, however, board members and the chief executive have different expectations about the board–chief executive relationship. This may be thought of as board–executive congruence.

But how does this disparity in expectations come about? Usually, it accompanies normal changes, such as growth or contraction, that occur in different phases of an organization's lifecycle (i.e., start-up, adolescent, mature, stagnant, defunct). As an organization moves through stages in its development, there will be changes in expectations about what the board and chief executive will handle. In a newly formed organization, for example, the board chair may assume all leadership roles and carry out the duties of a chief staff person because there is no staff at that point. Or the board might hire an administrator but still closely direct and supervise this "chief staff person." Once the organization has matured, it will need different leadership skills in its chief staff person. Because these changes in requirements happen gradually over time, they may occur without the board really taking notice. No one may think to change the job descriptions of the chair and chief executive and the bylaws to reflect new roles and new duties. If these disparities are overlooked, confusion and conflict will result; thus, it is imperative that the organization's documents reflect the way work is actually being carried out.

Having established at the beginning of this book that governance implies leadership, it should be clear that the chief executive who serves as an organization's daily leader is an important part of its governance structure. However, the nature and extent of the chief executive's leadership is often more a result of the personality of the person in the position than the result of a board-articulated need. Some years ago, a board discovered what could happen when failing to discuss the issue of leadership in the board–executive relationship. After replacing its long-time founding executive director, the board was bewildered and disappointed when it discovered that the new executive had a totally different understanding of his role than what the board was used to. Board members had assumed that the new executive would operate in the same way the old one did. They were wrong. The old executive pretty much directed the work of the board while the new executive expected the board to direct him. After two unsatisfactory years, the board found itself embarking on a new executive search. Similarily untenable was the situation discovered during a chief executive assessment where it became clear that the board was about equally divided among those who expected the chief executive to be the leader whom the board would support and follow, those who thought that the chief executive should simply do the board's bidding, and those who were expecting a partnership relationship. No wonder the chief executive in that organization soon left to take another job.

POSITION TITLES

A variety of titles are used for the positions of chief staff officer and chief board officer. The most common title for the chief staff position is still executive director, but other titles such as chief staff officer, administrator, or general secretary are also in use. It is now becoming more common to refer to this position as chief executive officer (CEO) and sometimes as president. When the title of president is given to the chief executive, the title for the chief elected or volunteer officer is usually changed to chair/chairman/chairperson. The trend toward titles used in the corporate sector comes from a wish for nonprofit leadership positions to be understood by leaders in the corporate and public sectors. It may also have something to do with the fact that as boards grow more into their governance roles and let go of operational involvements, they expect their chief staff person to take on a wider leadership role and become more of a partner with the board.

PARTNERSHIP WITH THE BOARD

A chief executive who functions as a partner in organizational governance should understand and accept that he or she operates under the authority of the board and is accountable to the board. However, good chief executives also realize that a part of their job as organizational leaders is to support the board through strategic information sharing, identifying challenges and opportunities on the horizon, and working with the board to ensure that the organization has the resources needed to implement the mission. The fact is that the board's responsibilities in the area of establishing strategic direction or oversight can rarely be fulfilled without the active participation of the chief executive.

As mentioned earlier, it is an oversimplification to say that the board sets policy and the staff implements the policies the board establishes. For example, planning for the future will benefit from a close partnership between the board and the chief executive. Since the chief executive spends a lot more time than board members do in thinking about issues that face the organization, it would be wise to include the chief executive in developing the vision and long-range goals that he or she will be charged with implementing. Fundraising and public relations are other areas where boards and chief executives often find it advantageous to work closely together. Moreover, daily involvement with the affairs of the organization makes the chief executive aware of policies that need to be established or changed. A smart board will encourage and appreciate a proactive approach on the part of the chief executive but will also bring its own perspectives to bear on the issues. Smart chief executives share bad news as well as good news with the board and make use of the expertise, information, connections, and other resources present among members of the board. In an effective governance partnership the board and the chief executive have different roles, but they are aware that the organization's success depends on their pulling in the same direction, sharing the vision, and knowing that they can depend on each other to do their part.

Chief executives sometimes resent the amount of time they must spend on relating to the board and its members rather than on their "real work" of organizational management. These complaints usually come from chief executives who serve less effective boards where board members are unclear about their responsibilities, meetings are unproductive, or commitment to the mission is uneven. Rather than feeling victimized by the board, chief executives in such situations would be well advised to accept the fact that providing leadership for board development and board effectiveness is one of the responsibilities that goes along with their jobs whether or not it is spelled out in their job descriptions. This includes getting to know their board members and understanding the perspectives that influence their concerns and their actions. It also includes involvement in board education, participation in new board member orientation, and preparation of engaging and productive board meetings.

Unfortunately, some chief executives fail to understand the importance of having a well-informed and actively engaged board and seek to control their boards by controlling the amount or content of information they give them. Some also seek to control their boards by providing undue influence over the selection of new board members.Whether their actions are caused by a lack of trust in the board's commitment to the organization, the board's ability to deal with complicated issues, or by personal insecurities, it weakens the organization's governance. In the long run this will result in organizational vulnerability.

One way in which chief executives can help establish an effective governance team is to develop a productive partnership with the board chair. If these two communicate and work together in their respective roles of staff leader and board leader, issues that need attention can be identified and misunderstandings avoided. They need to work together in planning board meetings and may share responsibilities for representing the organization in the community. By serving as a confidential sounding board for each other they also strengthen each other's performance to the benefit of the organization. Since each person in the partnership may have different expectations and needs, it is crucial that assumptions and preferences be openly discussed and negotiated every time there is a change in either position.

Since governance deals with authority and accountability, it is to some extent a political concept, so it should not be a surprise to find a bit of tension in the board–chief executive relationship. The board has ultimate power, and the chief executive has immediate power. The two parties can be expected to see things differently. The chief executive is accountable to the board but usually has more information and more day-to-day influence on organizational affairs than does the board. The board is accountable to the organization's stakeholders, represents a variety of perspectives and levels of information, and has limited time available.

Adjusting Tension

A total absence of tension between the board and the chief executive may be an indication that the governance system has lost its vitality. Too much tension, on the other hand, means that energy is being expended on the relationship to the detriment of the organization and the mission.

It is only when issues are vigorously discussed, a diversity of opinions and perspectives are explored, and possible solutions are openly evaluated that the governance team will be able to serve as a strategic organizational resource. The goal should be a strong board *and* a strong executive. The notion of partnership implies the freedom to disagree, but, in the constructive partnership between the board and the chief executive, the board is eventually responsible and accountable for ensuring that needed decisions are made.

A question is sometimes raised as to whether the chief executive should be a member of the board and, if so, whether as a voting member. It is common for the chief executive, by whatever title, to be named in the bylaws as an ex officio member of the board but, in most organizations, without a vote. The *BoardSource Nonprofit Governance Index 2010* found that only 15 percent of chief executives reported that they are voting members of their boards. Some chief executives do not wish to be a voting member of their boards because they think having a vote on the board complicates the issue of accountability or because they do not want occasionally to vote against positions taken by some of their board members. Other chief executives feel that having voting rights makes them more of a peer with their board members and that it signals the importance of their position, both internally and externally.

THE ISSUE OF MICROMANAGEMENT

One of the problems that sometimes crops up in the board–chief executive relationship is micromanagement or even the fear of micromanagement. This situation can occur when the board does not trust the chief executive's ability to manage or when board members simply find it easier and more interesting to operate at the management level. Micromanagement is, however, a misuse of board member time and effort. To avoid falling into this trap, board leaders need to make sure that the board is presented with issues of strategic importance rather than administrative detail. Oversight does not mean telling the executive or other staff how to do their job or keeping track of their actions. Oversight means establishing policy parameters within which management is expected to operate and monitoring progress toward strategic goals. Since board members may have different perspectives on what constitutes micromanagement, it is wise to have a frank discussion of the issue in order to cultivate shared understandings and discipline on the board. Board members need to understand the difference between oversight and interference. An executive's fear of micromanagement may result in failure to keep the board informed about important developments, whether internal or external, that might have significant impact on the organization's operations. Not only might this result in a negative consequence for the organization, it will damage the trust that is needed between the board and the chief executive.

QUESTIONS FOR BOARD MEMBERS TO DISCUSS

1. To what extent is a there a clear understanding among our board members and by the chief executive about the level of leadership expected from the chief executive at this time?
2. What does our board do to avoid the problems of either micromanagement or detachment?
3. What does our board do to make it safe for the chief executive to share bad news?

CHAPTER 8
HOW A HIGH-FUNCTIONING BOARD OPERATES

To add value to its organization, not only does a board need to be clear about its governance roles and responsibilities, it must also determine how best to operate to fulfill these responsibilities. What worked well in the past may not work as well in the present.

To properly do its job of establishing direction, ensuring resources, and providing oversight, the board needs to operate effectively and efficiently and have the knowledge and skills needed for the tasks at hand. A board that attends to the quality of its own performance will serve the organization and its constituencies well. Building a high-performance board requires attending to board development, conducting engaging and productive meetings, and making strategic use of committees and task forces. It also requires ensuring that the board has access to relevant and up-to-date information and that the board approaches its work as a team rather than a collection of disparate individuals.

BOARD DEVELOPMENT

SIZE AND COMPOSITION

There is no right answer to the question of how large a board should be. It depends on the needs of the organization and of the board as a leadership body. Many boards are probably larger than they need to be because they have traditionally tried to include members from a variety of constituencies as part of their efforts to gain wide community involvement and support. Some are large because they have a large number of committees and incorrectly assume board members are needed to fill all committee slots. (Information collected by BoardSource suggests that there is now a clear trend toward smaller boards, with the average size being 16 members.[15]) An effective board has sufficient diversity of perspectives, knowledge, skills, and other resources to equip it to understand and evaluate issues and options before it. If the board is too big, decision making may become cumbersome and result in some board members questioning whether their participation is really needed.

[15] *BoardSource Nonprofit Governance Index 2010.*

Board composition should be closely related to an organization's needs and strategic direction. As an organization grows and matures, as new strategic directions are established, or as the environment changes, what is needed on the board will change. Community demographics may suggest adding individuals who understand the needs and interests of specific population groups. Plans to build or expand facilities might suggest recruiting someone whose construction expertise will sharpen board awareness of issues that need attention. These days, having board members with a good understanding of information technology may be key to the board's awareness of new possibilities as well as of threats emerging on the horizon. More than anything, however, boards need to ensure that the board consists of individuals who are not only committed to the mission but who will ask questions, bring creative ideas, explore implications of reports provided by management, and follow through on their commitments. Connections to opinion makers and sources of funding are also on most board development lists. To keep a board at a reasonable size, boards are learning to create and use structures such as advisory councils and ad hoc committees (discussed later in this chapter), through which to engage individuals and constituencies with resources to share.

Length of Board Member Tenure

In addition to the size and composition of the board, performance is also affected by the length of board member service. For good reasons, most boards limit the length of time a member may serve. They realize that a rapidly changing environment requires regular infusion of new perspectives, ideas, expertise, and energy. They also find it convenient when term limits prevent an ineffective board member from remaining on the board. A lack of term limits may have many causes: a reluctance to hurt the feelings of founding members or financial supporters, a perception that it is too hard to find people willing to serve, or simply that the need for term limits was not anticipated when the bylaws were written. Some justify the lack of term limits by a concern about the loss of institutional memory caused by the departure of long-tenured members. Valid as these concerns may be, however, experience shows that they are not insurmountable and that the benefits of term limits outweigh possible negative effects. The key is to determine the best term-limit structure for each board. For example, board members of organizations such as credit unions and health care organizations, where it takes a long time for them to gain sufficient knowledge about the industry, often serve multiple terms. Instead of the common two terms of three years each, they may choose three or four terms of three years each.

Beneficial Turnover

Regular turnover among board members encourages the board to pay attention to its composition, helps to avoid stagnation, offers the opportunity to expand the board's circle of contacts and influence, and provides a respectful and efficient method for removing less productive members.

Whether or not an organization chooses to limit the number of terms a board member may serve, the board must carefully consider its needs when determining whether to re-elect individuals for an additional term. Automatic re-election too often results in failure to add needed perspectives or approaches or in board seats being occupied by individuals who are not adding sufficient value to the board. All boards should resist the temptation to allow everyone to serve the maximum number of terms regardless of the needs of the board and of the organization.

To deal with their reluctance to lose the wisdom and commitment of long-serving board members because of term limit regulations, smart organizations find ways to keep such individuals involved. Service on key committees, special assignments, and appointment to advisory councils are some of the ways boards are continuing to benefit from the knowledge of retiring board members.

Nominations, Selection, and Orientation

In most 501(c)(3) organizations, boards are authorized to choose their own members and are known as self-perpetuating boards. However, some have board members appointed or elected by other authorities. For example, the bylaws of a church-related retirement community may require church authorities to appoint a number of the members of the board, and members of a local workforce investment board may be appointed by the mayor.

In membership associations, board members are often elected by association members and may be expected to represent certain parts of the membership, such as geographic regions or professional subgroups. Board members who are appointed by external authorities or elected by organizational members will at times experience tension between their feelings of responsibility to their constituencies and their obligation to consider the mission and welfare of the organization as a whole. Having the whole board openly recognize this tension may help to depersonalize conflicts related to proposed board action.

The responsibility for identifying and cultivating potential new members of the board is usually assigned to a standing committee of the board. Traditionally called the nominating committee, such groups are increasingly being renamed and given an expanded charge. Whether called the board development committee, the governance committee, or the trustee committee, such a group is charged with assisting the board in determining the qualities and capacities needed on the board; identifying, vetting, and nominating potential candidates; and ensuring that new board members are properly oriented. While the committee is generally composed of a small group of board members, it is fairly common for the chief executive, and sometimes for the board chair, to work closely with the group. However, while the chief executive may have important input for the group's consideration and be an important part in the recruitment process, responsibility for the nominations process should rest with the committee.

Some large professional membership associations elect association members who are not already on the board to serve on their nominating committees. For this to be effective, however, efforts must be made to connect the board nominations process to the needs of the board for a balance of perspectives and knowledge.

Governance Committee Job Description

The governance committee is responsible for ongoing review and recommendations to enhance the quality and future viability of the board of directors. Its work revolves around these five areas:

- Ensuring shared understandings of the board's and board members' responsibilites
- Taking the lead in building a strategically composed board
- Working with the board chair and chief executive to ensure effective orientation and ongoing board education
- Initiating periodic assessment of the board's performance
- Taking the lead in board leadership succession planning

Communications with potential board members should include information about the organization and its mission as well as a written description of the board's roles and responsibilities and a board member job description. To ensure a good fit between a prospective board member and the board, it is imperative to be clear about what the board expects of its members, including financial contributions, if this is the case. In cases where board members are appointed or elected by external bodies, it falls to the nominating committee to inform these authorities of the skills, knowledge, and other characteristics needed on the board. Nominating committees of membership associations, in particular, should make sure that the strategic needs of the organization and the board are taken into account as they qualify nominees and prepare for election.

In addition to identifying potential new board members, the committee is generally also charged with two additional tasks: (1) determining whether to nominate current board members for re-election and (2) providing nominations for board leadership positions. The latter is a reminder that potential for future leadership should be considered during board member recruitment.

To enable new board members quickly to become active participants in the board's work, they need an effective orientation. Not only do they need information about the organization, its history, programs, and finances, but they also need to learn about the roles, responsibilities, and operations of the board. Some organizations have turned board member job descriptions into letters of agreement, which spell out board member responsibilities as well as what each board member has a right to expect from the board and the organization. Signed by both the new member and the board chair, such a letter of agreement will help prevent misunderstandings and inaccurate expectations.

Board Self-Assessment

A formal board self-assessment is a great board development tool. Since the board is ultimately accountable for an organization's performance, it seems only reasonable that it take a serious and systematic look at how well it is discharging its own duties. By assessing its own performance, the board will

- signal to the rest of the organization the importance of accountability
- identify ways in which it could improve its operations
- develop a shared understanding of the board's responsibilities
- improve communication among board members and with the chief executive

BoardSource's experience with conducting hundreds of board self-assessments over 20 years has shown that members of the same board often have different perceptions of what their responsibilities are and how well the board is performing. By surfacing these disparities, a board can clarify the current situation and agree on how to strengthen organizational governance. As with the assessment of the chief executive's performance, the board should collect feedback from its members in a systematic fashion. Wise boards may also seek feedback on the board's performance from the chief executive, who not only has a different perspective from which to assess the board's work, but who also has a major stake in the board's performance. As important as collecting the information, however, is taking the time to discuss the implications of the findings and deciding how to strengthen the board's performance. Using an outside facilitator to assist in the discussion of next steps allows all board members to participate freely and helps identify options for board consideration. According to BoardSource's *Nonprofit Governance Index 2007*, boards that have done a self-assessment were rated as more effective by chief executives than those that have not (55 percent vs. 38 percent).

Steps in the Board Self-Assessment Process

1. Leaders recommend and board decides to assess its performance.
2. Assessment process is established.
3. Board members complete and return questionnaires (or complete online).
4. Responses are compiled and analyzed.
5. The board discusses results and develops action plans.
6. Action plans are implemented and evaluated.

Board self-assessments are also opportunities for board members to assess their own performance as members of the governance team. Not surprisingly, board members tend to rate their own performance somewhat higher than the performance of the board as a whole. Some boards now also employ board member peer evaluations, especially in connection with possible renominations, but while board member peer evaluations and board assessments are closely related, they are not the same. The former focuses on the performance of individuals as members of the board, while the latter examines the performance of the board as a group.

Board self-assessments should be done on a regular basis. They are designed to strengthen performance and to prevent problems from developing. A full-scale board assessment might be conducted approximately every two years, with more limited assessments in between.

BOARD MEETINGS

Meetings that are carefully structured and efficiently conducted will help board members feel that their time is well spent and that the board adds value to the organization. Feedback from numerous boards has shown that board members rate meetings highest when two factors are present: (1) agendas focus on strategic issues facing the organization rather than spending time on "administrivia" and (2) there is plenty of time for interaction, raising questions, and discussing issues. Both of these depend on a carefully constructed agenda, agreements about what constitutes an effective meeting, and on the chair's ability to skillfully manage the board's dynamics.

Attendance Is Required

Meetings are where boards exercise their governance authority. One of the legal obligations for all board members is their duty of care. Without attending meetings — and preparing for them conscientiously — a board member is not able to participate in educated and independent decision making.

Developing an effective agenda is generally a shared responsibility of the board chair and the chief executive. While the chief executive is often expected to draft an agenda for the chair's review, the chair must be clear about what issues need to come to the board's attention (and for what purpose) as well as what information needs to be provided prior to the meeting. Of course, the chair also needs to consider how best to structure the meeting in order to achieve the meeting's objectives while keeping board members actively engaged and avoiding domination by a few.

One of the principles described in *The Source: Twelve Principles of Governance That Power Exceptional Boards*[16] is "culture of inquiry"; it provides guidance for creating

[16] BoardSource. *The Source: Twelve Principles of Governance That Power Exceptional Boards.* (Washington, DC: BoardSource, 2005).

board meetings that contribute to the organization's welfare and satisfy board member wishes for active participation. A culture of inquiry develops when "boards, alongside their chief executives, create an environment based on respect and candor that fosters a productive exchange of views," when information is sought from a variety of sources, and the board makes use of the perspectives and knowledge present among members of the board. A culture of inquiry enables everyone to question assumptions and challenge conclusions in order to reach more complete understandings and make more effective decisions. To develop and benefit from a culture of inquiry, agendas must build in time for members to learn about issues that affect the organization, to air different opinions and ask questions, and to understand implications of proposals introduced.

A truly effective board learns to approach its governance tasks in different modes. Not only does it explore issues before it from a strategic angle and a fiduciary angle, it also uses an approach that Richard Chait and his co-authors call "generative."[17] Operating in a generative mode, board members make room for creative insights and connect issues to the organization's values and traditions.

Tools That Promote Effective Board Meetings

Board meeting agendas benefit from clear objectives that focus the board's attention. To achieve their objectives within the time allotted, board chairs make use of a variety of tools. For example, an increasingly popular mechanism is the consent agenda or consent calendar. This is a collection of items for the board's information or routine action but which does not need board discussion. Relevant documents are distributed prior to the meeting; the consent agenda is presented as a whole and voted on as one item. It takes about a minute, which means that the board's time can be spent on important issues that *do* require or would benefit from board discussion. A stipulation is that anyone may request an item to be moved from the consent agenda to the regular agenda if clarification or discussion is needed. However, to avoid using valuable board meeting time for something that does not require the whole group's attention, board members are encouraged to seek clarification prior to the meeting. Examples of what may be included on a consent agenda are approval of minutes, adoptions of actions that have previously been worked out but need formal approval, and reports from committees and staff that do not require board involvement.

Another mechanism for using time effectively and ensuring that everyone has a chance to be heard is the use of small groups during a board meeting. The chair asks members quickly to form groups of three to five and to take a few minutes to respond to a question presented, to develop options for possible board action, to weigh merits of a proposal, or further define an issue. The ideas presented by each

[17] Richard P. Chait, William P. Ryan, and Barbara E. Taylor. *Governance as Leadership: Reframing the Work of Nonprofit Boards.* (Hoboken, NJ: John Wiley & Sons, 2005).

group may indicate the level of consensus present or identify issues that require more work before the board is ready to act, thus assisting the chair in guiding the board toward next steps.

To provide opportunities for the board to discuss potentially sensitive issues, to do a quick check regarding the board's emotional "temperature," or for the chief executive to share confidential concerns or test new ideas with the board, an increasing number of boards are making regular use of closed sessions, also referred to as executive sessions. These are times when the board excuses everyone who is not a member of the board, unless specifically invited, to allow for a frank and informal exchange of opinion. The chief executive may or may not be present for all or for some of the session, depending on board and executive preference. If the chief executive is not present, the chair will meet with him or her immediately after the meeting to share the gist of issues that were discussed. Minutes are usually not kept, and discussions are to be kept strictly confidential. For transparency's sake, board action takes place in open meetings (not in executive sessions) so that resolutions voted on can be included in the minutes.

Because board members tend to be people with many irons in the fire, boards are looking for ways in which to make more efficient use of the board's time without sacrificing the quality of its work. Many local boards that used to meet monthly are now meeting every other month and scheduling committee meetings for the months when the board is not meeting. Regional and national boards are learning to make use of technology to cut down on the time and money expended on travel. However, no matter how often or in what format boards meet, meeting effectiveness depends on good preparation. Board members must commit to coming prepared for active participation by reading materials distributed ahead of time and seeking clarification if needed.

A good way in which to develop an effective meeting culture is to ask board members to evaluate their meetings. This can be done verbally or in writing. Engaging the board in developing a list of criteria for an effective board meeting will serve as a step toward strengthening the board's operations. The list can be used to develop a board meeting evaluation tool or to identify questions for board member feedback at the end of a meeting. Such a tool will allow the board chair and board members to intervene if things begin to go off track and will soon begin to make a difference in how the board functions. A summary of meeting evaluation responses might be included as an appendix to the minutes.

Criteria for Effective Board of Director Meetings

(adopted by the board of the American Dietetic Association)

- Use the strategic plan and board program of work priorities to guide dialogue and deliberations.
- Focus discussion on strategic issues.
- Relate decisions and actions taken to the strategic plan.
- Exhibit courage with tough decisions.
- Prepare for and actively participate in discussions.
- Discuss all sides of an issue and encourage others to provide their perspectives.
- Consider what is best for the Association when deliberating.
- Maintain a member focus — "what would members say?"
- Respect different points of view.
- Listen when others are speaking; avoid side conversations and ask for clarification if needed.
- Leave meetings with clarity on what was discussed and what was decided.
- Respect time limits — they are necessary to achieve what the board needs to accomplish.
- Declare conflict of interest, if appropriate.
- Turn off cell phones, BlackBerry-type devices, pagers, etc.
- Have fun!

Board Meetings in States with "Sunshine" or Open Meetings Laws

In some states, nonprofits that receive public funds are required to operate according to open-meetings laws, also known as sunshine laws. While requirements differ from state to state, board meetings generally must be open to the public. The purpose is to promote accountability and transparency by allowing the public to see how decisions are made in the boardroom and how money is being allocated. The most restrictive laws, such as those in Florida, prohibit any communication outside open meetings between board members concerning board business. This means that all committee meetings must be open, and that the only time when a board may meet in closed session is when discussing legal matters with their attorney present. Boards of organizations that receive public funding should make sure they know whether they are covered by sunshine laws and train their members in how to comply with the law. Information should be available from the office of either the state attorney general or the secretary of state.[18]

Tips for Governing in the "Sunshine"

- Recruit board members who are very serious about serving the public and public interest and who are comfortable with being scrutinized by the public.
- Formally educate your members about your state's sunshine laws — each state has its own.
- Get to know your fellow board members but be very careful not to discuss organizational business outside the boardroom.
- Look to committees and task forces, rather than individual board members, to handle the board's detail work.
- Develop governance policies that stipulate what information should be discussed by the board and when.
- Construct meeting agendas that invite discussion but do not overwhelm the board or public with information that is difficult to process.
- Seek out the chief executive for individual assistance with board and organizational learning unless the chief executive is a voting member of the board.

COMMITTEES, TASK FORCES, AND ADVISORY GROUPS

In order to use its time and resources both effectively and efficiently, a board makes use of smaller groups charged with investigating issues and formulating reports or proposals for board action. Current trends are to limit the number of board standing committees and to make use of ad hoc committees and task forces whenever possible. Standing committees are those that are likely always to be needed (e.g., a finance committee or a governance committee). Ad hoc committees are groups charged with working on long-range issues usually related to the strategic plan (e.g., a capital campaign or planning for facilities expansion). Task forces deal with specific tasks that can be accomplished within a reasonably short time frame (e.g., bylaws review or working with staff to explore implications of a possible venture with another organization). Short-term task forces allow more flexible use of board member interest, time, and talents.

[18] BoardSource has several topic papers on its Web site related to sunshine laws, including an interview with a board chair and chief executive from Florida discussing the impact of the law and how not to be unduly stymied by its requirements.

Committees vs. Task Forces

The board's standing committee structure should be lean and strategic and complemented by the use of ad hoc committees and task forces. Only continuous governance activities warrant a standing committee. Time-limited groups with specific tasks to accomplish represent more effective and efficient use of board member time, interest, and expertise.

Among changes in the way boards use committees is a reduced use of the executive committee. Many boards have realized that an active executive committee tends to become a board-within-the-board, which often relegates the rest of the board, in feeling if not in fact, to second class status. Not being part of "the inner circle" often results in lessening of commitment on the part of other members of the board, partly because they assume that "the executive committee will take care of it." Each board that has an executive committee that meets regularly between board meetings should periodically assess the impact of the committee on the board and determine whether and for which purposes the committee is truly needed. However, some boards have found new uses for their executive committee. Boards of publicly funded nonprofits may be charged with tracking compliance with a large number of regulations. To allow the full board to spend more of its time on strategic governance issues, some have found it useful to delegate to the executive committee the responsibility for approving routine reports for submission to the relevant authorities. Another change found in many boards is that they no longer have committees that mirror functional staff responsibility areas, such as marketing, personnel, and program. Not only is it not a board responsibility to oversee or direct the work of staff, it is not a good use of board member time and can easily lead to micromanagement.

For the system to work well, each group needs to have a clear charge from the board and agree on how to go about fulfilling its responsibilities. Reports to the board from committees and task forces should be submitted in writing and be included on the consent agenda rather than being presented at the board meeting. When a committee needs feedback or guidance from the board, it should present the board with a specific question for discussion along with the necessary background information. When a committee brings proposals to the board for action, but discussion at the board meeting indicates that the board is not ready to act because of unanswered questions or concerns, the chair should send the proposals back to the committee for further work. Repeating committee discussions is neither an effective nor an efficient use of board time.

When staff is assigned to work with a committee or task force, the respective roles of staff and committee members need to be clear. If the group's role is to carry out a board task, such as drafting policies related to investment of reserve funds, the role of the staff, if any, must be negotiated with the chief executive. It would ordinarily include providing information and support for the work of the group but not doing its work. If, on the other hand, a committee such as a marketing committee is designed to provide advice to the staff, it is a management-level rather than a governance-level committee and as such is not a board committee.

Occasionally, a committee may span the usual separation of board and staff and be expected to report both to the board and to the chief executive. An example would be if the board is expected to play an active role along with the staff in carrying out the work of the development committee. In such a case, it is crucial to define and assign roles and responsibilities to ensure successful outcomes. If this is not done, resentment and confusion often develop and result in diminished morale on both sides.

Appointing non–board members to serve on board committees makes it possible to expand the resources available to the board. For example, individuals with financial expertise can be valuable additions to a finance or audit committee; an engineer might add needed expertise to a building task force. In addition to gaining additional people-power, such committee or task force participation might serve to identify potential new board members.

Additional ways in which to expand the resources available to the organization, whether at the board level or at the staff level, include developing advisory relationships with individual experts and forming groups representing particular constituencies, issues, or expertise. For such groups to work well, they need to know whether they are providing advice to the board, the chief executive, or staff as well as what is expected of them in terms of time or other commitments. Members of such bodies need to be made aware that their advice will serve as valuable feedback and insight into issues facing the organization but also that a number of additional factors will be taken into account as decisions are made. To avoid role confusion, it is best not to call such groups advisory "boards." Instead use terms such as advisory council or council of advisors. These are less likely to result in misunderstandings related to authority and decision making.

USE OF TECHNOLOGY IN BOARD OPERATIONS

There is no longer a question of whether a board will make use of information technology in its work. It is, or will soon be, a necessity. Efficient distribution of board information and communications requires board members to be able to access the Internet. Being able and willing to make use of technology is becoming a condition for board membership. However, for a short while, special efforts will be needed to ensure that those few who are not connected electronically do not get left out of the board communication loop.

Gradually, boards are learning to take advantage of what technology can offer to expand their access to information and to communicate with each other and the organization's constituencies. Limited-access Web pages can give board members instant access to large amounts of organizational information. The challenge is to assist board members in learning how to find the information they need as well as to present the information in formats that busy board members can use. Too much and too detailed information may be as counterproductive as too little. Technology is also opening new opportunities for board members to interact in order to explore issues and develop proposals in preparation for board meetings through use of chat-rooms, blogs, LISTSERVs, etc. In addition, to save money and time, boards whose members live at great distances from each other are learning to conduct virtual or video meetings and to make use of tools such as electronic white-boards. Conference calls are common, especially for small committees, for board update sessions, and for board action on issues that can't wait for the next board meeting. It is also common to allow board members to participate via conference phone when they are unable to come to a meeting. There are, however, significant challenges to be overcome in order to ensure equal opportunities for participation and to support healthy debate. Most groups are still learning how best to make use of these practices. Some have developed written guidelines for electronic meeting participation, starting with the need for distribution of background materials prior to the meeting and a stated expectation that members will be prepared for active, but disciplined, participation. To ensure legal compliance, boards should check state laws related to virtual board meetings and decision making.

THE BOARD WORKING AS A TEAM

To be the governing body of a high-performance organization, a board needs to function as a high-performance team. Such a team is defined as "a group of people with complementary skills who are equally committed to a common purpose, performance goals, and approach for which they hold themselves mutually accountable."[19] A team is a group where everyone's performance matters. Effective boards have learned that the way board members interact will influence the quality of the board's work. Whether they trust each other enough to disagree or to question current assumptions will determine the board's ability to govern, to lead, and to hold the organization accountable.

To develop a group of capable and often powerful individuals into a cohesive team takes intentional efforts. A key goal for a chair, with the help of the chief executive, is to plan and facilitate the board's work in such a way that board members learn to understand where their board colleagues "are coming from." Thoughtful assignments of shared tasks, board meeting seating arrangement designed to avoid "birds of a feather" clustering together, and recognition of everyone's contributions help create team relationships. Encouraging expressions of different perspectives and opinions is needed to avoid group-think. Finding ways to collect feedback on how the board and its members carry out their responsibilities will support continuous improvement of the team's performance.

[19] Jon R. Katzenback and Douglas K. Smith. *The Wisdom of Teams: Creating the High-Performance Organization.* (New York, NY: HarperBusiness, 1994).

Arranging events where board members have a chance to relax together, laugh, and get to know each other in ways that are rarely possible during board meetings will help develop the social glue that allows board members to move forward together through the mundane as well as the challenging aspects of their board service.

TEAM

Together

Everyone

Achieves

More

Even though the chair may be the person with the most obvious responsibility for ensuring that the board functions as a team, it is important that everyone involved realizes his or her personal responsibility to act as a productive team member. From time to time, this may lead individuals to make suggestions for ways in which board business could be improved or to ask questions about what is or is not happening. One of the common flaws of nonprofit governing boards is the phenomenon known as "dysfunctional politeness." Symptoms leading to this diagnosis include board members refraining from challenging each other or from disagreeing with each other because they feel it unwise to disagree with the more powerful or influential members of the board or because conflict is seen as unpleasant and something to be avoided "in polite company." In such cases, boards often lose their vitality, and their ability to govern in an accountable fashion is compromised. An opposite problem happens when board members focus only on the things they disagree on. A team that gets results has members who know how to build on strengths as well as how to recognize and correct deficiencies, who can encourage each other as well as hold each other's feet to the fire.

A team that gets results is made up of members who do what they have to do both individually and together in order to reach the goal.

QUESTIONS FOR BOARD MEMBERS TO DISCUSS

1. What would happen to our organization if the board did not meet for two years?
2. How does the composition of our board contribute to effective governance at this time?
3. What does our board do to ensure that board meetings are both productive and rewarding?
4. What is the connection between the organization's strategic direction and our board's committee structure?
5. How might information technology be better used to strengthen our board's performance?
6. What might be done to strengthen our board as a high-performance team?

CONCLUSION

The task of governing an organization has never been simple because myriad factors must be taken into account. In order to serve the mission, in cooperation with staff the board must address the needs of the organization's various stakeholders, the search for the necessary resources, and the demands of the environment, all of which must be reckoned with. In our current environment of rapid change, the challenges facing those who are responsible for organizational governance loom large indeed. Failing to meet the challenges will eventually lead to an organization's decline. Thus, the stakes are high.

In a democratic society authority and accountability are basic concepts related to governance. Yet authority, when granted, is never absolute. Nonprofit organizations are authorized to operate for various purposes designed to serve the public good, but they must do so within systems of laws that constrain their activity. To ensure that these organizations pursue their stated purposes in responsible ways, authority and accountability are vested in their governing boards. Even though boards usually delegate authority for organizational management to a chief executive, in the final analysis the board retains accountability for actions taken on behalf of the organization. While authority may be delegated to someone who will act on one's behalf, ultimately accountability cannot be delegated.

Nonprofit governance is about vigilance to ensure that external threats and internal problems do not undermine organizational health and that opportunities are not missed in service to the mission. In a rapidly changing environment, choosing the most promising direction is no simple task. It requires a variety of perspectives and a great deal of information. It necessitates understanding the nature and limits of the board's authority. It calls for effective communication and clear expectations. It requires structures and relationships that are flexible enough to deal with challenges as they come up. It depends on a productive partnership between the board and the chief executive.

In the 21st century, effective nonprofit governance demands willingness to learn and openness to new possibilities as well as appreciation for achievements of the past. How a board operates will differ from organization to organization and from time to time depending on the organization's stage of development, mission area, resources, stakeholders, and context. The fact is, however, that what worked in the past may no longer suffice. Boards will forever be faced with the task of developing their capacity to govern in a changing society.

By using their authority to establish a shared sense of organizational direction, ensure access to resources, and provide the oversight needed, governance teams will keep their organizations on course toward a strong and healthy future. By modeling and insisting on accountability throughout their organizations, they will build trust and credibility with the public and their various constituencies. Governance teams that act as visionary and accountable leaders and stewards of the mission they have agreed to serve will add significant value to their organizations and to the civil sector of our society.

APPENDIX
BOARD ROLES AND RESPONSIBILITIES CHECKLIST

Establishing Identity and Direction

- ☐ Has the board adopted or revised a strategic plan or defined a strategic direction for the organization within the past three years?
- ☐ Does the board ensure that the organization's mission, vision, and values are reflected in the organization's programs?
- ☐ Are the organization's strategic priorities adequately reflected in the annual budget?

Ensuring the Necessary Resources

- ☐ Has the board adopted policies related to funds to be pursued and/or accepted in support of the mission?
- ☐ Does the board expect all its members to be active participants in fundraising efforts?
- ☐ Does the board's composition reflect the strategic needs of the organization?
- ☐ Is the board confident that the chief executive's skills and other qualities represent a good match for the organization's strategic needs?
- ☐ Does the board seek and review information related to the organization's reputation?

Providing Oversight

- ☐ Does the board contract with an outside auditor for the annual audit?
- ☐ Does the organization have up-to-date risk management policies and plans?
- ☐ Does the board monitor progress toward achievement of goals related to the organization's programs?

- ☐ Does the board have a clear understanding of the organization's financial health?
- ☐ Does the chief executive receive an annual performance review by the board?
- ☐ Are all board members familiar with the chief executive's compensation package?

Board Operations

- ☐ Does the board regularly assess its own performance?
- ☐ Are organizational and board policies regularly reviewed?
- ☐ Do committees and task forces actively engage board members in the work of the board?
- ☐ Do board meeting agendas focus the board's attention on issues of strategic importance?
- ☐ Do board members have easy access to information needed for effective decision making?

GLOSSARY

501(c)(3) refers to public charities and private foundations as defined by the IRS

501(c)(4) refers to social welfare and advocacy organizations as defined by the IRS

501(c)(6) refers to trade associations and business leagues as defined by the IRS

501(h) election an option for public charities (except churches) to measure their permissible lobbying activity using an expenditure test

Accountability the acknowledgment and assumption of responsibility for policies and decisions, including the obligation to be answerable for resulting consequences

Ad hoc committee a temporary committee established to address a specific issue, not necessarily within a specific time frame

Advisory council a group created to advise and support an organization or its leadership, also called advisory group, advisory committee, or advisory board; usually focuses on a specific issue, area of concern, or constituency

Advocacy attempts to influence public-policy and resource allocation decisions made at various governmental levels

Affiliate a chapter, an auxiliary group, or a branch of a parent organization

All volunteer organization (AVO) a nonprofit organization that is managed and governed by volunteers

Articles of incorporation an official statement of creation of an organization; it is filed with the appropriate state agency

Articles of organization a charter for an unincorporated organization

Association a membership organization that may be incorporated or unincorporated

Audit a formal review of financial and/or activities and legal transactions

Board development a process of building effective boards; from recruiting and orienting to engaging and educating board members, also includes rotations of board members to ensure a good fit with the organization's governance needs

Board member agreement a verbal or written statement of commitment to fulfill responsibilities as outlined in the board member job description

Board member profile grid a tool helping identify desired characteristics and gaps on a board

Board of directors governing body of a nonprofit or for-profit corporation; has specific legal and ethical responsibilities to and for the organization

Bylaws the legal operating guidelines for a board

Bylaws amendment a formal change to the original bylaws of an organization; the bylaws themselves should outline amendment procedures

CEO the chief executive officer; top staff position of a nonprofit organization or a for-profit company

Chair in a nonprofit organization, the chief volunteer position, the elected leader of the board

Chapter a member or affiliated organization of a federated organization

Charitable contribution a tax-deductible donation given to a nonprofit organization

Charity a nonprofit organization providing a public service as defined by the Internal Revenue Code Section 501(c)(3)

Charter the legal organizational document for a nonprofit; also known as the articles of incorporation or articles of organization; may also refer to a formal description of responsibilities assigned to a committee, a chapter, or an affiliate

Chief executive the top staff position of an organization, also called CEO or, in many nonprofits, executive director

Code of conduct the formal or informal ethical standards expected of every member of a group, whether board, staff, or member of a profession

Community foundation a foundation whose mission is to support a specific community

Confidentiality clause a policy defining unauthorized and improper disclosures of confidential information

Conflict of interest a situation in which the personal or professional concerns of a member of the board or staff may affect his or her ability to put the welfare of the organization before benefit to self or another party

Consent agenda a component of the meeting agenda that groups routine items and resolutions as one agenda item; does not require board discussion prior to the vote; requests for an item to be moved from the consent agenda to the regular agenda are automatically granted

Constitution usually refers to the basic documents governing an organization's purpose, structure, and governance

Consultant an expert providing professional advice or services

Corporate sponsorship a relationship between a nonprofit and a company where the nonprofit receives monetary support, goods, or services in exchange for public recognition of the company

Corporation a legal entity that exists in perpetuity until it is dissolved; a "fictitious person," separate from its managers or governors, usually given the same rights and obligations as natural persons

D&O (Directors and Officers) insurance insurance that protects board members and top staff personnel from personal liability created by board decisions or actions

Determination letter an official notification by the IRS stating that a nonprofit is recognized as a tax-exempt organization

Development a term used to describe all methods of obtaining funding or support for an organization

Disclosure form a form on which board members annually detail personal and professional connections that could create a potential conflict of interest

Disclosure requirement regulations requiring nonprofits to share financial or other information with the public, defining IRS form 990 as a public document

Disqualified person includes organization managers and any other person (such as a board member) who, within the past five years, was in a position to exercise substantial influence over the affairs of the organization, also family members of the above

Dissolution of nonprofits the formal procedure by which a nonprofit ceases to operate or exist; involves filing with the state and distribution of assets

Diversity collective mixture of participants from different backgrounds, aiming for inclusiveness rather than mere presence of people from different backgrounds

Due diligence an expectation that a board member exercises reasonable care and follows the business judgment rule when making decisions

Duty of care requirement that board members be reasonably informed about the organization's activities, participate in decisions, and do so in good faith and with the care of an ordinarily prudent person in similar circumstances

Duty of loyalty a requirement that a board member remain faithful and loyal to the organization and avoid conflicts of interest

Duty of obedience a requirement that a board member remain obedient to the central purposes of the organization and respect all laws and legal regulations

Emeritus status an honorific title usually given to a former board member who is invited to stay on board as a nonvoting member in an advisory capacity

Endowment a fund or collection of assets whose investment earnings support an organization, a specific project or purpose; may be legally restricted based on stipulations made by donor(s)

Ex officio "by reason of their office"; a person serving on a board due to his or her position rather than through elections, may or may not include voting rights

Excess benefit transaction a transaction in which an economic benefit is provided by a nonprofit, directly or indirectly, to a disqualified person, and the value of the economic benefit provided by the organization exceeds the value of the consideration (including the performance of services) received by the organization

Excise tax a tax issued by the IRS on nonprofits that violate specific regulations

Executive committee a committee that has specific powers, outlined in the bylaws, which allow it to act on the board's behalf when a full board meeting is not possible or necessary

Executive session a meeting of a board in which only board members and individuals specifically invited by the board are present; governed by rules of confidentiality

Federated organization an organizational structure composed of an umbrella organization (national or regional) with smaller local chapters

Fiduciary duty a responsibility of board members and the nonprofit board as a whole to serve as trustee of the organization's assets on behalf of the greater community; responsibility for financial viability and proper handling of financial matters

Form 990 an annual information form submitted to the IRS, a public document listing information concerning an organization's finances and programs, as well as names of board and highest paid staff leaders

Form 990-PF an information form for private foundations to be filed with the IRS

Form 990-T a financial form for organizations who must pay unrelated business income tax

Form 1023 an application form for nonprofits that want to be recognized as a 501(c)(3) organization

Form 1024 an application form for nonprofits that seek tax-exempt recognition as any other type of 501(c) than a 501(c)(3) organization

Foundation a tax-exempt nonprofit organization operating under more stringent IRS regulations than other 501(c)(3) organizations; may be designed to collect and distribute funds for nonprofit purposes or may operate its own programs

Fundraising a wide variety of activities that help generate donations for an organization

Governance the legal authority of a board to establish policies that will affect the life and work of the organization and accountability for the outcome of such decisions

Governance committee a committee responsible for recruiting, orienting, and training of board members; may also be responsible for periodic bylaws reviews

Grant funding provided to an organization through a foundation or government source for a specific purpose

Incorporation a legal process through which a group is created and recognized by the state as an entity separate from the individuals who manage or govern it; limits individual responsibility for actions of the group

Indemnification a guarantee by an organization to pay board members' legal costs for claims that result from board service

Intermediate sanctions IRS regulations creating penalties for nonprofit board members and staff who receive or authorize an excessive benefit transaction

Lobbying attempting to influence legislation through direct contact with lawmakers or with constituents

Membership organization a nonprofit that grants its members specific rights to participate in its internal affairs and/or to receive certain benefits in return for payment of membership dues

Merger combining two or more organizations into one

Micromanagement this usually refers to a manager who is paying too much attention to details and is not focusing on the big picture; also refers to boards that stray into management and fail to respect the authority delegated to the chief executive

Mission the fundamental purpose and reason for which an organization exists

Mission statement a brief description of the organization's approach to filling the need it was created to address

Nonprofit organization a nongovernmental organization established for purposes other than profit making

Nonprofit sector includes organizations that are independent from government and not part of the for-profit business sector

Not-for-profit organization a term emphasizing that while the organization's purpose is not private profit making, its programs may make a profit for the organization in order to safeguard its future ability to serve its public benefit mission

Officer a leadership position with a specific set of responsibilities; on a board typically refers to the chair, vice-chair, secretary, or treasurer

Open meeting laws also called "Sunshine Laws"; state regulations that require government agencies and some nonprofit organizations receiving public funding to open at least some of their board meetings to the public

Operational reserves a reasonable buffer against unforeseen, seasonal, irregular, or exceptional cash shortages

Orientation educating participants on their roles, responsibilities, their organization, and how the board works

Policy a written and binding guideline for action; creates limits on the range of acceptable options

President a term used to describe the chief volunteer officer or the chief staff officer of an organization

Private inurement benefits received by an insider with sizable influence over a nonprofit organization's decisions when benefit is of greater value than service provided

Public support test an IRS regulation used to determine whether a nonprofit organization is a private foundation or public charity; involves determining the source of the majority of funding for the organization

Retreat an event where the board or staff meet to learn about or explore specific issues; examples include strategic planning, orientation, or self-assessment; is usually longer than a regular meeting, often off-site and informal in nature

Robert's Rules of Order a parliamentary procedure used to conduct meetings

Secretary an officer position that involves taking minutes and keeping records and archives of the board; duties are often delegated to staff

Self-assessment a process by which boards and/or board members evaluate their own performance

Staggered terms an organizational structure where board members' terms expire in alternating years

Sunshine laws also called open meeting laws; state regulations that require government agencies and some nonprofit organizations that receive public funding to open at least some of their board meetings to the public

Tax-deductible donation a donation in which the donor can deduct the amount of the donation from his or her taxable income

Term limits a restriction on the number of consecutive terms that a person can serve as a board member

Transparency a system of operation and communication that enables people to understand how the organization operates, makes decisions, and uses resources; an important aspect to ensure public trust

Treasurer a board officer position that is responsible for coordinating and ensuring financial oversight of the organization

Values statement a written description of the beliefs, principles, and ethical guidelines that direct a nonprofit's planning and operations

Vice chair a board officer whose main duty is to replace the chair when the chair is not able to carry out his or her duties; may or may not imply position as chair-elect

Vision a picture or a dream of a desired future

Vision statement a written description of what the organization intends to achieve at some point in the future, either in terms of the organization itself or in terms of the impact the organization will have had on the community

SUGGESTED RESOURCES

Axelrod, Nancy R. *Culture of Inquiry: Healthy Debate in the Boardroom.* Washington, DC: BoardSource, 2007.
This book explains how to create a culture of inquiry within the boardroom — one marked by mutual respect and constructive debate that leads to sound and shared decision making. Starting with a discussion of what a culture of inquiry is and why it matters, the book goes on to suggest ways in which to assess the board's current culture. It also provides ideas for how to increase the level of trust on the board, which is essential for developing a culture of inquiry, tools for information sharing and cultivating teamwork, and how to encourage dialog among members of the board.

Berger, Steven, CPA. *Understanding Nonprofit Financial Statements, Third Edition.* Washington, DC: BoardSource, 2008.
In order to be responsible stewards of an organization's financial resources, board members must be able to read financial statements and understand their meaning. Too often, this is not the case. Written in no-nonsense language, the book helps board members understand key accounting terms and concepts, perform ratio analysis, and clarify the uses of the different documents as well as consider how to use balanced scorecards.

BoardSource. *Nonprofit Governance Index 2010.* Washington, DC: BoardSource 2010
Since it was founded in 1988, BoardSource has received thousands of inquiries from nonprofit leaders interested in comparing their boards to the "norm." Few answers apply universally. The results of the *Nonprofit Governance Index 2010,* the sixth such study by BoardSource, reveal patterns and tendencies in nonprofit governance. Nearly 2,000 chief executives and board members participated in this study and provided us with an interesting snapshot of what happens in the nonprofit boardroom. The *Index* will be available at www.boardsource.org in November 2010.

BoardSource. *The Handbook of Nonprofit Governance.* San Francisco, CA: Jossey-Bass, 2010.
The Handbook of Nonprofit Governance explores the overarching question of governance within nonprofit organizations and addresses the roles, responsibilities, and structure of an effective nonprofit board. This comprehensive reference covers topics of most importance to those charged with creating and sustaining effective leadership, including building a board; succession planning; policies; financial oversight; fundraising; planning; strategic planning processes; risk management; and evaluation of the board, chief executive, and organization.

BoardSource. *The Source: Twelve Principles of Governance That Power Exceptional Boards.* Washington, DC: BoardSource, 2005.
Developed by a specially convened group of experts with wide experience in nonprofit governance, this slim volume defines governance not as dry, obligatory compliance, but as a creative and collaborative process that supports chief executives, engages board members, and furthers the causes they all serve. Aspirational in nature, the 12 principles offer chief executives a description of an empowered board that is a strategic asset to be leveraged. They provide board members with a vision of what is possible and a way to add lasting value to the organizations they lead.

BoardSource. *Committee Series.* Washington, DC: BoardSource, 2004.
Comprising six short books, the series is introduced by *Transforming Board Structure: Strategies for Committees and Task Forces,* which includes a CD-ROM with customizable tools and worksheets relevant for job descriptions and policies appropriate to specific committees. The other books in the series focus on the unique intent and operation of the following committees: governance committee, executive committee, financial committees, development committee, and advisory councils.

Chait, Richard P., William P. Ryan, and Barbara E. Taylor. *Governance as Leadership: Reframing the Work of Nonprofit Boards.* Hoboken, NJ: John Wiley & Sons, 2005.
Growing out of research on models of governance, this book redefines nonprofit governance. It provides a powerful framework for a new covenant between trustees and executives: more macrogovernance in exchange for less micromanagement. Informed by theories that have transformed the practice of organizational leadership, this book sheds new light on the traditional fiduciary and strategic work of the board and introduces a critical third dimension of effective trusteeship: generative governance. It provides a road map that leads nonprofit trustees and executives to understand and practice governance as leadership.

Collins, Jim. *Good to Great and the Social Sectors: A Monograph to Accompany Good to Great.* Boulder, CO: Jim Collins, 2005.
Questions addressed in this little book address issues facing most nonprofit boards, such as “how can we measure success of our programs without using business metrics?” It looks at the kind of leadership needed where influence is often diffuse, emphasizes the importance of “getting the right people on the bus,” considers what constitutes the economic engine of an organization when the profit motive is not the driving force, and urges building organizational momentum by building the brand.

Connolly, Paul M. *Navigating the Organizational Lifecycle: A Capacity Building Guide for Nonprofit Leaders.* Washington, DC: BoardSource, 2006.
By identifying their nonprofit organization’s stage of development and understanding issues involved, boards and chief executives will be better positioned to cope with current challenges and to navigate future passages. The book points to the need for adjustments in the composition and operations of a board as the organization moves from stage to stage. The included CD-ROM contains a lifecycle assessment tool.

Flynn, Outi. *Meeting, and Exceeding Expectations: A Guide to Successful Nonprofit Board Meetings, Second Edition.* Washington, DC: BoardSource, 2009.
Packed with information and ideas, this resource poses critical questions, provides easy-to-implement answers, suggests tools, and clarifies legal and ethical expectations. It also shows how to insert some fun into meetings. From addressing implications of Sunshine Laws and how to plan and document effective board meetings, it discusses decision-making processes and problems often encountered in meetings. Appendices include a variety of templates and samples.

Hopkins, Bruce R. *Legal Responsibilities of Nonprofit Boards, Second Edition.* Washington, DC: BoardSource, 2009.
Written in nontechnical language, this book explains the legal responsibilities of board members, including when and how they can be held liable for failure to carry out these responsibilities. It points out what type of oversight board members need to provide to protect themselves and their organization. In addition to legal definitions and concepts, the book contains a discussion of ethics.

Ingram, Richard T. *Ten Basic Responsibilities of Nonprofit Boards, Second Edition.* Washington, DC: BoardSource, 2007.
More than 175,000 board members have already discovered this #1 BoardSource bestseller. This newly revised edition explores the 10 core areas of board responsibility. Share with board members the basic responsibilities, including determining mission and purpose, ensuring effective planning, and participating in fundraising. You'll find that this is an ideal reference for drafting job descriptions, assessing board performance, and orienting board members on their responsibilities.

Lakey, Berit M. *The Board Building Cycle: Nine Steps to Finding, Recruiting, and Engaging Nonprofit Board Members, Second Edition.* Washington, DC: BoardSource, 2007.
Board development is presented as a process that never ends and that needs to respond to the changing strategic needs of the organization. Steps discussed include identifying, cultivating, and recruiting prospective board members, orienting new board members, engaging board members in the work of the board, educating the board about the organization's work and context, rotating out board members to make room for new skills and insights, engaging the board in a self-evaluation, and celebrating the board's victories and successes. Included is a CD-ROM containing forms, worksheets, sample documents, and a PowerPoint® presentation for orienting new board members.

Panel on the Nonprofit Sector. *Principles for Good Governance and Ethical Practice: A Guide for Charities and Foundations.* Washington, DC: Independent Sector, 2007.
Growing out of the work done by the Panel, which was convened in 2005 in response to concerns about effectiveness and accountability in the nonprofit sector, this book presents 33 principles that are designed to help nonprofit boards and their organizations operate with the highest standards of governance and ethics. Divided into four sections, the principles deal with legal compliance and public disclosure, effective governance structures, financial oversight, and responsible fundraising.

Patterson, Sally. *Generating Buzz: Strategic Communications for Nonprofit Boards.* Washington, DC: BoardSource, 2006.
A perennial challenge for nonprofits is articulating their values clearly so that the public can relate to mission, connect with what an organization offers, and commit to take action in support of it. Many times, what these nonprofits lack is a strategic approach to communications in order to shape positive image, raise public awareness, maximize scarce resources, and strengthen community partnerships. Because communications is most often addressed from the staff member's perspective, this book highlights the board's role in communication, presenting an overview of roles and responsibilities that will help board members provide the necessary vision, support, and oversight.

Tebbe, Don. *Chief Executive Transitions: How to Hire and Support a Nonprofit CEO.* Washington, DC: BoardSource, 2008.
There are few board tasks more important than finding the right chief executive and providing support during the transition period. This book deals with the need for succession planning and goes through the different stages of transition, from the point when a chief executive's departure is announced to the early months after the arrival of a new chief executive. It discusses decisions that need to be made concerning interim staff leadership, identifying characteristics needed in the new leader, the search and hiring process, and the role of the board throughout the process. The accompanying CD-ROM includes 13 helpful documents, including a résumé scoring sheet, sample timeline, sample interview questions, and a sample 90-day entry plan to help ensure the success of the newly hired chief executive.

Vogel, Brian H., and Charles W. Quatt. *Nonprofit Executive Compensation: Planning, Performance, and Pay, Second Edition.* Washington, DC: BoardSource, 2009.
This practical step-by-step guide and reference is designed to help boards establish an effective compensation structure. It includes information on the impact of the new 990, and how to use its new data, guidance on how to use survey data in determining a competitive salary, sample compensation committee charter, sample chief executive job description, and guidance on setting and adjusting compensation in difficult economic times. It also discusses the board's role in reviewing compensation for other senior executives beyond the chief executive.

Wertheimer, Mindy R. *The Board Chair Handbook, Second Edition.* Washington, DC: BoardSource, 2007.
This handbook provides a complete guide to the chair's roles and responsibilities, suggestions for developing board policies and procedures, recommendations for handling problems, and advice for cultivating talent for future board leadership. Also included is a CD-ROM containing sample meeting agendas and customizable letters related to asking board members for financial contributions and to recruitment of potential new members of the board.

ABOUT THE AUTHOR

Over the past 20 years, Berit Lakey's work has focused on issues concerned with governance of nonprofit organizations. However, during her professional career she has also filled such diverse roles as teacher, trainer, staff administrator, executive director, and board member. Through her experience in consulting, training, communications, and nonprofit management, she has acquired unique insights into the complex nature of nonprofit organizations, their boards, and their environments. Among her clients have been boards of health and human services organizations as well as arts organizations, credit unions, foundations, religious organizations, associations, and educational organizations. She has also served as an adjunct assistant professor in the graduate school at the University of Maryland University College.

Prior to starting her own consulting practice, she served for many years as a senior consultant with BoardSource. While there she provided individualized board consulting and training, conducted workshops for board members and board consultants, and was actively involved with the BoardSource board self-assessment program. She continues to serve BoardSource clients in addition to her own.

Among her publications are *The Board Building Cycle: Nine Steps to Finding, Recruiting, and Engaging Nonprofit Board Members, Second Edition; Credit Union Governance Guide & Best Practices; Transforming Board Structure: Strategies for Committees and Task Forces;* and *Grassroots and Nonprofit Leadership: A Guide for Organizations in Changing Times.*

Berit Lakey holds a master's degree in organizational development and a doctorate in human and organizational systems from the Fielding Graduate University in Santa Barbara, California.