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Frederic L. Laughlin

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GOOD GOVERNANCE for NONPROFITS

Developing Principles and Policies
for an Effective Board



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Many nonprofits are reluctant to develop a policies manual, believing that it takes far too much time, effort, and expertise. But the lack of responsible policies and governance can actually end up costing an organization much more in the long run -- both in reputation and in resources. Good Governance for Nonprofits is a succinct but thorough guide that will help organizations develop a board that is legally and ethically responsible and effective in advancing their needs. The authors offer a clear process for creating a policies manual to help boards apply proven standards of governance or "attributes of excellence." Now even with limited resources, nonprofit leaders will learn how to:

- * eliminate redundant or outdated policies
- * add new policies more effectively
- * clearly guide the CEO and evaluate his or her performance
- * ensure compliance with relevant legislation and regulations
- * understand why certain policies should be included
- * adapt the authors' templates to their specific needs.

About the Author Frederic L. Laughlin (Sandy Springs, MD), a former partner of PriceWaterhouseCoopers, now works extensively as a consultant with The Andringa Group, specializing in guidance for nonprofits Robert C. Andringa, PH.D. (Anthem, AZ) is head of the Andringa Group, consulting to boards and CEOs of international, national, and regional organizations. He is the author of three previous books, including Nonprofit Board Answer Book. TOC: Excerpt. copy; Reprinted by permission. All rights reserved. C H A P T E R 1 Got Good Governance? All nonprofit boards have one thing in common. They do not work. —Peter Drucker Since you are looking at a book entitled Good Governance for Nonprofits, chances are that you are a board member, a CEO, or a staff member of a nonprofit organization. If so, you are in good company. There are almost two million nonprofit organizations in the United States, all of which have boards and most of which have someone functioning as the CEO. Tens of thousands of these nonprofits have sizable staffs. While you may not agree totally with Peter Drucker's rather stark assessment of nonprofit boards, we suspect that you can think of areas where your board could be more efficient and effective. Here again, you would not be alone. There is no perfect board. Members and officers of nonprofit boards, assisted by authors and consultants, are training critical eyes on the structures and processes of their boards and coming away with lists of areas for improvement—in some cases rather long lists. The problem, therefore, given the usually limited human and financial resources of nonprofits, has become less a matter of what needs to be done and more a question of how one attacks this to-do list in a systematic way. Four Organizations That Have Done It Here are four nonprofit organizations whose boards were confronted with a list of improvements in their governance model. In Chapter 12, we have documented the course of action that each of them took to address its list. For now, we will simply introduce the four organizations and their situations. Miriam's Kitchen has served homeless men and women in Washington, DC, for almost 25 years. Over the years, it has survived on an ounce of cash and a ton of heart. After the turn of the century, however, it stabilized its management and its operations and found itself moving from a somewhat unsettled adolescent organization to a more secure adult. Its board was still populated by highly committed and dedicated directors, but it needed a governance structure that would better serve this now mature organization. The Translational Genomics Research Institute (TGen) was a high-risk gamble by an unusual blend of public and private entities in Arizona, which together put down \$120 million to bring the biotech industry to the state. TGen was the "anchor store" in what was expected to be one of the top biotech malls in the world. The board that was formed to govern TGen included some of the most powerful people in the state, starting with the governor. From the beginning of this impressive organization, its board needed a structure and a set of related processes that would accommodate the diversity of its members and the gravitas of so many heavy hitters. The Association of Graduates (AOG) serves the United States Military Academy at West Point and its unique column of graduates known as the Long Gray Line. Although West Point was established by President Jefferson in 1802, the AOG was not formed until 1869. Its original purpose was to help bring together graduates who had fought on opposing sides in the Civil War. As the academy approached its bicentennial in 2002, therefore, the AOG was an old association—and its governance structure showed it. In 2004, the chair of the AOG board assembled a task force to identify ways for it to bring its governance into the twenty-first century. World Vision International is one of the largest and best-known charitable organizations in the world. For over 50 years, World Vision has faithfully served poor and hungry people around the globe with an efficiency and effectiveness that few organizations can match. In 1998, World Vision, Inc., the U.S. partner of World Vision International, hired a CEO who had little experience with nonprofits, but who knew the value of good governance; with the support of his board chairman, he sought help in upgrading the board's structure and processes. These organizations have very different missions that affect the lives of very different

constituencies. They are unlike in size, age, complexity, and geographical reach. The profile of their boards is also different, as are their bylaws. Yet for all of their dissimilarities, these organizations share the common experience of following a course of action that has led to marked improvement in the way their boards govern their organizations. We call that course of action a roadmap, and in this book we describe what it is, why it so effective, and how any nonprofit board can take advantage of it. Who Needs a Roadmap to Good Governance? Your organization may not match any of these nonprofits well. You may be on the board of a large hospital, a small museum, or a medium-sized boys and girls club. Your organization may have a staff comprising several hundred paid professionals or a handful of unpaid volunteers. You may be governing a mature organization or one that is just starting up. Your reach may be the world or simply your neighborhood. Your organization may be dedicated to growth or content to serve at its existing level. Whatever the profile of your organization, it deserves good governance; and the roadmap can get you there.

“What about working boards?” we are often asked. “Our organization is a decent size, but we don’t have staff, and we rely on the board members to conduct the programs, do the fundraising, even keep the books. We aren’t a governing board that needs to worry about the role of the board, the role of the CEO (which we don’t have), or policies for this and that. Our board governs by doing.” Our response is that all boards are governing boards; in that they share the same fiduciary responsibility for their organization. A working board is a governing board whose members also carry out some or all of its activities. Perhaps we can illustrate this more clearly by demonstrating the different roles that board members can play by using a simple analogy. The Three Hats of Nonprofit Board Members Figure 1-1 describes three hats that may be worn by nonprofit board members, a hat being a symbol of the role that the board member is playing at the time. The first of these is the governance hat, which is worn only when the board member is attending a board meeting or committee meeting. All board decisions are made while wearing this hat. This is the hat that you are wearing when you are looked at by the IRS and the state in which your organization is registered. These and any other regulatory agencies hold you accountable for how well you serve in your governance role. Imagine that there’s a hook on the door of your boardroom that holds another hat. When you as a board member walk out of a board meeting, you exchange your governance hat for your volunteer hat, which is essentially what you wear whenever you are outside board or committee meetings. In addition to your

FIGURE 1.1. The Three Hats Board Members Wear.

1. Governance Hat (only hat that carries legal authority to govern)
2. Volunteer Hat (this hat carries no legal authority)
3. Implementer Hat (carries limited authority, but is seldom worn in most boards)

Worn only when in a properly called board or committee meeting with a quorum
 Decisions made only when part of the group wearing this hat
 CEO is accountable only to governing policies set by the board
 Goes on when leaving a board or committee meeting
 Worn when advising the CEO
 Worn when fundraising
 Worn when helping staff (alone or in a group) and often under the supervision of the staff
 Seldom worn because staff usually implement board policies
 But worn when a board resolution or the CEO gives a board member authority to implement some board action
 Hat is removed when task is done
 board duties, you may very well be a resource for the CEO and the staff, possibly providing personal counsel, offering a particular expertise, or just generally helping out. If you are a board member for an organization that has few staff members, you may find yourself volunteering often. Regardless, if you are not in a board meeting or a committee meeting, you are wearing your volunteer hat. And rather than the CEO working for you, as a volunteer, you are working for the CEO or her staff. How about the third hat—the implementer hat? This is a variation on the volunteer hat in that the board member is serving in a direct staff role, not a governing role. The distinction here is that a board member wears an implementer hat when he is carrying out a specific task that the board has authorized him to do. For example, a board member wears the volunteer hat when he is helping the CEO in fund-raising, but let’s say that the board appoints her, by board resolution, to actually be in charge of fund-raising because there is no one else to do it. For that specific task, the board member would be wearing an implementer hat. For board members who essentially serve as the staff for their organization, it is important that they know what role they are playing at any given time. They work together as a governing board, then function more independently to implement the board’s policies. In summary, all nonprofit boards have the responsibility to govern. Some boards may require more of their board members, but none should require less. And it’s that governance function that is the focus of the roadmap. Because all boards have a duty to govern, and because our roadmap serves the governance function, we believe that the roadmap applies to all nonprofits, regardless of their budget, size of staff, or complexity of operations. In other words, whether a nonprofit has many staff or no staff, at least the board members need to learn how to govern. The next question is, how does one measure the quality of governance in a nonprofit organization? Further, is there a continuum along which a board can move its governance from good to great? There are several definitions of good governance, which it may be helpful to explore before getting directly into the roadmap.