

Introduction

Governance matters

The heightened public debate and increased regulatory scrutiny regarding nonprofit governance has largely centered on compliance. With exposés in the press and congressional hearings highlighting malfeasance, it's no wonder that the focus has been on legal and ethical responsibilities. While attention to those concerns is absolutely essential, boards need to do more to help their organizations meet the challenges of their missions.

With more than one million organizations that receive nearly \$250 billion in charitable contributions, the size and influence of the nonprofit sector make it imperative that nonprofit boards operate ethically, legally, and to their fullest potential. Failure to carry out this critical role can have significant ramifications, from lost opportunities and mission drift to risky behavior and even bankruptcy.

There's more to good governance than compliance

Governance is not an either/or dilemma. It's a both/and situation — both compliance and leadership, oversight and fundraising, challenge and support. Boards must focus on compliance and on advancing their organization's mission through active leadership.

A board may meet every legal requirement, adhere to proper procedures, and still be ineffective if it is not engaged in setting strategic direction and supporting the organization. If a board neglects the full range of its responsibilities, it may preclude the organization from reaching its potential.

Good governance is about providing critical capital — intellect, reputation, resources, and access — to strengthen the organization and in turn the community it serves. An exceptional board recognizes the impact of its leadership, and board members understand that they must be thoughtful and engaged leaders, not competent but passive stewards.

The source of power

Boards often represent underperforming assets for nonprofit organizations that need every resource they can muster. To help boards operate at the best and highest use of their collective ability, BoardSource developed *The Source: Twelve Principles of Governance That Power Exceptional Boards*. Drawing on observations, academic knowledge, and proven practices, we identified the common traits and actions of boards that have made discernible differences to their organizations.

Those boards that made discernable differences to their organizations behaved differently from other boards. To highlight these differences, we distinguished between “responsible” boards and “exceptional” boards. A responsible board is capable and dutiful in carrying out its responsibilities. This is not always an easy feat, nor should it be taken for granted by either board or staff members. A responsible board understands its fiduciary obligations, and it adds value to the organization by approving strategic plans and budgets, regularly reviewing financial statements, evaluating the chief executive annually, and participating in fundraising.

An exceptional board operates on a higher level that is both “more” and “different.” Undoubtedly, its members give more — of their time, talent, and treasure. But, they also give differently — their time may be spent more wisely, their skills and social networks better leveraged, and their treasure more strategically deployed. Exceptional boards measure organizational impact and evaluate their own performance, discuss and debate issues, and open doors and make connections.

The difference between responsible and exceptional lies in thoughtfulness and intentionality, action and engagement, knowledge and communication. This difference is what we call the source of power. Using it has a multiplier effect on board performance.

Common denominators

As Peter Drucker said, “Management is doing things right; leadership is doing the right things.” Boards need to add how they govern to that maxim. They need to invest time and energy in building collaborative relationships among board members and with the chief executive. They need to be willing and able to think strategically, challenge ideas, and probe for better solutions. While they must bring independent thinking to decision making, they must do so collegially and with an eye toward inviting consensus. In the give and take in the boardroom, they must remember that governance is, fundamentally, a team sport.

The 12 principles of governance, presented on the following pages, get at what boards do and how they do it. They include the fundamentals, such as financial oversight activities, and the intangibles, such as group dynamics. They depend as much on a good board as on a good chief executive. They share some common denominators that enable the board to operate at an exceptional level.

A frank and open relationship

In order to function at the exceptional level, the chief executive must be more than competent and confident. He or she must also be open and honest with the board. The board, in turn, must be committed to ensuring success, while recognizing that nonprofit organizations are complex and constantly changing. As interlocking pieces in a jigsaw puzzle that together create a complete picture, the chief executive and the board are complements, with mutual trust, respect, and appreciation building the foundation for a leadership team that can handle short- and long-term challenges.

Consider this: Working together, the board and head of an independent school created a leadership succession plan a few years before the head of the school was to retire. Board and staff members participated in a collaborative, holistic review process that included articulating the institution’s values, evaluating the school’s other internal infrastructure needs, and assessing the board — all before the executive search officially started.

Intentionality

As Cyril Houle said, “A good board is a victory, not a gift.” Great governance doesn’t just happen by accident. It takes the right people in the right place at the right time. Who’s on a board matters, and board composition is an important indicator of an exceptional board. An exceptional board is also thoughtful, self-aware, and proactive. It balances the need for long-term stability with the need to adapt its own structures and practices as circumstances change and the organization evolves.

Consider this: A university foundation board, after asking how it could add real value to the institution, shifted the foundation’s focus from fundraising to commercialization of intellectual property. In turn, the board populated itself with individuals who have significant professional expertise in law, finance, and research and development. Given the foundation’s new role, the board also redefined its relationship with the university’s administration and governing board, as well as with foundation and fundraising staff.

Engagement

Board work is just that, work. It requires more than mere attendance at meetings. It requires of board members personal motivation and commitment, as well as intellectual curiosity and challenge. They must share a passion for the organization's cause. In turn, the chief executive must be ready, willing, and able to engage board members in making sense of situations, in determining what matters, and in solving dilemmas. Neither the board nor the chief executive can simply go through the governance motions and expect great results.

Consider this: A board member led a process that resulted in an emotionally powerful vision statement at an environmental organization. The board and the staff were inspired to reframe strategies, elevate goals, and embark on an ambitious fundraising campaign. The campaign raised significantly more money than expected, fueling even greater conservation success.

Benefits of *The Source*

The 12 principles represent the wisdom of a working group of nine governance experts and insights from an advisory panel of 27 distinguished leaders from across the nonprofit and corporate sectors. These principles are intended to focus the conversation about nonprofit boards on the core issues that we believe make the most difference to board performance and, in turn, to organizational success.

The 12 principles help board members understand and meet the expectations and requirements of their positions, providing a vision of what is possible and a way to reach a higher level of effectiveness. They also serve as a tool for chief executives, offering a vision of an empowered board that is a strategic asset to be leveraged, not an obstacle to be circumvented.

Nonprofit organizations — public charities and private foundations alike — differ in size, structure, and complexity, but the characteristics of exceptional governance do not. These 12 principles are universal. They represent the essence of what great boards do differently and how they do it.

Exceptional nonprofit boards advance the common good through uncommonly good work.

A GLIMPSE OF EXCEPTIONAL BOARDS

A large professional society spent a year identifying what the board had learned from governance changes, where it could add the greatest value, how it could work most effectively with staff, and where it should invest time over the next year. The results were used to orient and assimilate new board members, engage less-active board members, and involve the entire board in changes to policies and practices.

A state-based nonprofit financial institution has a board that's committed to the mission and organization, as evidenced by 100 percent attendance at meetings. Board members are prepared, engaged, and active in committees. Already known for an impeccable organization, outstanding fiduciary oversight and compliance, and transparency, the board now seeks to improve its capabilities in strategic thinking and visioning, and is recruiting accordingly.

Reprinted from Board Member®, Volume 14, Number 3, June/July 2005.