

Davenport Asset Management presents:

Virtual Investor Summit Series



Nonprofit Governance: Getting to Great

March 2021

In 2019, more than 1.7 million nonprofit organizations were registered with the IRS, including almost 120,000 foundations with total assets of \$1.2 trillion.¹ They represent a significant part of our economy. In 2016, the nonprofit sector accounted for 5.6% of gross domestic product, more than \$1 trillion.² Each organization is required to have a Board of at least three people and to meet at least one time each year. Beyond that, it is the responsibility of the Board to govern itself, bring on new Board members, and provide support for the organization. Clearly, some Boards are better than others, and it often shows in the results of the organization.



Katherine M. Whitney,
Co-Founder, Owner, &
Director, Warren Whitney

Why Does Having a Great Board Matter?

Great Boards and great nonprofit/foundation CEOs seem to go hand in hand; one begets the other. But if you have a great CEO who has an inspiring vision, represents the organization well, and is a natural leader, why is it still important to have a great Board?

Three reasons for having the best Board possible come to mind:

1. Your CEO and his or her management team invest time – some say as much as a third of their time – on Board-related functions. Just as you want a good return on investment (ROI) for your endowment fund, you want a good return on investment for your CEO's time. The stronger the Board, the better the ROI and the stronger your organization will become.
2. A high-functioning Board will help you cultivate the next generation of influential and effective Board members. The goal of every nonprofit should be to have a strong enough reputation that the people you need on the Board will be honored to be asked and eager to serve.
3. A strong Board will help ensure that you have a strong CEO. Any organization in business long enough will have leadership transition. The most important job of the Board is to select the CEO. When the time comes, your chances of finding a great next CEO will be better if the Board is outstanding.

What Are the Attributes of a Great Board?

There is no single correct answer here; it's not that easy. The goal is to have the Board you need given the position of the organization – in its life cycle and given its strategic direction.

¹Candid.org, April 2020 (GuideStar, Foundation Center)

²"Nonprofit Sector in Brief 2019," Urban Institute, National Center for Charitable Statistics

Every Board has some basic responsibilities. BoardSource outlines ten key responsibilities in four categories.³ These are important responsibilities that every Board should commit to uphold. However, it takes more than checking those boxes to create an exceptional Board.



Leadership

Most great organizations have great leaders, and Boards are no different. Sometimes, however, Board nominating committees don't place enough emphasis on Board leadership as they evaluate potential Board candidates. Respect, trust, shared decision-making and a willingness to commit time are all important qualities in individuals who should become Board Chairs.

Of those, shared decision-making can be one of the most difficult attributes for Board Chairs. Sometimes, people who stand out as successful business leaders expect to make final decisions and have others accept them. Processes that build consensus can be time-consuming and frustrating for some, but leading a volunteer Board, presumably of your peers, is different from leading smart people who report to you and who are paid to do their jobs.

Connections and Influence

Great Boards include members who have community connections and influence – and who are willing to use them. The CEO needs Board members who will open doors and set the stage for conversations that will move the organization forward – financially, programmatically and/or in reputation. Board members who are “all in” tend to do this naturally. These Board members provide the platform for the CEO, management and staff of the organization to focus on mission advancement.

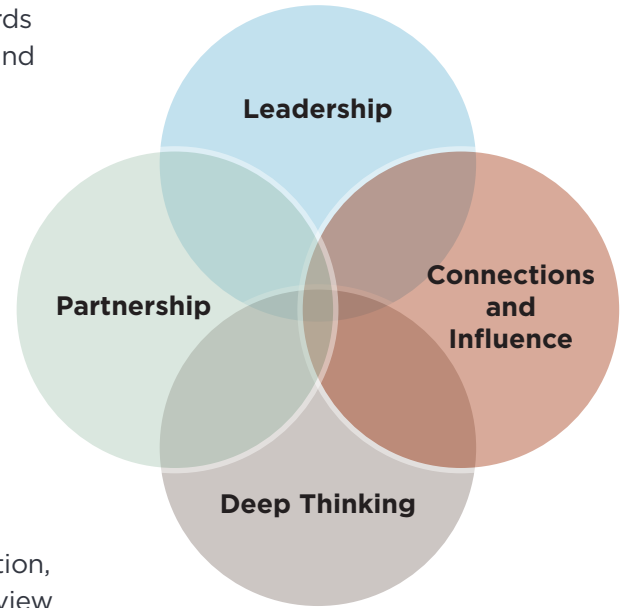
³Ten Basic Responsibilities of Nonprofit Boards, BoardSource, 2015

Deep Thinking

A “rubber stamp” Board may as well not exist. The best Boards have members who listen and learn about the organization and then apply the knowledge and experience they bring to the question or proposal at hand. They strengthen the CEO by helping to “see around corners,” connect dots and recognize opportunities. They press to ensure an understanding of the implications of decisions – the impact on mission, financial position, etc. At the same time, they don’t micro-manage.

Partnership

The relationship between the Board and the CEO is a critical component of an outstanding Board. The Board is responsible for hiring, evaluating, supporting and, occasionally, terminating the CEO. By definition, the relationship is not equal. However, the strongest Boards view the CEO as an equal, professional counterpart. The relationship is built on honesty, transparency and trust. The CEO leads the organization; the Board Chair leads the Board. The partnership improves the community they serve.



Each Board member should bring skills, experience and attributes that complement those of other Board members to aid in fulfilling their individual duties of care, obedience, and loyalty to the organization they serve. Together, the Board is a powerful network focused on the mission, growth and sustainability of the organization.

Duty of Care – Real Life Scenario

Board members can be lulled into thinking that because they are a part of a group decision, it’s not always important for them to think carefully and critically about the organization. One Board we consulted forgot that it’s the responsibility of each Board member to think as carefully as he or she would for their business decisions.

This organization was having financial trouble. The Board had not seen an audit in more than two years and had failed to press the CEO for reasons. They learned in a hard letter from the IRS that the organization had failed to remit payroll taxes that had been withheld from employees’ paychecks. The audits had not been completed because the audit firm hadn’t been paid. The CEO had used the money to cover other expenses. By the time the Board understood the full picture of the financial problems, there was no way for the organization to recover alone.

Fortunately, a non-Board benefactor stepped up with a gift to bail out the organization and the Board members because the IRS would have held them individually responsible for the payroll taxes.

How Do You Get to “Great”?

As in most pursuits, getting to great isn’t flipping a switch. Every class of Board members should strive to finish its term leaving a stronger Board behind. Every CEO should work to improve the Board experience. Think about your people, processes and culture. It is likely that they are intertwined and that you will need to take concurrent steps.

People

Great Boards consist of more than friends, family and neighbors. Start by identifying the skills and attributes needed on your Board and mapping those against the skills and attributes that your current Board brings. This creates a basic Board matrix used by many nonprofits. **If you list Board members in the order that their terms expire, it will be easier to see which areas of need take priority.** This gap analysis informs the list that you compile of potential Board candidates.

People:
Aim high

Process:
Use time wisely

Culture:
Develop a culture of excellence



Aim high. Your goal is to add the best talent possible. Board cultivation should be a yearlong, ongoing process, not a two-month dash to fill vacant seats. You may need to “wait in line” for high profile potential Board members, so looking out two or three years and exploring their levels of interest will help position the organization to attract sought after Board members. “We want you, and we’re willing to wait until we fit into your schedule,” can be an appealing message to a busy person who is truly interested in your mission.

Term limits generally help. While there are different views on term limits, Boards are trending in that direction. Term limits make space for new members, new thinking, and new energy – and many highly effective Board members want to work hard during their terms and then move on to their next nonprofit passion. A caveat here is if you don't currently have term limits, moving to them requires planning, focus, and an enhanced level of communication.

Process

Use time wisely. Many great Board members have limited time because of other commitments. To keep them engaged, communications, Board meetings and committee meetings need to be thoughtfully designed. Board members need **good information and effective communication** regarding:

Your Organization

- Do you have a one-page dashboard that summarizes your impact (or at least your outcomes if impact metrics are elusive), your financial position, and your fundraising progress?
- Do you send a Board package that includes committee reports at least a week before the Board meeting, preferably on the same schedule each time?
- Do financial statements show enough detail, but not too much? And do they include explanations for significant variances?

Your Sector

- Do you provide foundational information that is specific to the foundation or nonprofit sector you represent?
- Do you share insights from peer and aspirant organizations?
- Do Board members have the chance to attend related conferences?

It is helpful to understand the communication preferences of each Board member. Email, calendar invites, or executive assistants – take the route that makes it easiest for your Board members to know what they need to know.

Include giving and receiving in Board meetings – and not in the financial sense

- Warren Whitney

Board meetings can get the reputation of “necessary but boring” if there is too much reporting out or “check the box” activity. Think about things that can make Board members happy to have invested their time on the Board meeting. Consider including giving and/or receiving – and not in the financial sense. Meetings that include time for generative discussion on important strategic topics allow Board members to use their skills and experience to **give** guidance. Meetings that include topics that enable members to learn something new or to think differently lets them **receive** something of value. Both make the meeting worthwhile.

With respect to committees and committee meetings, there should be only as many as necessary. Like Board meetings, they should be scheduled for the full year, and each committee should have specific goals for the year that either are needed to fulfill Board responsibilities or support the strategic direction.

Culture

We talk about developing a culture of philanthropy. That's a good place to start. Consider also a culture of gratitude for the work of Board members, a culture of progress to fulfill your mission, a culture of accountability, and, ultimately, a culture of excellence. Each Board will have a culture. Instead of letting culture happen, the Board leadership along with the CEO and management team should be intentional about establishing the culture that is right for the organization.



People, process, culture - when these three components work together, the momentum will build towards an increasingly strong and self-aware Board.

A Self-Aware Board — Real Life Scenario

A Board of a nonprofit realized that, while they were passionate about the mission of the organization, they didn't really know what they were supposed to do as Board members. They considered two options: take some of the training sessions offered or begin a planned transition to replace themselves. Because they had been in place for a number of years and were exhausted from juggling Board responsibilities with their day jobs and their families, they opted for a planned transition.

There were two relatively new Board members who had good community relations. They committed to stay on the Board and help to cultivate new Board members who cared about the mission and who had experience as Board members in other organizations. The organization formed a governance committee and, over the course of the next three years, changed the profile of the Board significantly. The next generation of Board members had the capacity, connections, and business experience to help the organization double the number of people it served.

Much of the credit goes to the earlier Board members who recognized a need for change and took the appropriate steps to make it happen.

How Does “Great” Stay “Great”?

It is easy to drift if we don't stay focused, and the natural progression of Board leadership, with each new Board Chair entering with new thoughts and different styles, makes changes likely. On the management side, having a great CEO who is comfortable working as a partner with the Board and who stays in place for a reasonable length of time makes a big difference. On the Board side, leadership succession is just as important for the Board as it is for the CEO and management team.

The planning for a future Board Chair should start with Board cultivation. Including someone who is a potential Board leader in most classes is a good place to start. Different Board members may emerge as leaders, but being intentional about identifying talent early puts the Board in a better position. Be thoughtful about transitions from Vice Chair to Chair to Past Chair. This will allow a level of stability and consistency in Board leadership. In particular, the Vice-Chair should be a part of regular meetings with the Chair and the CEO and of meetings that include any important topics that will carry over to his or her term.

Finally, keeping a great Board great circles back to the first point that part of the job of every Board member is to leave the organization and the Board in a stronger position to continue to increase impact. That's the true sign of great leadership.

Committing to a Board seat should be a big decision. There are few organizations where being a Board member doesn't require time, effort and resources to do the job that needs to be done. Both Boards and individuals should be diligent and thoughtful in asking and accepting. The work of our nonprofits is too important not to have excellence in governance.

Important Disclosures:

The information contained herein has been compiled from sources believed to be reliable; however, there is no guarantee of its accuracy or completeness. Davenport is a financial services firm and does not provide tax or legal advice. Please consult your professional accounting or legal advisors prior to acting on any information provided by us that may have an effect in these areas. Davenport & Company LLC and Warren Whitney are not affiliated.

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Thriving Boards Self-Evaluation Checklist

March 2021

These questions are intended to help boards assess their effectiveness and identify areas for improvement.

Board Profile / Board Member Cultivation

1. Does the board have the skills, attributes, and connections that the organization needs?
2. Is there an ongoing effort (usually by a governance committee) to identify and cultivate potential board members with the skills, attributes and connections needed in the next class?
3. Does the whole board understand the process for board member nominations, and do they suggest names and make introductions as appropriate?



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Board Education

1. Is there an orientation for new board members? Is it open to existing members also?
2. Do board members understand their individual and collective responsibilities?
3. Is there a way for board members to learn about industry trends, best practices and other models of service delivery?
4. Does the board understand the key drivers and critical success factors for the organization?
5. Is the CEO willing to share weaknesses and challenges as well as strengths with the board?

Board Culture

1. Do board members enjoy working together?
2. Are they comfortable speaking up when they disagree?
3. Do board members come to meetings prepared and ready to engage?
4. Do board members follow up on commitments they make?
5. Does every board member make a personal financial commitment?
6. Is there time for board members to get to know each other?

Board / CEO Partnership

1. Do the board and the CEO have a shared vision for the future of the organization?
2. Can the board and the CEO have open and honest discussions that help solve problems and move the organization forward?
3. Does the CEO have the support of the board when there are difficult decisions to be made?

Board Processes / Board Meetings

1. Is the schedule for board meetings published well in advance (annually)?
2. Is the board package sent out in a timely manner – to give busy board members adequate time to review the information?
3. Is there a calendar of board topics/actions to guide required and planned board decisions?
4. Is there a board portal so relevant information is easily accessible?
5. Does the board agenda include adequate time for generative, strategic discussions and have limited reporting out from committees?
6. Are appropriate board policies in place, such as conflict of interest, confidentiality, whistleblower, harassment, etc?
7. Does the board make regular use of executive sessions?

Committees

1. Are the appropriate standing committees in place? Are ad hoc committees or task forces used for one-off decisions / recommendations?
2. Does each committee have a charter and annual goals that are tied to the organization's current work and/or strategic plan?
3. Do committees know well in advance when their work will be discussed at a board meeting?
4. Are committees prepared to make well-researched and considered recommendations to the full Board?

Board Succession

1. Is there a well thought out process for selecting the next board chair that includes appropriate input from the CEO?
2. Are there always at least two or three board chair potentials on the board?
3. Is the incoming chair identified and announced at least six to nine months before his/her term starts?
4. Is there a planned transition to ensure that the incoming Chair has the information he/she needs to be effective quickly?
5. Does each committee have its next committee chair identified?

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