

**GOVERNANCE
SERIES**



TEN BASIC RESPONSIBILITIES

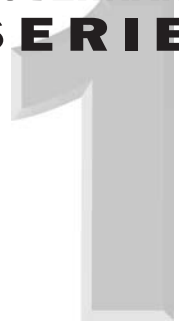
of Nonprofit Boards

Second Edition

Richard T. Ingram



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Library of Congress Cataloging-in-Publication Data

Ingram, Richard T., 1941-

Ten basic responsibilities of nonprofit boards / Richard T. Ingram. -- 2nd ed.

p. cm. -- (Governance series ; bk. 1)

ISBN 1-58686-106-9 (pbk.)

1. Nonprofit organizations--Management.
2. Associations, institutions, etc.--Management.
3. Directors of corporations. I. Title.

HD62.6.I54 2008

658.4'22--dc22

2008036531

© 2009 BoardSource.

First Printing, October 2008

ISBN 1-58686-106-9

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

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BoardSource was established in 1988 by the Association of Governing Boards of Universities and Colleges (AGB) and Independent Sector (IS). Prior to this, in the early 1980s, the two organizations had conducted a survey and found that although 30 percent of respondents believed they were doing a good job of board education and training, the rest of the respondents reported little, if any, activity in strengthening governance. As a result, AGB and IS proposed the creation of a new organization whose mission would be to increase the effectiveness of nonprofit boards.

With a lead grant from the Kellogg Foundation and funding from five other donors, BoardSource opened its doors in 1988 as the National Center for Nonprofit Boards with a staff of three and an operating budget of \$385,000. On January 1, 2002, BoardSource took on its new name and identity. These changes were the culmination of an extensive process of understanding how we were perceived, what our audiences wanted, and how we could best meet the needs of nonprofit organizations.

Today BoardSource is the premier voice of nonprofit governance. Its highly acclaimed products, programs, and services mobilize boards so that organizations fulfill their missions, achieve their goals, increase their impact, and extend their influence. BoardSource is a 501(c)(3) organization.

BoardSource provides

- resources to nonprofit leaders through workshops, training, and an extensive Web site (www.boardsource.org)
- governance consultants who work directly with nonprofit leaders to design specialized solutions to meet an organization's needs
- the world's largest, most comprehensive selection of material on nonprofit governance, including a large selection of books and CD-ROMs
- an annual conference that brings together approximately 900 governance experts, board members, and chief executives and senior staff from around the world

For more information, please visit our Web site at www.boardsource.org, e-mail us at mail@boardsource.org, or call us at 800-883-6262.

Have You Used These BoardSource Resources?

THE GOVERNANCE SERIES

1. *Ten Basic Responsibilities of Nonprofit Boards, Second Edition*
2. *Legal Responsibilities of Nonprofit Boards, Second Edition*
3. *Financial Responsibilities of Nonprofit Boards, Second Edition*
4. *Fundraising Responsibilities of Nonprofit Boards, Second Edition*
5. *The Nonprofit Board's Role in Mission, Planning, and Evaluation, Second Edition*
6. *Structures and Practices of Nonprofit Boards, Second Edition*

BOOKS

The Nonprofit Chief Executive's Ten Basic Responsibilities
Chief Executive Transitions: How to Hire and Support a Nonprofit CEO
Chief Executive Succession Planning: The Board's Role in Securing Your Organization's Future
Assessment of the Chief Executive
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Getting the Best from Your Board: An Executive's Guide to a Successful Partnership
Moving Beyond Founder's Syndrome to Nonprofit Success
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Exceptional Board Practices: The Source in Action
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Managing Conflicts of Interest: A Primer for Nonprofit Boards, Second Edition
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The Nonprofit Board Answer Book: A Practical Guide for Board Members and Chief Executives, Second Edition
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Self-Assessment for Nonprofit Governing Boards
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Transforming Board Structure: Strategies for Committees and Task Forces
The Board Building Cycle: Nine Steps to Finding, Recruiting, and Engaging Nonprofit Board Members, Second Edition
Culture of Inquiry: Healthy Debate in the Boardroom

DVDs

Meeting the Challenge: An Orientation to Nonprofit Board Service
Speaking of Money: A Guide to Fundraising for Nonprofit Board Members

For an up-to-date list of publications and information about current prices, membership, and other services, please call BoardSource at 800-883-6262 or visit our Web site at www.boardsource.org.

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ABOUT THE BOARDSOURCE GOVERNANCE SERIES

As BoardSource celebrated its 20th anniversary in 2008, we introduced updated editions of the books in the Governance Series, BoardSource's flagship series created to help nonprofit board members understand their primary roles and responsibilities. BoardSource believes that board members and chief executives who know and understand their mutual responsibilities are better equipped to advance their organizations' missions and, in turn, strengthen their communities.

WHY IS A STRONG BOARD IMPORTANT?

There's no denying that the 1.6 million nonprofit organizations in the United States play a vital role in society, from assisting victims of natural disasters to beautifying our neighborhoods, from educating our children to healing the sick. To ensure that their organizations have the resources, leadership, and oversight necessary to carry out these and other vital activities, nonprofit boards must understand and fulfill their governance responsibilities.

Although there have been headline-worthy scandals by a few nonprofits and their boards, the vast majority try hard every day to be worthy of the public's trust. Nevertheless, BoardSource frequently hears from nonprofit board members and chief executives who say that they are not always sure what the basic components of good governance are or how to educate every board member in them so they can serve their organizations and the public in the best possible manner. The revised Governance Series helps bridge this gap in knowledge.

Within the board's broad roles of setting the organization's direction, ensuring necessary resources, and providing oversight,

board members wear many hats. They are guardians of the mission; they ensure compliance with legal and financial requirements; and they enforce ethical guidelines for their organization. They are policymakers, fundraisers, ambassadors, partners with the chief executive, and strategic thinkers. They monitor progress, evaluate the performance of the organization and the chief executive, and demonstrate integrity in everything they do on behalf of the organization. Because of their many roles, board members need more than enthusiasm for a cause, passion for a mission, or just “good intentions.” They need to understand all of their stewardship responsibilities and perform all of their duties.

WHAT WILL BOARD MEMBERS FIND IN THE BOOKS?

The six books address all of the fundamental elements of service common to most boards, including board member responsibilities, how to structure the board in the most efficient manner, and how to accomplish governance work in the spirit of the mission of the organization.

1. *Ten Basic Responsibilities of Nonprofit Boards, Second Edition* (Book 1) by Richard T. Ingram describes the 10 core areas of board responsibility.
2. *Legal Responsibilities of Nonprofit Boards, Second Edition* (Book 2) by Bruce R. Hopkins, JD, LL.M., elaborates on the board’s legal responsibilities, liabilities, and the oversight it should provide to protect the organization.
3. *Financial Responsibilities of Nonprofit Boards, Second Edition* (Book 3) by Andrew S. Lang, CPA, explains board fiduciary responsibilities in the areas of financial oversight and risk management.
4. *Fundraising Responsibilities of Nonprofit Boards, Second Edition* (Book 4) by James M. Greenfield, ACFRE, FAHP, helps board members understand why they should be actively engaged in ensuring adequate resources for the organization — and how to get involved in fundraising.

5. *The Nonprofit Board's Role in Mission, Planning, and Evaluation, Second Edition* (Book 5) by Kay Sprinkel Grace, MA, Amy McClellan, MNO, and John A. Yankey, PhD, shows how to define and communicate the organization's mission and link strategic planning and evaluation to achieve organizational success.
6. *Structures and Practices of Nonprofit Boards, Second Edition* (Book 6) by Charles F. Dambach, MBA, Melissa Davis, and Robert L. Gale offers guidance on how to build and structure the board (size, committees, term limits) and enhance leadership roles and the partnership between the chair and the chief executive.

Each book focuses on one topic, breaking information into manageable amounts that are easy to digest. Readers will find real-world examples that provide insight from effective boards, statistics from the BoardSource's *Nonprofit Governance Index 2007* survey of nonprofit organizations, tips and pitfalls, lists of the most important things to remember, end-of-chapter questions, glossaries, and resource lists for further reading. The authors of the books are subject-matter experts with years of experience in the nonprofit sector.

WHO SHOULD READ THE BOOKS?

Board members and senior staff, especially chief executives, in nonprofits of all types and sizes will find the information contained in the Governance Series relevant. They can use it to set standards, to develop their own approaches to board work and interacting with board members, and to modify practices as the organization evolves.

There's something in the Governance Series for everyone associated with the board. A board chair, for example, might share Book 5 (*The Nonprofit Board's Role in Mission, Planning, and Evaluation*) with board members before starting a strategic planning process or give Book 4 (*Fundraising Responsibilities of Nonprofit Boards*) to the development committee. Chief executives will find it beneficial to give Book 3 (*Financial Responsibilities of Nonprofit Boards*) to the board treasurer and to review Book 1 (*Ten Basic Responsibilities of Nonprofit Boards*) and

give it, along with Book 6 (*Structures and Practices of Nonprofit Boards*), to senior staff and the board chair to clarify board–chief executive roles and strengthen the partnership with the board. All board members will want to read Book 2 (*Legal Responsibilities of Nonprofit Boards*) so they understand how to protect themselves and the organization. The chair of the governance committee might give new board members all six books. This sharing helps ensure that everyone associated with the board is “on the same page” and has a common understanding of the board’s responsibilities, expectations, and activities.

Board service entails serious obligations, to be sure, but it can also deliver immense satisfaction. A board that knows what is expected of it and performs at the highest level is a strategic resource for its organization and chief executive. And ultimately, this commitment by dedicated board members translates into mission impact in our communities.

The Governance Series was made possible in part through the support of MetLife Foundation.

INTRODUCTION

IN THE SPIRIT OF SERVICE

A voluntary spirit and philanthropic instinct are seen in virtually all societies in the world through the formation of informal community groups, secular charitable nongovernmental organizations, or faith-based organizations and places of worship.

According to the Urban Institute, the United States alone has some 1.6 million voluntary, nonprofit, and nongovernmental organizations, with more certified every month by the federal government as tax-exempt entities. Although no one has calculated the precise number of directors on these governing boards — nearly all of whom serve without compensation — we do know that millions of women and men accept the fiduciary and other responsibilities of board service at any moment.

RESPONDING TO INCREASED SCRUTINY

The people serving on nonprofit boards face a host of high expectations. In recent years, for example, governing boards have come under scrutiny as never before — first, and most appropriately, from their own members. But continued scrutiny has also come from the media and governments at all levels, as they demand to know more about what goes on in boardrooms.

The increased scrutiny has generated a mix of consequences and some ambivalence among board members and those who study organization governance. Ambivalence about new regulations, for example, stems from the unfortunate (and largely unfounded) perception that voluntary service on a board could bring exposure to personal liability if the organization failed to comply, even inadvertently, with such regulations. Furthermore, the law of unintended consequences always lurks behind a new regulation, and the organizational cost of compliance (the cost of doing business) increases with each new unfunded mandate.

Thankfully, very few nonprofit organizations have the dysfunctional boards and governance that lead to national scandals over finances, compensation practices, or other issues. Still, given the slightest hint of misconduct at one nonprofit organization, the public and the media are likely to infer that many more dysfunctional or unethical organizations not only misuse the public's philanthropic gift dollars but also do so without paying taxes.

Because of this public perception, even a governing board that simply appears inattentive or passive can ignite public outcry and calls for governmental initiative. Such responses can be either healthy and appropriate or counterproductive to the public good in the long haul. Indeed, nonprofit organizations should never assume that state and federal tax policy providing for the tax deductibility of gifts and grants will remain unchallenged forever.

In response to the public's increased interest, the volume and quality of readily available information on good governance has grown enormously. With it have come determined efforts by tax-exempt organizations to strengthen the performance of their boards and management practices affecting board work. Board members are reading more about what is expected of them. Also, substantive board development programs have become more commonplace and "best practices" are more widely understood and implemented.

Perhaps most important, there is growing acceptance of the notion that good governance makes a difference in organizational effectiveness. Although empirical evidence still needs to be gathered more systematically, the consistency and quality of work by governing boards have improved considerably.

As Richard Chait observed in his speech to attendees at the 2007 BoardSource Leadership Forum, "Nonprofit boards today seem more self-aware and more enlightened, more determined to govern than manage, more guided by board policies than trustees' personalities, and more attuned to best practice than local custom. In a word, I believe boards have become more professional."

REDUCING THE AMBIGUITIES

This book, which is written especially for nonprofit board members, aims to clarify and distinguish the board's corporate responsibilities and leadership from those of management. Indeed, the first step to an effective board is to minimize the ambiguities that inevitably surround its responsibilities. That means embracing good governance practices, beginning with a comprehensive job description for the board itself.

Although they are intimately linked, the board's legal authority and the responsibilities of its individual members are distinct. The board's legal *authority* and board member's *responsibility* are complementary; although interdependent, they are not precisely synonymous. While the board's authority is rooted in state and federal law and regulation, the responsibilities of individual trustees are not. Put another way: Individual board members have no legal authority except when they make decisions as part of a legally constituted corporate body — the board itself.

Although this book focuses on the board, a set of expectations that typically apply to those who serve on boards appears in Appendix I. In the diverse nonprofit sector, how a board actually uses its authority and how individual board members fulfill their responsibilities are affected by many factors, such as

- the organization's mission and purposes
- the organization's size and complexity
- whether the operating budget is large or small
- whether the organization is member-based or more generally constituent- or client-based
- the main sources of revenue
- whether the organization has a large staff or none at all

Your board's authority and responsibilities, and some of the best governance practices discussed in this book, should be interpreted and precisely articulated. Specifically, your organization's bylaws should include a clear set of board responsibilities.

Five assumptions are implicit in the chapters that follow:

1. Because every organization is unique, no one-size-fits-all model of governance applies. There are, however, certain fundamental responsibilities common to nearly all boards. These responsibilities, in turn, provide a frame of reference for assessing the board's performance periodically. It is equally important to clearly articulate expectations for those who serve on boards and to use those standards to assess individual board member performance (see Appendices I and II).
2. Board and board member performance depend greatly on the need for management, especially the chief executive, to understand and respect the governing board's duty and obligation to provide responsible oversight as well as strategic leadership. A board with motivated members will only be effective and consequential if its executive leadership is also effective and supportive.
3. How a board organizes itself matters, but not nearly as much as the sophistication, commitment, skills, and experience of those invited to serve on the board and how they are led and work together. This has profound implications for the process of selecting board members.
4. The members of truly high-performing boards ask good and timely questions and are more strategic than operational in their work; they don't manage programs or implement their own policies. Smaller organizations, especially those where board members also volunteer in certain staff functions, should hire staff as soon as practical so the board can concentrate on governance.
5. Over time, all organizations undergo a metamorphosis that calls for periodic evaluation, fine-tuning, and sometimes a major overhaul in how and by whom they are governed and how they select board members. High-performing boards consistently self-correct and look for or create ways to self-renew; boredom and routine in boardrooms spell trouble. As organizations grow in complexity and consequence, for example, how they were once governed is unlikely to be the same as how they *should* be governed.

This book addresses the 10 basic responsibilities of nonprofit boards within the broader context of contemporary best practices. Taken together, these 10 responsibilities constitute a job description:

1. Determine mission and purposes.
2. Select the chief executive.
3. Support and evaluate the chief executive.
4. Ensure effective planning.
5. Monitor and strengthen programs and services.
6. Ensure adequate financial resources.
7. Protect assets and provide financial oversight.
8. Build a competent board.
9. Ensure legal and ethical integrity.
10. Enhance the organization's public standing.

A list of discussion questions appears at the end of each chapter. These are designed to prompt board dialogue, either during a board retreat or at regular times set aside on the board meeting agenda. The list of individual board member responsibilities in Appendix I and the sample self-assessment for board members in Appendix II provide a framework that enables organizations to begin a tradition of periodic performance assessment. And, for those who wish to learn more about nonprofit governance responsibilities, an annotated list of articles and books appears in Suggested Resources.

THE BOARD'S PRIMARY RESPONSIBILITIES

1. Determine mission and purposes.
2. Select the chief executive.
3. Support and evaluate the chief executive.
4. Ensure effective planning.
5. Monitor and strengthen programs and services.
6. Ensure adequate financial resources.
7. Protect assets and provide financial oversight.
8. Build a competent board.
9. Ensure legal and ethical integrity.
10. Enhance the organization's public standing.

CHAPTER 1

DETERMINE MISSION AND PURPOSES

The board is responsible for ensuring that the organization's mission is clearly stated and advanced. A commitment to the organization's mission should drive the board's and management's priorities. This usually takes the form of a relatively brief written mission statement, sometimes supplemented with a more detailed statement of the organization's goals or values — what it supports or believes. The purposes of the organization are clarified in a short statement of the reasons or the mandate the organization expects to accomplish.

The board and management should periodically review the mission statement to ensure it is useful, honest, valid, and current. The mission statement should articulate whom the organization serves and explain what makes the organization distinctive by suggesting compelling reasons why individuals, foundations, and corporations should provide financial support. The board is ultimately responsible for the mission statement. Still, before developing or revising the mission, wise chief executives and boards consult with the organization's stakeholders — its members, volunteers, staff, clients served, or the leaders of any subsidiary enterprises, for example.



At least annually, reserve time at a board meeting for members to briefly discuss what they do or can do for the organization beyond faithful participation in board and committee meetings. So often, it is what board members do for their organization between meetings that matters as much or more than what is accomplished in regularly scheduled gatherings.

A good statement of mission and purpose also serves to guide and benchmark such undertakings as organizational planning, board and staff decisions about programs and services, volunteer initiatives, and priorities among competing demands for scarce resources. The board should periodically assess what the organization does to ensure it is not drifting away from its intended mission and purposes. The mission, which will vary widely from one organization to the next, also sets the stage for developing fundraising strategies and serves as a benchmark for sustaining the confidence and support of those who believe in the organization.

There is a distinction between an organization's mission (what the organization "is and does") and its vision (what it "strives to be and do"). The most important point, however, is that every organization should describe why it exists and what it provides to its intended beneficiaries — and that mission may evolve over time.

For more detail on setting and resetting organizational mission, see *The Nonprofit Board's Role in Mission, Planning, and Evaluation*, Book 5 in the BoardSource Governance Series.



PITFALL

Unilaterally changing the organization's mission or statement of purpose without consulting and engaging key stakeholders could lead to loss of support as well as guide the organization in a wrong direction.



QUESTIONS THE BOARD SHOULD ASK

1. Do we use our mission statement as our first frame of reference when making decisions?
2. Does our statement of mission clarify what makes our organization distinctive?
3. Have we recently adjusted or reaffirmed our mission statement?
4. What new or emerging changes in the environment or our organization's circumstances should cause us to reconsider our mission statement's adequacy or appropriateness?

CHAPTER 2

SELECT THE CHIEF EXECUTIVE

Choosing a new chief executive is among the most consequential of a board's decisions affecting the organization's continuing development and effectiveness. The governing board usually makes the final decision, although some organizations appropriately share this responsibility with representatives of those who have a stake in the outcome — such as members of membership-based associations and faculty members of colleges and universities.

Before launching a search, it's essential to work backwards to a list of desired attributes to be sought in serious candidates and a new leader — backwards from a clear consensus on the organization's nature and current circumstances, its strategic and most pressing priorities and goals that are expected to be addressed. That is, what do we expect a new chief executive to achieve? The usual clichés should be avoided in any attempt to cite specific characteristics such as “we seek an effective communicator,” or “outstanding candidate will be an effective speaker,” or “we seek an experienced and proven fundraiser,” and the like. The reality is that true leadership is more than the sum of a simple list of skill sets, whatever they may be in a position opening announcement.

Addressing the kinds of issues and needs that will constitute the challenge for the new leader, with the right mix of experience and personal style that is sought to fit the organization's mission and culture, on the other hand, is more likely to produce outstanding candidates. There is no single prescription that works for all organizations; the simple facts are that it is very difficult to define leadership, and yet we know it when we see or have it, and we often don't know how effective our new leader is until he or she has been in the saddle for many months.

Succession planning has become a watchword in today's boardrooms, although, unfortunately, more lip service than substance is often given to it. This concept, borrowed from the for-profit sector, often involves identifying and promoting successors to top management positions from within the enterprise. There is empirical evidence within that sector that it more often than not provides good results (see, for example, *Good to Great* by Jim Collins (HarperCollins, 2001)). In nonprofit settings, however, there seems to be a mindset that predetermining the scope of the search for a new chief executive closes off viable options. That may or may not be true, of course, but there is no substitute for governing boards to use their very best judgment about outstanding candidates who are already within their organizations and who are ready to assume much more responsibility.

Likewise should we remember that effective chief executive performance is intimately linked with the board's effectiveness. They are dependent on one another — one can be little better than the other. One moral here is to ensure that the board and its leaders are prepared to provide the necessary commitment of time and support to help get the job done. Many boards anticipate the need to assure the person ultimately selected that, for example, its executive committee is prepared to be more readily available to help, advise, listen, acculturate, and support the new leader in his or her transition. Board officers have a special responsibility in this transition, of course, even as all trustees should be aware that one mark of an effective organization and governing board is their ability to identify and keep a strong leader long enough to effect the changes and improvements in the organization's conditions that were identified prior to the launch of the search process.

At the same time, such help for the new leader should be offered without being intrusive or disrespectful of his or her leadership and prerogatives. Effective leaders, we should remember, assume they were hired because there is confidence and trust in their ability to get the job done. The board's chair and other leaders, indeed the board itself, must find the proper balance between standing "up too close" or "back too far."

Especially in large and complex organizations, board leaders should remain open to the idea of identifying, developing, and promoting promising talent from within — and even encourage such thinking to provide a wider pool of candidates. On the other hand, the board should not conclude too quickly that internal promotion is the only possible course of action.

Succession planning is part of the board's responsibility to ensure the organization is prepared for the future. When done properly — with the full commitment and assistance of the current chief executive — the odds of making a smooth transition to new leadership increase dramatically.

LAUNCHING THE SEARCH

When a vacancy occurs in the chief executive position, the board needs to decide whether to hire an executive search firm to help with the search process, including candidate recruitment, or to conduct the search on its own. In addition to a carefully considered search process, the board's duty is to provide a positive working environment that enables the chief executive to lead and perform effectively. In a national, regional, or local search for a new leader, with or without a strong internal candidate, the board should

- review the organization's statement of mission and purposes
- conduct an inventory of the organization's current and emerging strengths and needs, perhaps aided by the search principal (if a firm is retained to help with the search)
- agree on clear objectives and clarify expectations for at least the first year of the new chief executive's service, plus a few major long-term priorities and goals
- articulate the particular characteristics, skills, and style it seeks in its new chief executive
- provide an adequate compensation package and other employment terms
- clarify its own functions as distinct from those of the chief executive and staff, including the chief executive's responsibility to select and supervise a management team without board intrusion

- clarify its expectations of the chief executive and what the chief executive can expect from the board
- reaffirm that the organization's chief staff officer (by whatever title) is indeed the chief executive rather than the board's elected volunteer leader. Without ambiguity, there can only be one executive leader and one board chair. Even though the board and the chief executive need to work together in close partnership, it is necessary to recognize a line between management and governance.

In sum, much of the foregoing is usually summarized in a position description used to advertise and to recruit candidates. Although the board's search committee, usually with the search firm's help, takes the lead in developing the position description to ensure it is current and relevant to the organization today, the full board should always be given the courtesy of reviewing and suggesting improvements to it.



In the final stages of a search, conduct a thorough due diligence process for each of the top two or three candidates. Searches that result in disappointing decisions usually overlook speaking directly with people who really know and have worked with and for the finalist. Ideally, secure a well-connected, qualified, and highly respected third party to conduct discreet inquiries; this goes beyond a simple reference check process and should not be delegated to the search firm, if one is used.

Once a board has hired a new chief executive, it needs to do the right things to keep that person. Those right things include consistent and predictable support from the board, coupled with fair and appropriate annual performance assessments that tie to compensation adjustments.

For more on succession planning and other matters relating to the chief executive, see *Structures and Practices of Nonprofit Boards*, Book 6 in the BoardSource Governance Series.



PITFALL

A search committee that forgets to sell the organization to promising candidates as much as the committee expects exciting candidates to sell themselves to it will lose promising candidates who have multiple offers to choose from.



QUESTIONS THE BOARD SHOULD ASK

1. What process do we have in place for supporting and retaining our chief executive?
2. Do we engage in succession planning with the assistance of the chief executive?
3. Have we agreed on the goals and priorities for the incoming chief executive in the next few years? The next five years?
4. Has our organization changed so significantly that we need to review and revise the chief executive's job description?
5. What qualifications and experience should we look for in a search firm? What should we expect of the firm, and what should it expect of us as a full partner in the search process?

CHAPTER 3

SUPPORT AND EVALUATE THE CHIEF EXECUTIVE

Selecting the top staff person is only the beginning of what everyone hopes will be a long and productive relationship with the governing board, a relationship that will bring real achievement and long service to the organization.

The chief executive's success is linked to the board's determination to do its part to sustain an effective relationship — one marked by mutual respect on both sides and an understanding of the distinction between board and executive responsibilities that is determined, first and foremost, by open communication.

Put another way, the ideal relationship is marked by continuing candor about expectations rather than relying solely on the annual review to provide feedback. The board chair has an especially important responsibility, as does the chief executive, to provide the board with the bad news as well as the good. Their respect for one another's different but complementary responsibilities affects how well the board itself functions. Again, there can only be one chief executive and one chair of the board; their respective responsibilities should not be confused.

The chief executive's and chair's shared responsibilities mostly center on working together to ensure the board is functioning effectively. In the best of circumstances, they are seen by everyone as working very closely together on virtually everything related to the board's agendas, committee assignments and activities, matters bearing on trustee candidate cultivation and recruitment, board retreat planning, and the like.

A SUPPORTIVE ENVIRONMENT

Providing personal and organizational support for executive leadership, periodically assessing the chief executive's performance, and acknowledging superb service through appropriate compensation are key board responsibilities as well. A high-performing board gives ongoing attention to these matters.

The only place the chief executive can look for support that really counts is in the governing board, beginning with its top elected leader — the chair. For the chair and the board, being supportive means being reasonably predictable in how they react to and address emerging problems, encouraging the chief executive to be decisive, standing by the chief executive when constituencies do not like certain decisions, providing encouragement when it may be needed, and responding to the chief executive's requests for help.

The quality of the relationship between the board chair and chief executive cannot be overemphasized. In fact, one characteristic of a high-performing board is its record of retaining effective chief executives over time. The board chair has special responsibilities in this regard: The chair–chief executive relationship affects the executive's relationship with the entire board.



Consider offering professional coaching opportunities to your chief executive. Even effective and high-performing chief executives can benefit from strengthening their skills in certain areas appropriately called to their attention, especially by the board chair or as a consequence of a thoughtful and well-conducted performance review process.

The chief executive's second line of support ordinarily comes from and through the board's executive committee, or from the board's elected leaders when the board is too small to warrant having one. A subset of board members may assume special

responsibility to monitor the chief executive's morale, understand the issues of greatest concern, and look for opportunities for the whole board to offer needed support through the good times and especially the difficult times — there are plenty of both! Again, the way a board's leaders react to bad news reveals their true character as well as their confidence in the chief executive.

Specifically, the board should ensure that the chief executive

- receives frequent, substantive, and constructive feedback (not just at the time of the annual performance review)
- has confidence that the board chair will intervene with any board members who may misunderstand or abuse their positions
- feels that on-the-job performance is being assessed fairly and appropriately, without resorting to oversimplified checklists, or rating scales
- is introduced by board members to key community leaders who can assist and support the organization
- receives invitations to important social events, opening opportunities for the chief executive to speak at significant or high-profile community functions
- receives compliments for exceptional initiatives; every chief executive appreciates the occasional “pat on the back” from board members, especially the board's leaders
- is encouraged to use professional and personal leave time for renewal
- feels that at least the board chair is aware of and sensitive to any personal situations or needs and respects the confidentiality of their private conversations

In all of their dealings, both the chief executive and the board should do their best to adhere to the doctrine of no surprises, whether the news concerns cash-flow problems or major personnel problems. In other words, the board chair and the full board should be the first to know of any problems rather than hearing the news from others or reading about them in the

newspaper. Similarly, the chief executive should know early on if the board or its leaders have concerns about staff management or leadership. Then the chief executive can make improvements before little irritations or disappointments become more serious and consequential.

PRINCIPLES OF PERFORMANCE ASSESSMENT

Performance reviews, annual (less formal) reviews, and less frequent (but more formal and comprehensive) reviews for executives with long periods of service work best when guided by these four principles:

1. The primary purpose of performance reviews is to help the chief executive perform more effectively. To keep the process healthy and constructive, compensation and contract renewal decisions should not be considered the only or primary purpose for conducting executive performance reviews.
2. The chief executive should be consulted on and comfortable with the review process.
3. The chief executive's and board's performance are interdependent — neither can be assessed completely independently. In this regard, the board should follow the practice of assessing its own performance.
4. It is the board's responsibility to assess the chief executive's performance, and it is the chief executive's responsibility to assess the senior staff's performance.

PERFORMANCE REVIEWS

Evaluating the chief executive's on-the-job performance, whether through informal or formal means, can be a delicate business. To reduce the potential for confusion or misunderstandings, the board and chief executive should agree on evaluation purposes and processes. Annual goals and objectives, mutually discussed and agreed on, should serve as the primary — but not exclusive — criteria in performance reviews.

It is interesting to note, by the way, that simply relying on the chief executive's job description to provide the benchmarks or key elements for performance assessment is often found to be inadequate or even unworkable. There are several reasons for this, including the inherent limitations of typical job descriptions that generally fail to capture what really characterizes effective leadership in a particular organization. Although efforts to improve such job descriptions may be a laudable effort in this regard, the larger point to be made is that leadership is difficult to reduce to a job description for the purpose of performance assessment. The qualities that distinguish effective leaders from ineffective leaders in certain circumstances, for example, are not found in simple checklists. There are special challenges accompanying the board's responsibility to assess the chief executive properly, effectively, and sensitively, lest the process do more harm than good to the position or its incumbent.

In the end, although we may not be able to precisely define what outstanding leadership is, we know it when we see it! Let's admit that this very subjective process is more art than science, more human than anything else. We can and should use various objective measures or strategic indicators of the organization's progress on its financial condition, for example, as part of the assessment process — but whether a leader stays or goes so often hangs on much more subtle factors.

ANNUAL REVIEW

The board chair usually leads the annual review process. Or, the chair may designate another board member to take the lead, on behalf of the executive committee or an ad hoc committee specifically charged with conducting the performance review and determining compensation. The committee's chair should invite all board members to submit confidential written comments.

The annual review process should center primarily on the annual goals mutually and previously agreed upon by the board and the executive. The chief executive should prepare a candid and confidential report, first for the board committee responsible for conducting the process and then for the full board. The report should present a review of the preceding year

with explicit reference to the annual goals — those achieved and those not achieved. In effect, it is the chief executive's statement on the condition of the organization and calls attention to noteworthy issues and achievements. The report should also suggest new and perhaps some continuing goals that the chief executive believes the board should consider for the next 12 months — appropriately linked to the organization's current plan and priorities, of course.

Avoid standardized, overly simplistic rating scales and checklists; these can demean what executive leadership is really about and do not focus on previously agreed-upon organizational goals. Especially important, all board members should offer their feedback on the chief executive's most noteworthy achievements, as well as identify areas in which the chief executive could improve. The board chair (or designee) can then present a verbal or written summary to the committee and the chief executive that captures major themes and consensus offered by responding board members.

At a meeting with the chief executive, the chair uses the board's feedback, coupled with the executive's written report, as the basis for a good conversation. It eventually turns to each of the executive's proposed goals, which are then adopted, clarified, amended, or expanded. Subsequently, the chief executive's report and agreed-upon goals should be sent to all board members with an invitation to offer comments to the board chair. Thereafter, the committee can proceed with private conversations about possible compensation adjustments. In this way, the annual review process is kept relatively informal between the committee and chief executive on behalf of the board.

COMPREHENSIVE REVIEW

The more comprehensive review process is ordinarily reserved for chief executives who have served for at least three years, but more likely five or so years. Timing is often tied to major extensions of employment agreements. The comprehensive review process, with the chief executive's agreement, invites the participation and views of at least senior staff and often includes

others who represent key stakeholder groups, such as constituencies, service users, donors, and community leaders.

When budgets permit, consider retaining an experienced and qualified consultant, someone mutually agreeable to the chief executive and the board's leaders, to conduct the process. This investment is especially worthwhile when the governing board and the chief executive are prepared to make a commitment to one another for an extended period.



PITFALL

All trustees understandably expect to hear about the results of the performance review process in executive session. This should be done by the board chair or appropriate committee chair in reasonable detail and he or she should be able to respond to any questions that may be asked. Board leaders who fail to ensure that this is done at the appropriate time, often coupled with subsequent decisions about compensation adjustment, will usually wish they had!

THE COMPENSATION QUESTION

A good performance review process helps to inform compensation adjustments. However, it is also important to remember the Internal Revenue Service's safe harbor measures if ever an organization comes under scrutiny for excessive compensation. The IRS wants the organization to demonstrate that, when setting the chief executive's compensation, it relied on compensation levels at similar organizations, documented the findings, and ensured that the final decision was made by individuals who did not have a personal stake in the results.

Moreover, the IRS may penalize both the organization and board members personally if it finds that decisions were made to provide what is deemed excessive total compensation (not just base pay). As a result, familiarity with evolving IRS rules and guidelines — terms such as “safe harbor” and “intermediate sanctions” — is essential in all tax-exempt nonprofit organizations. Although there may be little probability of running afoul of federal regulations in this area, especially in

organizations with modest operating budgets, being ignorant of them is never a viable defense.

As a board, consider adopting these good practices:

- At least every other year, obtain reliable comparable compensation and benefit data from peer organizations of comparable size and missions in order to benchmark the range of practices. The comparison group need not be only nonprofit organizations.
- Ensure every board member — not just those who might ask — knows the details of the chief executive's total compensation. Regardless of who negotiates the compensation package, the majority or all of the board's members should be comfortable with the decisions. In some organizations, the full board approves the appropriate committee's detailed recommendations concerning the chief executive's total compensation package. In others, the executive committee formally approves the details of the final compensation, having been delegated this authority by the board in the bylaws or a separate standing policy. But the executive committee should always inform the full board about the process employed and the general outcomes of both the performance review and compensation decisions.
- Document in official records the details of how the performance and compensation reviews were conducted. Include such information as what comparative compensation data were used and the names of the board members who participated. In the event of an audit, this documentation will be required.
- Ensure that all compensation, including taxable benefits, appears on the IRS W-2 forms. Incidentally, basing part of total compensation on bonuses for meeting certain pre-determined criteria — a commonplace practice in the for-profit sector — is permissible, although often controversial, in nonprofit organizations. Take great care if using bonuses; seek professional advice to ensure the organization does not inadvertently ignore evolving IRS rules.

For more on chief executive performance reviews and compensation practices, see *Legal Responsibilities of Nonprofit Boards* and *Structures and Practices of Nonprofit Boards*, Books 2 and 6 in the BoardSource Governance Series.



QUESTIONS THE BOARD SHOULD ASK

1. What is our policy for assessing the chief executive's performance? Does the employment agreement call for such a practice? By what general process and timetable?
2. Have we updated our policies and processes regarding performance assessment and compensation to reflect what we've learned through experience?
3. Who within the board is responsible for implementing board policy concerning performance reviews and compensation practices (is it more than the board chair and other elected officers)?

CHAPTER 4

ENSURE EFFECTIVE PLANNING

Through the planning process, the board and staff translate the organization's mission into objectives and goals, which can then be used to focus its resources and energy. These goals, which usually require new resources, also become the benchmarks for assessing the organization's progress over time.

Although the chief executive is responsible for designing and conducting a process that provides, in effect, the organization's business plan, the chief executive and staff do not unilaterally determine the organization's strategic direction. The board is responsible for actively participating in and approving decisions that set the organization's strategic direction.

The board's responsibility in this area is to

- insist that comprehensive organizational planning occurs
- participate in the strategic planning process
- assess the merits of the planning process and its results
- formally approve agreed-upon outcomes
- use the goals as a guide for budgeting and other priorities
- track the plan's implementation and the organization's progress, largely based on stated goals and objectives

Members of governing boards — who are, after all, part-time volunteers — often ask, “Where and how do we participate meaningfully and appropriately in the process?” The short answer is that board members are at their best when they ask good questions and offer ideas of their own about the organization's operating environment.

There are nearly as many opinions about planning and how it should be done as there are different sizes and shapes and missions of organizations, for-profit and not-for-profit. In this chapter we address fundamental, time-tested principles, rather than attempt to describe the myriad approaches to strategic planning. What is most important is that planning be done and that it be tailored to the organization's culture, the staff's competence, and the experience and wishes of the chief executive who is mostly responsible for getting the job done. Each organization should determine its own approach to planning, based on needs and lifecycle of the organization.



Remember that the process of planning is as important as its outcomes. Getting the process right adds value and thus justifies the time and expense involved.

SEEING THE BIG PICTURE

First, board members should become involved extensively in any significant planning process so they own responsibility for enthusiastically helping to implement appropriate goals and priorities, acquire new resources, and much more. Their participation helps to ensure that the big picture — how the organization fits within its larger community of interest — is considered, along with key competitive and environmental factors.

By bringing their experience and professional talents to appropriate parts of the planning process, by asking good questions of other participants (in the tradition of Socrates), and by diligently demonstrating that the governing board takes planning seriously, board members add a great deal to the process. All board members must remember that they are on the board to serve their organization's best interests and purposes as a whole, rather than any one of its parts. Individual pet projects should not be advocated without scrutiny, and the wishes of individual staff members who may lobby for their own needs and dreams should not necessarily prevail.

The board needs to stay focused on The Big Picture — the high-order levels of policy and strategy — not the details. Particularly in organizations where board members do not also double as staff, it is staff's responsibility to implement and administer programs and other activities (the business of the enterprise); it is the board's responsibility to define the overall guidelines and policies and to ensure that others follow them.

Second, although some long-range forecasts can be made and opinion will vary, it is generally best not to cover more than a three-to five-year period. The planning process itself ordinarily should be confined to 12 months (preferably fewer). Regular progress reports by the chief executive and others, including participating board members, will help to keep the board aware of what the organization is learning and considering as it pursues its goals and objectives.



PITFALL

Boards that fail to honestly and comprehensively assess the threats and challenges that the organization faces within its operating environment — for example, its competition, obstacles to overcome, and major constraints on its economic viability — are driving blind.

PARTS OF THE PLAN

Planning occurs at various levels within an organization depending on its size and complexity, the attitudes of the chief executive toward planning and how it should be done, and the staff's and board's levels of motivation. Organizations blessed with adequate resources should consider engaging an experienced consultant to assist with the process. An effective consultant brings objectivity, keeps the trains running on time, helps with the writing, facilitates discussions, mediates differences of opinion among participants, and brings experience and ideas of his or her own to the table.

Planning should engage constituents and the board and challenge the organization to test assumptions about the quality and appropriateness of what it does currently and what it should do in the future. Overall, the plan and its results should

provide a clear sense of strategic direction, goals, and aspirations and help to define how the organization can get there from here.

Depending on the special circumstances, mission, and purposes of the organization, most planning efforts will include some variation or combination of these elements:

- statement of mission and purposes (reaffirmation or revision)
- statistics, trends, and other research data about the environment in which the organization operates (likely internal and external circumstances)
- needs of current programs and services (constituent input is especially important)
- need for new programs and services (constituent input is especially important)
- advocating reallocation of limited resources by eliminating weak or tired programs and activities to help finance new and opportunistic ones
- membership development and retention strategies (if appropriate)
- staffing (current and projected needs)
- board of directors (membership, size, method of selection, board member performance assessment, meetings, committee structure, and other bylaw provisions)
- financial projections (income, expenses, reserves, new revenue streams)
- fundraising goals and strategies that set the stage for subsequently framing an explicit case statement (a case for support from individuals and other funders)
- public education and relations strategies (how do we get our story out?)

For more on planning, see *The Nonprofit Board's Role in Mission, Planning, and Evaluation*, Book 5 in the BoardSource Governance Series.



QUESTIONS THE BOARD SHOULD ASK

1. Do our regular board meetings (apart from retreats) include at least one strategic, or Big Picture, issue on the agenda?
2. Is our current strategic plan based on realistic and comprehensive assumptions about the organization and its external environment? What considerations are missing?
3. How might changing demographics and other economic, social, and political trends affect a constituent, client, or membership base that provides a primary revenue stream?
4. What goal should the organization strive to achieve for financial reserves (for example, at least one-half of the operating budget)? Are there some potential revenue streams to consider?
5. Are new priorities clear and the proposed means of paying for them realistic? Which programs should be self-supporting? Which might be operated at a loss in order to fulfill the organization's mission?
6. What metrics do we use to monitor organizational effectiveness?

CHAPTER 5

MONITOR AND STRENGTHEN PROGRAMS AND SERVICES

The board's fundamental responsibility begins with ensuring that current and proposed programs and services align with the organization's stated mission and purposes. Given limited dollars and unlimited demands on them, the board ultimately decides among competing priorities. What the organization does for its members, constituents, or clients determines its significance as a social institution, of course. Yet board members often complain that finance and fundraising, rather than strategic and programmatic issues, dominate their meeting agendas.

What the organization actually does, and how well it does it, should be at the heart of board curiosity. Board work should focus primarily on the organization's impact, as determined by matters such as the number of clients served, number of attendees at particular events, the extent to which program participants achieved the desired results, revenues and expenditures for individual services, and changes in behaviors or conditions over the long term. Board members should always ask:

- What data and information will help us assess our operational effectiveness, financial condition, and programmatic activity?
- What difference are we trying to make?
- How do we know whether we are making a difference or succeeding at our mission?

Because most volunteer, nonprofit, and tax-exempt organizations do not have board members who are program experts, professional service providers, or practitioners, they usually hire qualified staff to execute programs and gather such data. Always aim for a balance between the board's responsibility to ensure

quality, cost-effective programs and services, and the staff's responsibility to creatively initiate, conduct, and evaluate them.

At times, these different roles of board and staff can become confused — particularly when board members of small organizations must, of necessity, volunteer extensively to conduct and manage programs. In particular, membership-based professional societies and trade associations often struggle with where to draw the line between staff and board functions because their board members are usually practitioners in the field the organization serves. When board members' knowledge and work experience relate directly to what the organization does, ambiguity, confusion, and tension may arise unless the board remains focused on its responsibility to align the organization's programs with its mission and purposes.



The board should periodically encourage the chief executive to retain a facilitator or consultant to conduct focus groups with representative constituents, members, or customers and report back on the findings. If client confidentiality must be maintained at all times, such as in human service agencies, use anonymous surveys instead. The users of programs and services are the best source of advice and candor.

ASSESSING ORGANIZATIONAL ACTIVITIES

How does a board monitor and otherwise contribute to strengthening the organization's endeavors, especially when a well-qualified staff is in place? For most boards, fulfilling this responsibility is always a work in progress. It includes

- periodically assessing the efficacy of program and service offerings (some boards establish a committee to evaluate programs and services, especially user satisfaction with them)
- asking good questions about proposed programs and services, especially as they relate to the organization's unique mission and purposes

- studying both the cost-benefit ratio of major undertakings and user satisfaction data (hearing from users of certain programs and services) to facilitate an exchange of information and learning
- occasionally recommending or authorizing management to invite qualified third-party consultants to study programs or services that may be causing concern



PITFALL

By adding new programs and services without seriously exploring what should be discontinued, you lose the ability to reallocate limited resources to new priorities or to recognize that some things may have outlived their usefulness.

Specifically, every board member should know which of the organization's activities are truly "signature" and why. Which are the weakest or least consequential to the organization's mission and why? Which are net revenue producers? Which are not — and why? Why are certain services necessary, even if they are not self-sustaining? Does the organization periodically conduct satisfaction surveys of members, constituents, or clients? Does staff provide reliable and useful information, including criteria that can help the board compare the organization's major undertakings from year to year?

Effective chief executives work with their boards to explore ideas, generate questions for meeting agendas, and identify the type of "dashboard indicators" preferred (assuming the organization has the adequate technology and staff to provide reliable data). These explicit benchmark data, agreed upon by the organization's staff and board, show at a glance how the organization is doing.

Usually provided quarterly or annually, with comparisons to the same timeframes from the previous year, these indicators provide information to board members in easily understandable presentations. They can take a variety of visual forms, such as bar graphs, trend lines, or comparative charts of percentages and ratios.

Finally, board members should guard against staff or board defensiveness about certain “sacred cows,” whether those are programs, services, publications, events, or even personalities. Change is difficult, but the competitive environment, limited resources, limited staff, and new opportunities should encourage everyone to face the reality that some programs or services may have outlived their usefulness or appropriateness. Reallocation of resources often requires a board to let some things go.

For more on the board’s responsibility to monitor major programs and other organizational endeavors, see *The Nonprofit Board’s Role in Mission, Planning, and Evaluation*, Book 5 in the BoardSource Governance Series.



QUESTIONS THE BOARD SHOULD ASK

1. What are our “signature” programs and services? Are any peripheral to the organization’s primary purposes? Should any be discontinued or modified?
2. What strategic indicators or criteria will best help us monitor the organization’s effectiveness, efficiencies, and financial condition?
3. What mechanisms do we have in place to periodically assess the impact of what we do? How do we use the information to inform our programs and services?
4. What do we know about who participates in each of our major programs and services? Are participation trends going in the right direction (numbers and categories of people served)?
5. What are the cost-benefit ratios for each of the organization’s programs and services?
6. How much of the annual budget is devoted to programs and services?

CHAPTER 6

ENSURE ADEQUATE FINANCIAL RESOURCES

Obviously, an organization can be effective only if it has enough financial resources to meet its purposes. Although much can and should be expected of the chief executive and management on this score, the board has the responsibility of making sure the organization does not spend beyond its means.

For most nonprofit organizations, balancing the budget has two basic dimensions: finding dependable revenue streams (normal earned revenue) and raising private support (in the form of gifts and grants).

EARNED REVENUE

Because most nonprofit organizations have high aspirations and are “on a mission,” boards should ensure that reliable and diverse revenue sources are developed — perhaps through programs and services that generate income, if such activity is compatible with the organization’s mission. For example, revenue streams may include membership dues, publications income, client fees, conference registrations, tuition for educational seminars, and merchandise or product sales.

Relying on just one or two of these areas to generate the majority of the organization’s income can be risky — what would happen, for instance, if the number of dues-paying members dropped precipitously? The board should be willing to advocate or approve creation of appropriate new products, services, or activities that not only have the potential for net income growth but also are consistent with the organization’s purposes.

Such new initiatives may call for a more entrepreneurial approach to generating income — such as establishing a for-profit subsidiary, creating corporate sponsorship opportunities, forming a limited liability corporation (LLC), or licensing the organization’s intellectual property. They may also lead to forming alliances or formal partnerships with corporations, government agencies, or even other nonprofit organizations and sharing the financial risks and rewards of the joint undertaking.



Ensure that the organization has the necessary infrastructure — including adequate staffing and budgeting — to attract and increase gift support. Remember that it takes money to raise money.

FUNDRAISING

Many nonprofits engage in fundraising to attract private contributions (including contributions from individuals, private foundations, and corporations) and government grants (from federal, state, and local jurisdictions). In those organizations, the board and its members should work in partnership with the director of development (fundraising). Specifically, the board should participate in assessing fundraising targets and goals and have clear obligations regarding personal philanthropy. In addition to being able to report 100 percent board participation to potential and current supporters, board members are better fundraisers when they set their own good example. After all, if board members don’t substantially support their own organization, why should anyone else?

The board should guard against any tendency to behave as if its development committee alone bears the responsibility for fundraising. Resource development, including fundraising, is a function of the full board. The development committee is simply the board’s agent to help oversee the work of all board members, the chief executive, and the development staff.

Organizations that have longer histories and larger staffs often have the benefit of being able to secure foundation grants for special programs and projects — all of which usually have rather precise periodic reporting requirements to account for expended funds and other purposes. Compliance with such expectations from funding sources is a staff rather than board responsibility except for the obvious need for the board to be satisfied that this is being done in a timely and appropriate manner. At the same time, however, it is entirely appropriate — and desirable — for board members to help open doors through their personal and professional networks, when they can, to secure such resources as an important part of fundraising.



PITFALL

Boards that assume that the chief executive (or professional development staff) has the sole responsibility for fundraising are not fulfilling their own responsibility to substantially support and actively participate in efforts to attract gifts and grants.

In many organizations, the chief executive serves as the chief fundraiser. Large organizations typically have a development staff as well. In any size organization, however, the chief executive's and development staff's effectiveness is linked to board member participation. Board members should be ready to assist staff by

- identifying potential donors (individuals, corporations, foundations)
- responding to requests from staff for help soliciting support
- setting a strong example by making a personal gift to the annual giving campaign and to any special fundraising campaigns
- thanking donors and maintaining cordial relationships with them. The most likely person or group to support the organization again is one that has done so in the past.

For special project or program needs — such as building or renovating a facility or launching a pilot program — a fundraising “case statement” usually emerges from the planning process for review and approval by the board. It should clearly explain why the organization needs money and how it will use the money.

For more on the board’s fundraising responsibilities, see *Fundraising Responsibilities of Nonprofit Boards*, Book 4 in the BoardSource Governance Series.



QUESTIONS THE BOARD SHOULD ASK

1. Do we need to develop more diverse sources of net revenue from programs, services, publications, membership, and the like, assuming they are appropriate to our mission?
2. What is our contingency plan in the event a major source of revenue or contributor suddenly disappeared?
3. What is the optimal percentage of earned income, private contributions, membership dues, or other sources of income that we wish to achieve in order to build a diverse and stable revenue stream?
4. What are our expectations for board members’ involvement in fundraising? Do we clearly articulate this expectation?
5. Do board members help to identify and cultivate possible funders and major donors?
6. Should the board set an annual goal of 100 percent participation for board member giving to motivate personal philanthropy?

CHAPTER 7

PROTECT ASSETS AND PROVIDE FINANCIAL OVERSIGHT

The term “fiduciary” comes up frequently in conversations about board responsibilities (as in “Our board must meet its fiduciary responsibilities!”). Indeed, safeguarding organizational assets, or holding them “in trust” on behalf of others, is one of the most important board functions.

According to BoardSource’s *Nonprofit Governance Index 2007*, financial oversight is rated the second strongest area of board performance, behind understanding the mission. Yet financial issues weigh heavily on the minds of nonprofit leaders who must grapple with complicated accounting practices and fiscal sustainability.

Fiduciary responsibility includes a constellation of concepts. It requires the board, often working in concert with the chief executive, to

- review and approve how the organization budgets, spends, and makes money
- establish and follow monetary policies that balance short- and long-term needs
- verify that the organization’s financial systems and practices meet accepted standards
- ensure that the organization has adequate operational reserves for rainy days and to take advantage of unexpected opportunities
- safeguard the organization’s reputation by making sure it operates in a transparent, accountable manner
- ensure the organization is not subjected to unnecessary risk

MONITORING MONEY MANAGEMENT

Approving an annual budget and tracking revenues and expenses against the approved budget, at least quarterly, is a full board responsibility. This helps the board determine the organization's current financial position and how that compares to a desired or anticipated financial position. A quarterly Statement of Financial Position (formerly known as the balance sheet) should present the organization's assets (what it owns), liabilities (what it owes), and net assets (the difference between the two). The board should also routinely receive reliable monthly financial statements and possibly cash-flow statements, typically prepared in accordance with Generally Accepted Accounting Principles (GAAP).

Ideally, monthly and quarterly reports should compare numbers for the same time period in the preceding fiscal year. The board should raise questions about any large differences that the chief executive (or other staff responsible for the reports) doesn't explain.

The board is responsible for conscientious oversight of the management of organization resources. This oversight includes ensuring the organization has (and follows) cash-management controls and monitoring the performance of the chief financial officer. Although the chief financial officer reports to the chief executive, not to the board, the board must be satisfied with this person's competence and will inevitably have opinions regarding it.

The board's other money-related responsibilities include

- ensuring that adequate liability insurance provides needed coverage for risk exposures
- monitoring the distribution of authority for financial decisions between the board and staff
- monitoring the organization's reserve funds (the amount of resources currently available) and any endowments (established funds that provide income)
- approving investment policy
- overseeing investment performance



To ensure objectivity and to gain an outside perspective on managing the organization's portfolio, engage a professional investment advisor on a contractual basis. Even if several board members have experience in the investment area, they may not have the time or the expertise in the nonprofit sector to advise the organization. On balance, it is not a good practice for board members to personally manage investments for their organization. Board members with relevant expertise most appropriately help the board to set investment policy guidelines and to monitor the performance of investment advisors to ensure adherence to such guidelines.

PROVIDING AUDIT OVERSIGHT

The main purpose of an independently conducted audit is to verify that staff members are following generally accepted accounting practices and accurately report the organization's financial condition. Therefore, the annual audit is primarily an internal document produced for the organization's board of directors.

Increasingly, however, the audit has become an external document that provides a means for earning and keeping the public's trust. Given the increased scrutiny of all nonprofit organizations, the watchword of the day is transparency — especially when it comes to revealing revenue sources and how that revenue is expended.

To ensure that the board and staff are being both accountable and transparent, many nonprofit organizations — especially those with sizeable operating budgets and staffs — appoint an audit committee. BoardSource's *Nonprofit Governance Index 2007* reports that 54 percent of responding organizations have an audit committee. Of those, 28 percent separated the audit committee from the finance committee. (Separation, although not required, is widely considered a best practice.)

The remaining 46 percent that do not have an audit committee may simply be too small to justify independent audits of their finances by a certified CPA. Organizations in that situation must

make certain that, at a minimum, they have an experienced accountant serving on the board to ensure that their financial management adheres to proper processes and practices.

Before the audit process begins, the audit committee should make specific requests of the auditor about areas of special interest or concern — a specific project, staff travel expense reports, or use of organization credit cards, for example. In addition, expect auditors to suggest improvements in accounting and related practices, usually in the form of a management letter addressed to the board. The committee may also have specific questions or concerns that the auditor should address in the management letter.

Other responsibilities of the audit committee include

- recommending the selection of an auditor to the full board; changing auditing firms on a sensible schedule can bring fresh insights and helpful suggestions through new eyes
- reviewing the auditor's performance and fee
- recommending changes in the lead auditor within the same firm (perhaps every five or so years)
- reviewing the annual IRS Form 990 for completeness, accuracy, and on-time filing and providing assurances of compliance to the full board

All board members should receive the audit report prior to the meeting at which it is discussed and accepted — and formally accept it then or when final numbers are provided. Even if the board does not have concerns about the organization's financial management and reporting systems, its appropriate committee should meet privately with the auditor, without the chief executive or other staff members present, to review the results of the audit and to be able to ask good questions about the audit process and outcomes.



PITFALL

Problems may arise when organizations don't change at least the principal or lead auditor within the same auditing firm every few years or retain the same firm for too long a period. You run the risk that relationships can become too cozy between auditors and staff — and you may miss opportunities for different perspectives.

FINANCE COMMITTEE RESPONSIBILITIES

Depending on many situational factors — such as whether the board (and the organization itself) is relatively small or quite large — the board usually shares its fiduciary responsibilities with three committees:

- The finance/budget committee takes the lead in monitoring how revenue and expenses track against the approved budget.
- The audit committee (or audit subcommittee of the finance/budget committee) oversees the annual review of the organization's financial systems and reporting practices.
- The investment committee (or investment subcommittee of the finance/budget committee) oversees performance of the organization's investment vehicles and recommends policies for board approval.

Note that these committees help the board fulfill its fiduciary responsibilities — they do not substitute for oversight by the entire board. Fiduciary responsibilities are myriad, complex, and very much at the heart of board work, no matter what the organization's size and operational complexity. There is much to do, so it helps to have these specialized committees, as well as some board members with financial management experience. Even then, however, all board members are held accountable for the exercise of their fiduciary responsibility to safeguard the organization's assets.

In general, board members are legally held accountable to the principle of “the Prudent Person Rule.” This essentially means they are expected to perform within the bounds of what any

reasonably intelligent and prudent person would be expected to do (or not do) in managing or investing his or her own funds in similar circumstances. This is not an unreasonable expectation and should not cause us to lose sleep at night. But it also requires reasonable due diligence on our part as board members and certainly asking the right questions at the right time.

To remain in tune with best practices, members of the board and its key committees should read and discuss some of the publications available (see Suggested Resources for recommendations). And, at times, the board and the chief executive should reach out for professional assistance from consultants to meet their need for reliable and dependable data, information, and advice.

For more on the board's role in providing responsible financial oversight, see *Financial Responsibilities of Nonprofit Boards*, Book 3 in the BoardSource Governance Series.



QUESTIONS THE BOARD SHOULD ASK

1. Do we currently have an independent CPA or firm conduct an annual audit? If not, has the time come?
2. Are our various financial statements and reports reliable, timely, and easy to understand?
3. Do we have short- and long-term strategies to address the organization's financial condition and ambition?
4. What is our current level of reserves? Is it appropriate for the organization's current and future needs?

CHAPTER 8

BUILD A COMPETENT BOARD

How board members are appointed or elected varies enormously, but three principles apply to most nonprofit boards.

- **Every organization's governing board will only be as effective as its individual members.** Who is on the board matters, of course. Personal attributes such as commitment to the organization, professional skills, philanthropic spirit, and experience with complex organizations are appropriate to virtually all governing boards. Other attributes are particularly idiosyncratic to the organization, including various demographic considerations such as ethnicity, need for geographical representation, gender, and affiliations with other organizations relevant to the organization's mission. The board's membership composition matters if it is to be seen by others as a responsible and civic-minded enterprise in the service of all people. Thus one question a board and chief executive need to answer is: How should we define the ideal mix of professional skills, backgrounds and experience, demographics, and other characteristics we should seek in our board members?
- **Members of governing boards will respond only to the level of expectation persistently articulated to them by the organization and its leaders.** It follows that clarifying expectations for individual board members before they are invited to stand for nomination and accept appointment can greatly influence how energetic and effective they are likely to be. Board members should do their best to help scout for exciting prospective nominees for election or appointment to the board.
- **A well-balanced and functioning board depends on the sustained hard work of the governance committee.** In earlier times, it was typically named the nominating

committee and its charge was largely limited to identifying and nominating candidates. Now, a nominating committee usually exists in the early stage of an organization, when the board and founders share an obligation to fill all board positions. As the organization evolves, however, this committee becomes a governance committee or a committee on board leadership, which deals with all aspects of good governance, not just the nomination process. Its members are usually veteran board members. The board's immediate past chair or current vice chair may chair the committee, with the current board chair and the chief executive usually serving as ex officio members.

RESPONSIBILITIES OF THE GOVERNANCE COMMITTEE (OR COMMITTEE ON BOARD LEADERSHIP)

This committee ensures the governing board's long-term development as a high-performing board. It should have a clear and comprehensive mandate from the board (ideally in the bylaws) to enable it to do its work with energy and conviction, plus members who have already demonstrated their ability and sound judgment as good examples for their colleagues on the board.

Even in organizations that do not have self-perpetuating boards, this committee should help educate the members who may be electing the board by informing them what the board needs and educating the candidates on expectations placed on them. If the bylaws assign the board the responsibility to elect its own officers, the governance committee should be heavily involved in creating the slate of candidates or helping to identify the strongest candidate the board would be ready to choose.

Four elements of the committee's work on the board's behalf relate especially to developing and sustaining effective board performance:

1. Clarifying expectations for all board members.

Appendix I provides a list of individual board member responsibilities for boards to adapt, fully discuss, and adopt. The governance committee should ensure that such

a list tops the materials provided to potential board candidates so they know that the organization takes board service seriously. Secondly, the committee should use the list of expectations as the basis for setting board member assessment criteria; an assessment should be done with every person eligible for renomination to a new term.

- 2. Periodically assessing board member performance (as well as the board itself).** A sample self-assessment for board members appears in Appendix II. Distribute this type of self-assessment to board members being considered for renewal of their terms, about one year before completion of their current terms, with a request to return it directly to the chair of the governance committee. The chair might share copies with the committee's members, in addition to other available information such as meeting attendance, giving records, and other evidence of commitment to the organization and to board service. The assessment is intended to be part of a comprehensive and candid discussion about each board member before the committee takes any actions.

The governance committee should also ensure that the board sets aside time to engage in a process of introspection — to determine how well it provides responsible governance. At least every three or four years, schedule a retreat or workshop devoted to this purpose. This focus should not be confused with board retreats for strategic planning or in-service education needs. Board self-study, provided the activities are well-planned and conducted, can help to socialize board members. A third-party facilitator with experience and credibility can ensure objectivity and positive results as well as make these events enjoyable.

- 3. Orienting new board members effectively.** For new board members (and veteran members who wish a refresher course), develop a two-part orientation rather than attempting to do everything in one session. Devote one part to the responsibilities of board service, the board's "corporate" responsibilities, how the board is organized to do its work (including committee structure), key bylaw provisions, the board's members, relationships with the staff and key constituencies, and the like.

Focus the second session on the organization: its mission, history, and major achievements; current priorities and needs; staff organization; facilities, finances, programs, and services; and so on. Always conduct a post-orientation evaluation, asking participants to offer suggestions for improvement.

- 4. Ensuring opportunities for in-service education.** It is increasingly commonplace for the governance committee or, perhaps better yet, a committee on board leadership, to help the board chair and chief executive to plan periodic opportunities at regular board meetings or annual or biennial board retreats to focus conversation on one or another board responsibility. Examples include mini-seminars on trustee participation in fundraising, one-hour plenary sessions with occasional guest speakers to engage the board in discussion of key trends and new developments in the organization's field of interest, or board self-assessment activities. The possibilities and needs are without limit. The committee is the board's agent to ensure there are well-conceived, timely, and well-planned activities that bear on board development and trustee education on a regular basis.



PITFALL

When a board does not regularly assess board member competencies, skills, and other desirable experiences inherent to a balanced and effective board, it is likely to fall into the trap of perpetuating carbon copies of itself to the detriment of the organization.

TERM LIMITS

A growing number of organizations limit the number of consecutive terms board members can serve — sometimes with a one-year hiatus after some minimum period of service before they might be asked to accept renomination, and sometimes not. The implicit goal is to ensure reasonable turnover in board membership while maintaining adequate continuity of

experience among veteran board members. Term limits can help an organization strike a balance between experienced board members with historical perspective and knowledge of the organization and newcomers with new energy, ideas, and connections. Term limits also encourage more opportunities for leadership development within the board's membership.



Engage the board in articulating and adopting a statement of its own standards and expectations (see Appendix I for illustrations). Board members will rise only to the level of performance articulated to and expected of them by the board and especially by their leaders, the board chair and the chief executive.

Proposals to adopt term limits often encounter resistance, even when they include a provision that allows renewal of terms after a one-year hiatus or a “grandfather” exception for veteran board members. But many boards have found term limits to be helpful; for most volunteers, there is a season to join a nonprofit board and a season to let it go.

Whether or not the organization has term limits, the governance committee must set high standards for board members, assess their performance periodically, and consistently apply board policies that may relate to meeting attendance. In other words, the governance committee should not simply sit back and wait out the term of a board member who misses meetings frequently or otherwise clearly lacks commitment, energy, or time for the organization. Only by avoiding “dysfunctional politeness” can organizations determine whether board members who are eligible for another term truly deserve renomination. The organization's needs and best interests should always be the top priority.



PITFALL

When chief executives also serve as board chairs, both positions inevitably suffer, along with the organization and the board itself in the long run. It undermines the need for checks and balances, creates a conflict of interest, and places the chief executive in a self-supervisory position. Little wonder (and thankfully) this is not a common practice in nonprofit organizations.

For more on board member selection, orientation, and performance assessment, see *Structures and Practices of Nonprofit Boards*, Book 6 in the BoardSource Governance Series.



QUESTIONS THE BOARD SHOULD ASK

1. What constitutes a balanced board for our organization in terms of member skills, experience, capacity for philanthropy, commitment, and demographic considerations (ethnicity, gender, geography, etc.)?
2. Have we articulated and communicated a comprehensive list of responsibilities and expectations for board members?
3. Do some of our most effective board members serve on the governance committee?
4. Do we periodically assess both the board and the members who are eligible for renomination?
5. What is our policy on term limits? Do we review it periodically?

CHAPTER 9

ENSURE LEGAL AND ETHICAL INTEGRITY

Because the board is ultimately responsible for ensuring adherence to legal standards and ethical norms, its members must collectively exhibit diligence, commitment, and vigilance to keep their house in order. This board responsibility, like several others, begins with hiring and retaining a chief executive whose moral compass and integrity are above reproach. The organization's reputation and public standing require everyone to take three watchwords seriously: compliance, transparency, and accountability.

COMPLIANCE

The term “compliance” is simply shorthand for the regulatory and legal requirements imposed by government and regulatory bodies at local, state, and federal levels that are considered part of a board's fiduciary responsibility.

Some failures in the governance and management of tax-exempt organizations have captured the public's, state attorneys' general, and the IRS's attention as well as that of the U.S. Senate Finance Committee. One of the most recognized pieces of recent legislation, the Sarbanes-Oxley Act, grew out of high-profile failures of corporate board oversight and dysfunctional accounting and auditing standards. Although Sarbanes-Oxley primarily affects publicly traded corporations and auditing firms, it has forced nonprofits to look at their own standards and practices.



PITFALL

A model conflict-of-interest and disclosure policy may look great on paper, but its adoption will be meaningless and inconsequential or worse unless the board carefully monitors the policy and consistently adheres to it.

The net effect of all this attention has been a call for boards to

- ensure the organization adheres to local, state, and federal laws and regulations that apply to nonprofit organizations, such as filing IRS Form 990 and other documents on a timely basis (noncompliance can have severe financial consequences)
- ensure the organization registers with appropriate state agencies as required before beginning organized fundraising campaigns
- act in accordance with the provisions of the organization's bylaws and articles of incorporation, amending them when necessary



Give each member of the board a copy of the Form 990 *before* it is filed. Then consider posting it on your organization's Web site as a proactive statement of transparency.

TRANSPARENCY

Part of the board's fiduciary responsibilities (see Chapter 7), "transparency" refers to the need to provide accurate information about an organization's revenue and how it is expended. Nonprofit organizations are expected to routinely and openly provide more, and more complete, information to the media and the public about their financial condition, major activities, and staff compensation. Specifically, they should

- document how executive compensation is linked to performance
- keep records about what other (peer and other similar-sized organizations) pay their top staff officers

- have clear policies and procedures to safeguard against premature destruction of documents
- establish policies regarding how staff should handle gifts from vendors and suppliers and obtain competitive bids for products and services
- ensure the organization publishes annual reports that include financial data (some organizations include their entire audit report), key activities, and achievements
- ensure the organization responds willingly to requests for information from individuals and organizations, including the media

Board members should also familiarize themselves with the wide range of questions asked on Form 990, which is a public document and available to any citizen who requests it (typically the data are at least one and more often two years old). The form has several attached “schedules” that require details about the organization’s compensation and governance practices — all part of the government’s expectations regarding transparency.

Proactive transparency, however, is not restricted to the organization’s Form 990 or its audited financial statements. It often relates to other aspects of decision making, such as ensuring that bids are part of major contracts or that filling positions are open to all interested candidates. The purpose is to eliminate inside deals and conflicts of interest.

Do not confuse transparency with sharing confidential information. Rather, consider transparency as the only way to earn the trust of all the supporters — as well as the general public. By adopting a culture of openness for the organization, the board sends a message of honesty, integrity, and a willingness to function above compliance — to do more than the minimum required by the law. Placing your bylaws and annual reports on your Web site, responding to reasonable requests for information from members or the media or other interested parties, and the like, can go a long way to sustain the public trust that we need today.

ACCOUNTABILITY

Although the board sets and periodically assesses the adequacy of major organizational policy, accountability measures ordinarily and appropriately fall to management. But the board needs to ensure the organization

- adopts a code of conduct or ethical standards for board members and officers
- defines what constitutes possible conflicts of interest, establishes procedures to deal with real or possible conflicts, and annually discloses any such possible conflicts for board members and officers
- implements the organization's whistleblower policy, which should include procedures for how and to whom to report allegations of wrongdoing
- looks at annual board member and officer disclosure statements and acts on them through an appropriate board committee, as required by established policy
- keeps detailed records of any lobbying expenditures and activities
- maintains official records for the time periods required
- develops and maintains up-to-date personnel policies and procedures (including staff grievance protocols)
- conducts annual audits of all revenues, assets, expenditures, and liabilities
- publishes and widely distributes annual reports that detail the organization's mission, programs, achievements, board members, and finances

Laws and regulations, IRS requirements, legislative committee inquiries, accrediting organization standards, charity watchdog group inquiries, attorneys general, and umbrella national associations serving nonprofits are likely to continue calling for even more compliance, transparency, and accountability. The most effectively managed and governed and highly respected organizations exceed, rather than meet, minimal standards and expectations.

For more on the legal and ethical responsibilities, see *Legal Responsibilities of Nonprofit Boards*, Book 2 in the BoardSource Governance Series.



QUESTIONS THE BOARD SHOULD ASK

1. How can we keep up with the changing laws and regulations that affect nonprofit organizations?
2. Are we forthcoming with the answers when asked how we make decisions, establish policies, and set strategic priorities?
3. Whenever we establish policy, do we clarify and agree upon who is ultimately responsible for implementing it?
4. Are we doing an adequate job of educating every board member about the board's legal and fiduciary responsibilities?

CHAPTER 10

ENHANCE THE ORGANIZATION'S PUBLIC STANDING

Board members serve as a link between the organization and its members, stakeholders, constituents, or clients. They should think of themselves as the organization's ambassadors and advocates — hopefully even after they leave their board memberships. Together with management, the board's challenge is how to strategically communicate the organization's story and contribute to a healthy and accurate public image for the organization.

Constituents, members, and clients are invaluable resources that help to bring useful information back to the organization. Serving as an ambassador works both ways: Board members are also representatives of those they presume to serve through the organization's mission and activities. The executive staff and board leaders should welcome feedback, suggestions for improving what they do, ideas for doing some things better, even complaints or concerns. A healthy organization is always in touch and board members are the vital link.

Elements of a comprehensive public education process include

- clearly articulated achievements, presented in comprehensive annual reports and informative press releases
- contributions to the public good, communicated to community and government leaders
- explanations of how gifts and grants and other revenue sources are accounted for and allocated
- speeches by board members to civic and community groups

Good communication plans are an important part of organizational planning and strategic thinking. When asked what the organization is and does, all board members should have an elevator speech — an interesting and compelling explanation, delivered in less than a minute, of the organization’s mission and purpose. There is no substitute for enthusiastic, even passionate, board members who always manage to insert something wonderful about the organization into conversations with friends and colleagues.

Board members should also remember that whatever they utter about the organization carries great weight, whether intended or not. Thus confidential information must be kept confidential, even from close friends and relatives.



Periodically ask board members to share what they typically say about the organization in their “elevator speech” (in less than a minute). Board members can learn from one another how to improve and freshen up their speeches.

FACING THE MEDIA

Conventional wisdom asserts that the chief executive ordinarily represents and speaks for the organization and that the board chair represents and speaks for the board and its policies. But with certain issues and under certain circumstances, it’s more appropriate for the board chair to speak for the organization and serve as point person with the media. Other occasions or issues may call for both leaders to do so together.

Large, complex organizations with sizeable staffs and divisions of labor often designate a staff member to field media inquiries, prepare press releases about the organization’s activities, and even draft speeches for the chief executive. Even then, board members may be called upon to meet with elected officials, testify before legislatures, court foundation program officers, speak to community groups, and represent the organization at national forums. Some organizations occasionally bring in expertise from public relations firms to teach basic dos and

don'ts to board members, including how to do interviews with journalists, handle unsolicited phone calls from the media, and communicate the organization's story effectively.

Especially for controversial issues, the board and staff should clarify and decide who is responsible for what to reduce confusion and miscommunication. In general, board members should refer media inquiries to the board chair, the chief executive, or another designated individual — especially if the issue involves staff members or volunteers connected with the organization. A consistent message is essential in such circumstances.

The board's leaders should guard against the occasionally overzealous board member who may assume unilateral initiative without clearance. The board's leaders, rather than the chief executive — who, after all, works for the board — should help the board exercise restraint and encourage its members to serve as their own “disciplinarians” when necessary.



PITFALL

Board members who feel obligated to respond to a reporter during an ambush interview or a surprise telephone call often find themselves in the hot seat. There is no legal, moral, or ethical mandate to respond. Inquiries about controversial issues confronting the organization, or confidential matters under consideration, should always be referred to the designated spokesperson.

Enhancing the organization's public standing is a direct consequence of its ability to earn the public's trust. By doing the right things and doing things right (see Chapter 9), the organization will build and maintain both its reputation and public support.



QUESTIONS THE BOARD SHOULD ASK

1. Do we have a communication plan for our organization?
2. What practices do we have in place to ensure that both the board and its members are attuned to the needs of our stakeholders?
3. Who speaks for our organization? On what matters?
4. What are our guidelines for board members with regard to responding to calls from the media on potentially controversial issues?
5. What key talking points do we wish to consistently convey to friends, colleagues, or acquaintances about our organization?

CONCLUSION

TOWARD A BETTER BOARD

Being a director of a nonprofit organization continues to be the crown jewel of voluntary service in many people's eyes. In our competitive economy and culture, board membership represents a mark of real achievement and success — otherwise, board members wouldn't have been invited to join the board in the first place! But with this privilege and respect come large responsibilities.

TEN THINGS TO REMEMBER

The 10 basic responsibilities may seem daunting at first blush, but fulfilling them as an individual board member, coupled with the organization's best efforts to do its part, will bring genuine fulfillment. Service on a nonprofit board should be an enormously satisfying experience, providing you with great enjoyment from the hard work you undertake.

As you begin or continue your service on a nonprofit board, these closing reminders will help you to have a productive and personally fulfilling experience.

1. Remember that there is a time to join the board of a worthwhile organization that accomplishes good things — and a time to go. Believe in the work of your organization and sustain your motivation and commitment. Then, when you have done your best, acknowledge that it may be time to pursue other volunteer endeavors.
2. Remember this old saying about board service: “Keep our noses in and our fingers out.” Except in newly established and the smallest of organizations where board members may wear two hats as both volunteers and staff, board members should not direct staff members or programs.

3. Remember that chief executives need an occasional pat on the back. They're human, too.
4. Avoid dysfunctional politeness by candidly addressing the really important matters that concern you and should concern the board in your judgment. The trick is being able to respectfully disagree with others without being disagreeable and, after sharing your reasoning, to close ranks with the majority vote as a team member.
5. Know what your organization does and whom it serves. While knowing everything about your organization may be impossible, knowing little or nothing about it is an abdication of your responsibilities and could place it in jeopardy.
6. Never miss an opportunity to say something good about your organization, or fail to bring back a good idea that a constituent or member might share with you on the road.
7. As long as you are a board member, make your organization a top priority in your charitable giving.
8. Practice due diligence. Ask good and timely questions. But also remember that it isn't only the quiet board member who may not have anything to say.
9. Go beyond compliance. Do the right thing at all times.
10. Understand that being a good follower is at least as important as striving to be a good leader. In fact, one mark of a good leader is knowing when to follow. Personal humility, a sense of humor, and not taking yourself too seriously have their places in the boardroom.

As nonprofit organizations continue to evolve and their governance strengthen, government will, one hopes, be less likely to impose even more burdensome regulations that require more organizational resources for compliance. Do your part to ensure your board balances its authority with self-restraint, delegates authority where appropriate yet without abdicating its governance responsibilities, and channels members' enthusiasm and commitment into appropriate behaviors.

Great progress has been made within the past decade or two to advance the effectiveness of governing boards of nonprofit, tax-exempt organizations. The talents and experience of the millions of citizens who serve on them are enormous. Board and executive leaders are making better use of director time and skills, adopting best practices and scouting for new ones, and creatively experimenting with ways to engage board members in helping to set the strategic direction of organizations. All of this bodes well for the entire nonprofit sector and the people it serves every day.

APPENDIX I

INDIVIDUAL BOARD MEMBER RESPONSIBILITIES

Although governing boards have the responsibilities discussed in this book because they have the legal authority to exercise them as their organization's "fiduciaries," their individual members don't. Indeed, while individual board members possess considerably different yet complementary responsibilities to those held by the board, they do not possess the board's legal authority (except when the board specifically authorizes its officers or other members to have certain and limited authority to act on its behalf).

Clearly articulating the board's corporate responsibilities and authority (preferably in the bylaws) and the responsibilities and expectations of board members (preferably codified as a separate policy statement), are best practices. Asking leading peer organizations with missions similar to your own for copies of what they have developed can be helpful to developing your own versions. Alternatively, use the sample below as a framework to write your own statement of individual board member commitment and responsibilities.

A clear statement of individual board member responsibilities adapted to the organization's mission and needs will serve at least two purposes. First, when recruiting new board members, it helps to clarify what the organization expects before candidates accept the invitation to be nominated. Also, such a statement can provide criteria by which the governance committee identifies and recruits prospective nominees and reviews the performance of incumbents eligible for re-election or reappointment. Prospective and incumbent board members should commit themselves to these illustrations of generally accepted responsibilities.

GENERAL EXPECTATIONS

- Know the organization's mission, purpose, goals, policies, programs, services, strengths, and needs.
- Serve in leadership positions and undertake special assignments willingly and enthusiastically.
- Avoid prejudiced judgments on the basis of information received from individuals; urge staff members with grievances to follow established policies and procedures through their supervisors. All significant matters coming to you should be called to the attention of the chief executive and/or the board's elected leader as appropriate.
- Follow trends in the organization's field of interest and keep informed.
- Bring goodwill and a sense of humor to the board's deliberations.
- Suggest to the appropriate committee possible nominees for board membership who are clearly women and men of achievement and distinction and would make significant contributions to the board and organization.

MEETINGS

- Prepare for and conscientiously participate in board and committee meetings, including appropriate organizational activities when possible.
- Ask timely and substantive questions at board and committee meetings, consistent with your conscience and convictions, while supporting the majority decision on issues decided by the board.
- Maintain confidentiality of the board's executive sessions and when confidential information is given to you. Never speak for the board or organization unless authorized to do so, but also remember that *all* utterances from board members carry great weight with those within and outside of the organization. Private opinion on any matter is often construed by others as the board's official posture whether it really is or isn't.

- Suggest board and committee meeting agenda items occasionally to board leaders and the chief executive to ensure that significant, policy-related and strategic matters are discussed.

RELATIONSHIP WITH STAFF

- Counsel the chief executive as appropriate, providing support through often difficult relationships with groups or individuals.
- Avoid asking the staff for favors, including special requests for extensive information that may take extraordinary time to gather and are not part of ongoing board or committee work — unless you have consulted with the chief executive, board chair, or appropriate committee chair.
- Remember that it is most appropriately the chief executive who is responsible for assessing staff performance, not board members or the board. Most chief executives, however, welcome comments or opinions, offered during private conversations, that are complimentary or constructively critical of a senior officer.

AVOIDING CONFLICTS

- Serve the organization as a whole rather than any special interest group or constituency. Even if you were invited to fill a vacancy reserved for a certain constituency or organization, your first obligation is to avoid any preconception that you “represent” anything other than the overall organization’s best interests.
- Avoid even the appearance of a conflict of interest that might embarrass the board or the organization; disclose any possible conflicts to the board in a timely fashion.
- Maintain independence and objectivity and do what a sense of fairness, ethics, and personal integrity dictate, even though not necessarily obliged to do so by law, regulation, or custom.
- Never accept (or offer) favors or gifts from (or to) anyone who does business with the organization.

FIDUCIARY RESPONSIBILITIES

- At all times, exercise prudence with the board in the control and transfer of funds.
- Faithfully read and understand the organization's financial statements and otherwise help the board fulfill its fiduciary responsibility.

FUNDRAISING

- Give an unrestricted annual gift and restricted program or project support in line with your particular interests and personal means. Always do your best to set an example for other board members.
- Remember, giving one's time and expertise, as important as they are, are not substitutes for providing financial support according to one's capacity. As one experienced and exemplary director candidly said, "Nonprofit organizations need money, and money simply has to come from those who have it. If board members don't support their own organization, why should anyone else?"
- Assist the development committee and staff by helping to identify potential givers and implement fundraising strategies through personal influence where you have it (corporations, individuals, foundations).

AMBASSADORIAL SERVICE

- Serve your organization responsibly and diligently by telling the organization's story and presenting its accomplishments as well as its needs and current challenges. You are your organization's logo.
- Represent, as well, your community to your organization. Bring back concerns, ideas, suggestions, compliments, and the like when you believe they may have merit. Remember, as a board member, you are at the nexus of two-way communication.

APPENDIX II

SAMPLE SELF-ASSESSMENT FOR INDIVIDUAL BOARD MEMBERS

High-performing governing boards periodically review the performance of their members, those who are eligible for renomination and election or appointment to new terms. This responsibility ordinarily falls to the governance committee or the board leadership committee. Particularly in relatively new organizations or those with smaller boards that do not yet have a full committee structure, this responsibility may be part of the executive committee's portfolio.

For those eligible for renewal of their terms at the same time, the committee should ask about individual meeting attendance, records of personal philanthropy to the organization and other evidence of help with fundraising efforts, and other indicators of their commitment to the organization and its mission. (This supports the case for the chief development officer, board chair, and chief executive to fully participate in these discussions.)

Beyond clarifying expectations for all directors, often in the form of a statement of individual board member responsibilities (see Appendix I), increasing numbers of boards are developing their own self-assessment survey for board members being considered for new terms. Such surveys ask them to provide certain information to the committee about 10 months before their current term ends. The survey form is typically brief (two or three pages) and returned directly to the chair of the appropriate committee by a suggested date. The results are shared only with the committee's members as part of their due diligence considerations.

A self-assessment that can be adapted for use by most nonprofit organization boards with *individual board members*, as distinct for *the board* as a corporate entity, follows.

SELF-ASSESSMENT FOR THE DIRECTORS OF

[name of organization]

Service on the Board of Directors of *[organization]* is both an honor and a serious responsibility. Because the board strives to achieve the highest possible levels of commitment and performance for itself and for its members, all directors eligible for renomination to new terms are asked to respond candidly to this survey, which is shared confidentially only with the Governance Committee. Its purpose is to enable the committee to have a clearer understanding of how you view your experiences and contributions to the board's work and responsibilities, your wishes about the possibility of continuing your service, and your suggestions to help us to take fuller advantage of your talents and interests. This information supplements what is already known about your commitment to our organization's mission and purposes, and we appreciate your providing it.

Please write clearly and return the survey by *[date]* to the chair of the Governance Committee. On behalf of your colleagues on the Board of Directors, thank you very much!

Name: _____

Date: _____

1. As a director, are you reasonably clear about what is expected of you?

Yes No Comment?

2. Do you believe these individual board member responsibilities constitute a reasonable set of expectations and benchmarks?

Yes No Comment?

3. Please tell us what aspects of your directorship have been the most satisfying to you thus far, especially within the past few years?
4. What aspect of your service on the board has been the least satisfying and enjoyable?
5. Are there ways in which your talents and interests can be more fully realized at or between board or committee meetings? Does anything occur to you that would enhance your effectiveness and contributions to the board's work?
6. With regard to your current committee assignment(s), how satisfying is/are your current committee assignment(s)? Do you wish to be considered for a change in committee assignment in the near future?
7. Are you satisfied with your attendance
- at board meetings?
___Yes ___No Comment?

 - at committee meetings?
___Yes ___No Comment?

8. Are you satisfied with your personal commitment

- to the board's annual goal in its unrestricted collective giving?

Yes No Comment?

- to our organization's current campaign, project, or other restricted purpose that is of special interest to you personally?

Yes No Comment?

- to helping our development staff to identify (or to cultivate where possible for you) prospective individual, corporate, or foundation donors?

Yes No Comment?

9. Do you faithfully prepare for meetings by reading the materials provided in advance?

Yes No Comment?

10. Do you have a good grasp of the organization's financial condition, needs, and priorities?

Yes No Comment?

11. Have you suggested an agenda item or issue to a committee chair, the board chair, or chief executive for consideration within the past couple of years?

Yes No Comment?

12. Have you taken advantage of any opportunities to tell others about our organization's work, programs, and services within the past few years?
 Yes No Comment?
13. Do you consider yourself to be an active participant in board and committee meetings?
 Yes No Comment?
14. Has anyone asked you to do something for our organization between regular board meetings within the past few years?
 Yes No Comment?
15. Do you faithfully respect the need for directors to maintain confidentiality of the board's deliberations and certain information provided to you?
 Yes No Comment?
16. Are you satisfied that you consistently exercise objective and independent judgment for the organization as a whole and not only for particular part(s) of it?
 Yes No Comment?
17. Have you and the board taken steps to deal with real or apparent conflicts of interest in your board service?
 Yes No Comment?

18. Please rate the overall degree to which you have met the individual board member responsibilities for this board. On a scale of 1 to 5 (please circle):

- 1 (very consistently) 2 (somewhat consistently)
3 (modestly) 4 (poorly) 5 (not at all)

19. How would you best describe your intention or wish with regard to renomination?

Yes, with enthusiasm

Yes, with considerable interest

Yes, I think so (but I would welcome an opportunity to speak with _____ at his or her convenience before I fully commit to this possibility).

Thank you, but I'm not interested in continuing on the board at this time.

20. Please provide any closing comments or suggestions concerning your board service and how the board as a whole might strengthen its effectiveness.

Repeated thanks!

Please return your survey in the self-addressed envelope provided or mail to:

[name and address of the Governance Committee chair]

APPENDIX III

THE TEN BASIC RESPONSIBILITIES

1. Determine mission and purposes. It is the board's responsibility to create and review a statement of mission and purpose that articulates the organization's goals, means, and primary constituents served.
2. Select the chief executive. Boards must reach consensus on the chief executive's responsibilities and undertake a careful search to find the most qualified individual for the position.
3. Support and evaluate the chief executive. The board should ensure that the chief executive has the moral and professional support he or she needs to further the goals of the organization.
4. Ensure effective planning. Boards must actively participate in an overall planning process and assist in implementing and monitoring the plan's goals.
5. Monitor and strengthen programs and services. The board's responsibility is to determine which programs are consistent with the organization's mission and monitor their effectiveness.
6. Ensure adequate financial resources. One of the board's foremost responsibilities is to provide adequate resources for the organization to fulfill its mission.
7. Protect assets and provide financial oversight. The board must assist in developing the annual budget and ensuring that proper financial controls are in place.
8. Build a competent board. All boards have a responsibility to articulate prerequisites for candidates, orient new members, and periodically and comprehensively evaluate their own performance.

9. Ensure legal and ethical integrity. The board is ultimately responsible for adherence to legal standards and ethical norms.
10. Enhance the organization's public standing. The board should clearly articulate the organization's mission, accomplishments, and goals to the public and garner support from the community.

SUGGESTED RESOURCES

The Committee Series. Washington, DC: BoardSource, 2004.

Committees are the basic component of board structure but in our changing landscape, which requires effective directorship and board accountability, you'll want to be up to date on the latest findings. Our panel of experts provides a fresh look at how board committees are structured; they examine functional responsibilities, committee-board relationships, how to prepare for potential new legal regulations, and more.

The Committee Series includes:

- *Transforming Board Structure* by Marla J. Bobowick, Sandra R. Hughes, and Berit M. Lakey
- *Governance Committee* by Berit M. Lakey, Outi Flynn, and Sandra R. Hughes
- *Executive Committee* by Mark Light
- *Financial Committees* by Thomas A. McLaughlin
- *Development Committee* by Eugene R. Tempel
- *Advisory Councils* by Nancy R. Axelrod

BoardSource. *The Nonprofit Board Answer Book: A Practical Guide for Board Members and Chief Executives, Second Edition*. San Francisco, CA: Jossey-Bass, 2007.

The second edition of this best-selling, indispensable resource contains 80 questions and answers — a wealth of information about board structure and process, meetings, board composition, orientation, board-staff relations, financial management, and much more. The book offers insight gained from hundreds of board self-assessments and questions and challenges from thousands of nonprofit leaders. Written in an easy-to-use question-and-answer format, it includes action steps, examples, and worksheets.

Chait, Richard. "Sleepless in San Francisco: What Keeps Me Awake," 2007 Closing Plenary Speech, BoardSource Leadership Forum. San Francisco, October 13, 2007.
www.boardsource.org/Workshops.asp?ID=43.322

Richard Chait, the veteran governance guru, reflected on the evolution of governance at the 2007 BoardSource Leadership Forum. He states that nonprofit boards have made considerable progress during a relatively short period of time. We have moved from ceremonial and ornamental boards to boards that — even if not yet perfectly tuned — understand their responsibility and accountability for the survival and health of their organizations. At the same time, Chait reminds us that compliance does not equal performance, strategic thinking helps boards focus on what matters most, and we may need to restudy the link between governance and philanthropy.

Davis, Melissa, Charles F. Dambach, and Robert L. Gale. *Structures and Practices of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.

The way boards organize themselves and conduct their affairs directly impacts the value they add to their organizations. How a board runs its meetings, chooses its committees, defines its ideal size and composition, rejuvenates itself, or spells out the various authority levels are the keys to an efficient and productive board. *Structures and Practices of Nonprofit Boards* ties the board's activities, structure, and its leadership roles into a cohesive guide that helps your board turn into a productive team relying on its members' time and talents to advance the organization's mission.

Flynn, Outi. *Meet Smarter: A Guide to Better Nonprofit Board Meetings*. Washington, DC: BoardSource, 2004.

Based on actual meeting observations, *Meet Smarter* provides practical solutions to better meetings, explanations of the legal framework, and process practices that will reinvigorate your board meetings. With a detailed table of contents, this book is a must-have reference guide for nonprofit chief executives, board members, organizational staff, and any other participant in key meetings of the board.

Grace, Kay Sprinkel, Amy McLellan, and John A. Yankey. *The Nonprofit Board's Role in Mission, Planning, and Evaluation, Second Edition*. Washington, DC: BoardSource, 2009.

With commitment to mission, board members find their inspiration. With diligent planning and monitoring results, boards stay on course. With *The Nonprofit Board's Role in Mission, Planning, and Evaluation* your board members learn to actively contribute to the creation of mission as well as communicate the mission and purpose to the community. This book also explains how your board should be involved in strategic planning and how that plan should link to outcomes measurement.

Greenfield, James M. *Fundraising Responsibilities of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.

Discover why fundraising is important and why board members should be involved. Included in *Fundraising Responsibilities of Nonprofit Boards* are practical suggestions for board members in direction, planning, and oversight of fundraising. Help your board succeed in the three phases of fundraising — cultivation, solicitation, and stewardship.

Hopkins, Bruce R. *Legal Responsibilities of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.

All board members should understand their legal responsibilities, including when and how they can be held personally liable and what type of oversight they should provide. Discover the essential information that board members should know to protect themselves and their organization. Written in nontechnical language, the *Legal Responsibilities of Nonprofit Boards* provides legal concepts and definitions, as well as a detailed discussion on ethics.

Hyatt, Thomas K. "New Form 990 Will Follow Your Functions." *Trusteeship*. January/February 2008.

The new and evolving IRS Form 990 now requires time and attention from the leaders and appropriate standing committee of all nonprofit boards, whether audit, finance, or executive,

because it is much more than “the tax form” it was in the past. This four-page article offers helpful advice and includes “eight things board members should know” about the many new questions the form asks and illustrates why these questions are likely to “elevate many governance best practices to de-facto requirements.” Although written especially for college trustees, the article is germane to all nonprofit boards and board members as they are urged to embrace the new annual filing requirement “as an opportunity to more fully understand and give needed direction” to their organizations.

Kurtz, Daniel L., and Sarah E. Paul. *Managing Conflicts of Interest: A Primer for Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2006.

Help promote a culture of disclosure in your nonprofit by exploring the meaning of conflicts of interest and understanding the legal rules relating to them. *Managing Conflicts of Interest* acknowledges the difficulty in identifying problematic conflicts of interest, and gives recommendations for practice. The key for nonprofit boards is not to try to avoid all possible conflict-of-interest situations, but to identify and follow a process for handling them effectively. How an organization manages conflicts of interest and ensures open and honest deliberation affects all aspects of its operations and is critical to making good decisions, avoiding legal problems and public scandals, and remaining focused on the organization’s mission.

Lakey, Berit M. *The Board Building Cycle: Nine Steps to Finding, Recruiting, and Engaging Nonprofit Board Members, Second Edition*. Washington, DC: BoardSource, 2007.

Good boards do not just happen: They take care, thought, and planning. The second edition of this must-have, bestseller features nine steps for your board to follow through the board development process. This book is intended not only for organizations where the board is charged with selecting its own members but also for organizations where the authority to appoint new board members rests elsewhere. Included is a CD-ROM containing forms, worksheets, sample documents, and

a PowerPoint® presentation for orienting new board members, including a section on the board's roles and responsibilities and an overview of the nonprofit sector.

Lang, Andrew S. *Financial Responsibilities of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.

Provide your board members with an understanding of their financial responsibilities, including an overview of financial oversight and ways to ensure against risk. Written in non-technical language, *Financial Responsibilities of Nonprofit Boards* will help your board understand financial planning, the IRS Form 990, and the audit process. Also included are financial board and staff job descriptions and charts on essential financial documents and reports, including due dates and filing procedures.

Moyers, Richard L. *The Nonprofit Chief Executive's Ten Basic Responsibilities*. Washington, DC: BoardSource, 2006.

Many chief executives can find guidebooks or practical tools to improve their skills as supervisors, communicators, and program managers. But most chief executives also want to have a greater understanding of their responsibilities in the context of their partnership with the board, and have many fewer places to turn. *The Nonprofit Chief Executive's Ten Basic Responsibilities* seeks to fill that hole. It discusses all the chief executive's responsibilities, including supervising staff, overseeing operations, and supporting the board. The 10 sections acknowledge the breadth and complexity of the chief executive's role, and can serve as benchmarks and guideposts for those chief executives who want to explore specific aspects of their responsibilities in greater depth.

Patterson, Sally J. *Generating Buzz: Strategic Communications for Nonprofit Boards*. Washington, DC: BoardSource, 2006.

This book is for nonprofit board members who want to understand their role in strategic communications — a topic that is most often addressed from the staff member's perspective. While resources for staff generally focus on the nuts and bolts of

communications, this publication offers an overview of roles and responsibilities that will help the board provide necessary vision, support, and oversight. *Generating Buzz* prepares the board and staff to deal with the increased scrutiny that all nonprofits face, ensures the efficient use of scarce resources, builds trust and credibility, and can even prevent controversial situations from turning into crises.

Tebbe, Don. *Chief Executive Transitions: How to Hire and Support a Nonprofit CEO*. Washington, DC: BoardSource, 2008.

When a nonprofit finds itself in need of a new chief executive, managing the transition effectively is crucial to the organization's future impact and continued success. Properly handled, the process can be an opportunity to enhance the organization and add to its effectiveness. *Chief Executive Transitions* will not only help boards navigate the hiring process but also oversee a successful leadership transition. It includes checklists, key questions board members will need to answer as they go through the process, and practical real-life examples. The accompanying CD-ROM includes 13 helpful documents, including a resume 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.

Wertheimer, Mindy R. *The Board Chair Handbook, Second Edition*. Washington, DC: BoardSource, 2007.

Whether you are a seasoned board chair wanting to brush up and learn something new, an incoming board chair seeking knowledge and skills, or a person considering the possibility of becoming a board chair, this definitive guide provides the blueprint for being successful and effective in your leadership role. User friendly and practical, this book focuses on the roles and responsibilities of the board chair position, addresses the all-important work partnership with the organization's chief executive, and outlines the solid communications skills that the board chair's work requires — skills that invite dialogue in a nonjudgmental, respectful atmosphere. Accompanying materials provide sample agendas, letters, and job descriptions to help you do your job effectively.

ABOUT THE AUTHOR

Richard T. (Tom) Ingram is president emeritus of the Association of Governing Boards of Universities and Colleges (AGB), having served as president for 13 years through 2005 and previously as executive vice president for 18 years. He is a consultant, facilitator, speaker, and writer on nonprofit directorship and academic trusteeship whose focus includes comprehensive governance reviews, board self-study workshops, presidential and board performance reviews, bylaw revision, and executive coaching.

Ingram serves on the boards of trustees of Allegheny College and the Council for the Advancement and Support of Education (CASE). He previously served on the boards of two other private colleges, an independent secondary school for girls, a higher education association, a multiple-employer health insurance company, and a mutual liability insurance company where he was a founding director.

In addition to facilitating workshops with the boards and chief executives of nearly 200 colleges, universities, and independent schools, Ingram has worked with scores of nonprofit organizations including the Bush Foundation, American Institute of Architects, Independent Sector, Special Olympics, United Cerebral Palsy Association of California, National Symphony Orchestra, Appalachian Mountain Club, and the American Hospital Association. He has worked with educational and other organizations in Bolivia, Canada, Spain, Mexico, South Africa, Japan, Turkey, and the United Kingdom.

Now in its second edition, this BoardSource publication has sold more than 175,000 copies. Ingram contributes articles to such publications as *CASE Currents*, *Educational Record*, *The Chronicle of Higher Education*, and AGB's *Trusteeship* magazine, among others. He has also written pamphlets and books on collegiate trusteeship and on such topics as presidential and board

performance assessment, board bylaws, committee work, trustee conflict of interest, board/president relationships, and board chair responsibilities.

Ingram has held various positions at the University of Maryland, taught public school, and served as an adjunct instructor for the University of Virginia, University of Pennsylvania, and the University of Southern California. As an officer in the United States Army (1969-1971), he served as director of admissions for the U.S. Military Academy Preparatory School and an operations research officer in Vietnam.

A native of Western Pennsylvania, Ingram earned his bachelor's degree from Indiana University of Pennsylvania, a master's degree from the University of Pittsburgh, and his doctorate in higher education from the University of Maryland in College Park. In 2006, he was awarded an honorary Doctorate of Humane Letters from Mitchell College. He resides in Potomac, Maryland.



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ISBN 1-58686-106-9