

BOARD OF DIRECTORS INSTITUTE

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BEST PRACTICES FOR HIGH IMPACT BOARDS



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WHAT'S NEW?

- **Increased complexity in governance**
 - more scrutiny and regulations
- **Busier board members with busier lives**
- **Different constituent expectations & engagement desires**
 - demanding voice, expecting impact
- **Charitable giving landscape is shifting dramatically**
 - giving more decentralized
 - new generations of donors take the helm, with evolving donor interests, engagement/giving patterns & approaches
 - increased technology, social media, crowdfunding
 - increased in donor advised fund gifts
 - increase in planned giving focus

**In these shifting times, board members must be
transformational pioneers
to enable nonprofits to thrive in this changing landscape**



SO, WHY DO YOU SERVE ON NONPROFIT BOARDS?

- ❖ **Because you are committed to the mission**
- ❖ **Because you are committed to the community**
- ❖ **Because your participation is consistent with your own personal core values**
- ❖ **Other reasons?**



**"COMMITMENT IS WHAT
TRANSFORMS A
PROMISE INTO A REALITY."**

- Abraham Lincoln

BOARD RESPONSIBILITIES

1. **Ensure Legal & Ethical Integrity**
2. **Build a Competent Board**
3. **Determine Mission, Vision & Purpose**
Ensure Effective Planning
Monitor Program & Service Quality
4. **Protect Assets, Manage Resources Wisely & Ensure Fiscal Oversight**
5. **Ensure Adequate Resources**
6. **Enhance the Nonprofit's Public Standing**
7. **Hire, Support, Monitor & Evaluate the Chief Executive**



#1-Ensure Legal & Ethical Integrity

Business Judgment Rule:

Courts typically apply the Business Judgment Rule when rendering judgments, developed over the years as Courts have deliberated to what extent the corporate fiduciary is liable for honest errors in judgment that lead to loss to the corporation:

“Directors are required to perform their duties in good faith, in a manner in which they reasonably believe to be in the best interests of the corporation, and with such care, including reasonable inquiry, skill & diligence, as a person of ordinary prudence would use under similar circumstances.”



#1-Ensure Legal & Ethical Integrity

 **Good Faith = Duty of Care + Duty of Loyalty + Duty of Obedience**
Duty of Care

- Responsibility for making **informed judgments** lies with the board member:
 - Board members need **to secure facts & ask questions** to get **clarity of the issues**
 - The board should seek **independent professional advice** when decisions are **complex** or in **new** territory
- Per the Office of Inspector General, board members are responsible for two facets of legal compliance with regard to duty of care:
 - to ensure that **accurate information & reporting systems** exist
 - to ensure that reporting systems are adequate to **flag board members** in a **timely** manner when the organization is threatened by **legal** concerns



#1-Ensure Legal & Ethical Integrity

Good Faith = Duty of Care + Duty of Loyalty + Duty of Obedience

Duty of Loyalty

- Board members must **cast aside any personal & professional interests**, placing the interests of the nonprofit ahead of their own
- Although Board members technically CAN engage in **financial transactions** with the organization as long as the conflict is disclosed and approved by the other directors, this is perceived by many to be **disloyal self-dealing** and should be refrained from
- Loyalty means **respecting the confidentiality** of the organization's affairs by **not disclosing them** to outside individuals in a way that leads to **loss of opportunity** for the organization

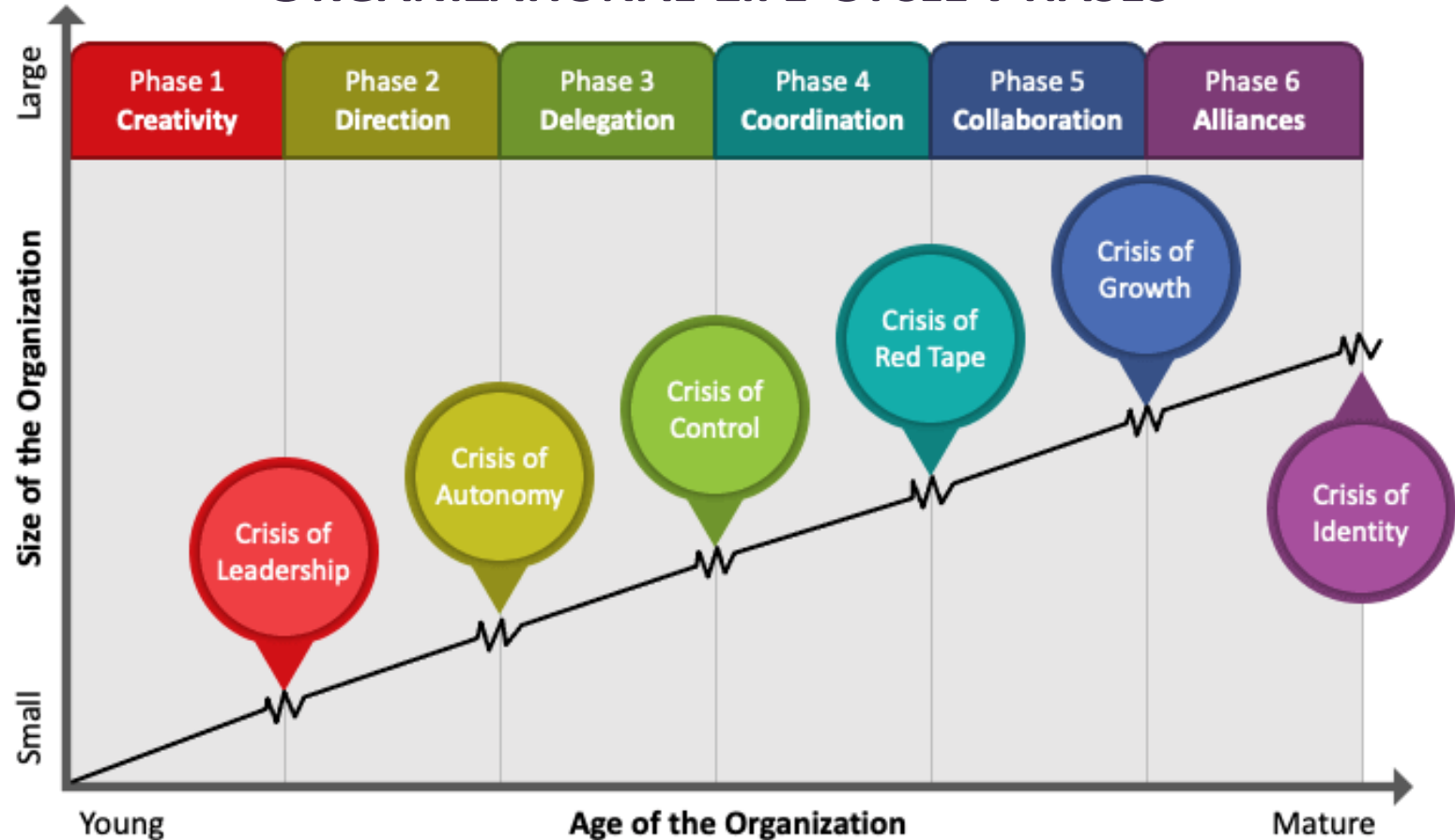
Duty of Obedience

- Board members must **assure compliance** with all federal, state, & local laws & regulations
- Board members must be **faithful to the nonprofit's vision & mission**



#2 - Build a Competent Board

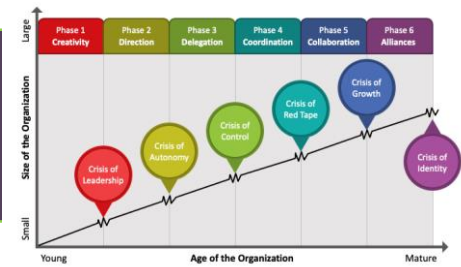
ORGANIZATIONAL LIFE CYCLE PHASES



"Evolution & Revolution as Organizations Grow," Larry Greiner, Harvard Business School; adapted by Karl Mathiasen for nonprofits

#2 - Build a Competent Board

ORGANIZATIONAL LIFE CYCLE PHASES



	PHASE OF CREATIVITY		PHASE OF DIRECTION		PHASE OF DELEGATION		PHASE OF CONSOLIDATION		PHASE OF COLLABORATION & ALLIANCES
IDEA	One big family working for the cause; everyone pitches in	LEADERSHIP	Operating procedures standardized & documented	AUTONOMY	Expand into new project areas	COORDINATION	Formalized planning provides coherence and consolidation	TEAM ACTION	Focus on team & collaboration
	MANAGEMENT FOCUS								
	Commitment to cause		Efficient operations		Market expansion		Org consolidation		Nimble via teams
	BOARD ROLE								
	Following or Leading (hands-on) Direct Service Vol Management Vol Governance		Volunteer governing (hands on) Fundraising Governance Direct Service Vol Management Vol		Volunteer governing to Institutional Fundraising Governance Management Vol		Institutional Fundraising Governance		Institutional Fundraising Governance

BOARD ROLES: EMPHASIS SHIFTS IN EACH PHASE

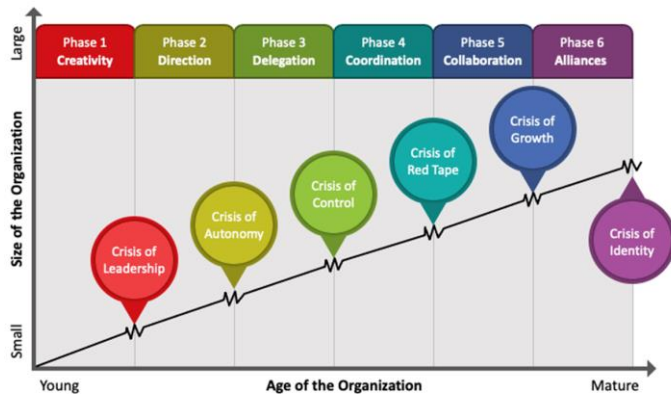
Governance: collective policy formation

Fundraising: help plan and orchestrate resource development initiatives

Management Volunteer: serve as advisor to management and/or perform managerial tasks

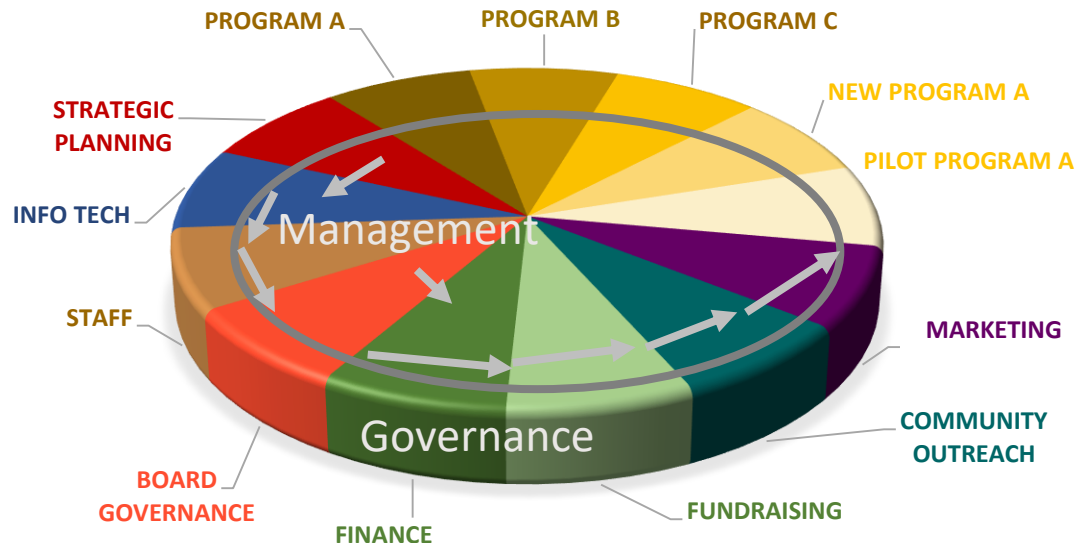
Direct Service Volunteer: 'rank and file' volunteer, providing services to consumer

#2 - Build a Competent Board



BOARD & STAFF RESPONSIBILITY SHARING

SHIFTS AS ORG MATURES



BOARD ROLES: EMPHASIS SHIFTS IN EACH ORG LIFE CYCLE PHASE + EACH FUNCTIONAL AREA

Governance: collective policy formation

Fundraising: help plan and orchestrate resource development initiatives

Management Volunteer: serve as advisor to management and/or perform managerial tasks

Direct Service Volunteer: 'rank and file' volunteer, providing services to consumer

#2 - Build a Competent Board



GOVERNANCE/NOMINATING COMMITTEE: General oversight for the effective performance of the Board.

Governance

1. Consider all aspects of the Board and its operation on an ongoing basis and make recommendations to improve performance, in light of the organization's strategic long range plan
2. Assure regular review and update of Board job descriptions, committee structure, and committee charges
3. Recommend formation of new committees and advisory councils as merited
4. Provide advice and counsel to the Chair of the Board in the selection and appointment of committee chairs
5. Ensure a smooth board leadership succession of qualified Board Officers; propose a slate of Officers to the Board of Directors
6. Ensure ongoing evaluations of meeting effectiveness and Board performance
7. Assure a timely, well-orchestrated orientation process for new Board members
8. Identify and assure implementation of continuing education initiatives for all Board members
9. Identify opportunities for prior board members to continue to be connected to the nonprofit
10. Ensure a timely annual distribution and review of Confidentiality Statement & Conflict of Interest Disclosure Questionnaire. Consider and, if appropriate, make recommendations to the staff and/or Board regarding any ethical and/or conflict of interest issues

Nominating

1. Analyze current Board profile. Identify areas of strength and weakness, considering technical skills and personal talents needed to complement Board diversity
2. Maintain continuous list of potential board members
3. Assist with potential board member information gathering, cultivation & event attendance
4. Assist in targeting appropriate committee service for potential board members, so that Executive Director & Governance Chair can refer to Committee Chairs for initial service
5. Recommend qualified candidates for nomination to the Board

#3 - Strategic Planning, Monitor, Evaluate, Revise

Guiding Principles

3-5 Goals

Objectives, Action Steps



#4: Protect Assets, Manage Resources Wisely & Ensure Fiscal Oversight

A. Financial Budgeting, Reporting and Monitoring

- board approves annual budget
- monitors financial performance against the budget (at least quarterly); significant variations are explained and substantiated
- Annual external audit conducted by a CPA hired by the board; reports to the board

B. Internal Controls and Financial Policies

- board-approved policies re:
Internal controls - Purchasing practices – Reserves - Investment of nonprofit's assets

C. Administrative Policies

- board-approved policies re:
crisis & disaster planning – cyber security

D. Risk Management & Insurance

- periodically assess risks the nonprofit may face
- adequate liability insurance
- adequate directors' & officers' insurance



Re #4 - Fiscal Oversight: Why Is the IRS Form 990 Important to the Board?

1. **What** is an IRS 990?
2. What is the **Board's responsibility** for the 990?
3. What **information** is contained in the 990?
4. **Where** is our nonprofit organization's 990?
5. **Who** uses the 990? For what?



The importance of GuideStar.org



1. How does **GuideStar** by Candid obtain our 990?
Why does GuideStar **post** our 990 online?
Can **anyone** see our 990 online at GuideStar?
2. How can we monitor, correct & improve our nonprofit's **GuideStar data** online?

<https://www.guidestar.org/>



#5 - Ensure Adequate Resources

WHAT DO MAJOR DONORS LOOK FOR?

Level 1: Basic Compliance 501 (c) (3) in good standing

Level 2: Performance*

- Constituents served
- Organizational mission, vision, major programs
- Performance track record, evaluation & outcomes
- Relationships, partners & networks
- Governance & executive leadership
- External communications
- Financial health



***Sources:**

Site Visits

Media/PR/Communications

Community Input

Nonprofit Sector Feedback

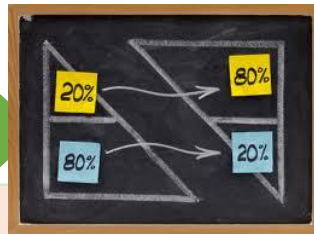
Audit – IRS 990 - GuideStar

#5 - Ensure Adequate Resources



Individual Donor Asking Costs Less & Generates More

20% of funds raised
80% of donors
ARMS LENGTH



80% of funds raised
20% of donors
RELATIONSHIP - BASED

- Overall broad introduction
- Direct mail, e-mail, social media, events, phone calls
- Labor & resource intensive
- Staff implements solicitation
- Higher costs & modest financial returns

- Highest impact
- Major gifts, campaigns, deferred planned gifts
- Requires less up-front cash
- Volunteers crucial to opening doors & cultivating. Staff usually solicits.
- Lowest costs, highest returns
- Ideal for major donors, market influencers, board recruitment
- Takes time to cultivate authentic, trusting relationships



#5 - Ensure Adequate Resources

KEYS TO SUCCESSFUL INDIVIDUAL DONOR FUNDRAISING

1. COMPELLING PURPOSE

- Strong, moving **case for support** that addresses personal needs & interests
- Specific **goals**: clear understanding of what the donor is being asked to support
- Solid **plan** for meeting goals & completing the defined work
- Evidence that the gift will have meaningful **impact**

2. MEANINGFUL CULTIVATION & RELATIONSHIP DEVELOPMENT

- Strong **leadership** (board, staff, volunteers)
- Methods to **promote engagement** & ownership
- Understanding donor's **motivations** & frames of reference
- Cultivation, solicitation & stewardship by people who have **already given**, & are asking others to do the same
- Evidence of **other support**
- Opportunities for **recognition**, if desired
- Avenues for involvement & **meaningful participation**



DUTY #6: ENHANCE THE NONPROFIT'S PUBLIC STANDING

Reputation is everything.

Stakeholders expect boards to be transparent and accountable.

Nonprofits that operate openly & honestly enjoy trusting relationships with stakeholders.

A. Educating & Engaging the Public

- The nonprofit publishes an annual report & makes readily available, in print & electronically:
 - Mission & Strategic Plan
 - Program activities & calendar of events
 - Board members – names, qualifications
 - Key staff – names, contact info, qualifications
 - Audited Financials & IRS990
- Outreach meetings & events are regularly held with targeted stakeholder groups
- An annual communications/promotional plan consistently spreads news of the nonprofit's constituent needs/accomplishments, impacts, and achievements



DUTY #7: HIRE, SUPPORT, MONITOR & EVALUATE THE CEO

Boards have the task of identifying, recruiting & hiring the most qualified individual they can find to serve as the chief executive.

The board needs to consider the nonprofit's needs, strengths & vulnerabilities in considering the skills and abilities of the chief executive.

- The executive's written job description is **reviewed & updated** annually
- The board works in **partnership** with the executive to accomplish the nonprofit's overall goals
- The board **annually reviews** the executive's compensation, compared to regional market standards; and **approves** annual compensation
- The board annually reviews the executive's **performance, in light of the organizational strategic plan goals**, and supports plans for improvement
- Overall, the board and executive have a **trusting, honest, open relationship**



SUMMARY: BOARD RESPONSIBILITIES

- Oversee and direct all affairs of the nonprofit per its mission, by-laws and the concepts of fiscal responsibility.
- Long term planning, marketing, financial development planning, board development, and annual budgeting. Day-to-day operation is delegated to the Executive Director/CEO and staff, and their delegated volunteers.
- Understand and promote the organization and its mission to corporations, foundations, governmental organizations and to individuals to broaden its service base as well as its financial base.

Board Member duties:

- Attend quarterly 2-hour Board meetings & actively participate in the governance of the organization.

Members missing 3 consecutive meetings in 1 year can be automatically removed from the board.

Members who need a 3-6 month extended leave of absence, due to personal or professional circumstances, should request one.

- Counsel the Board Chair & Executive Director/CEO as needed
- Support events, contributing time, money & friends
- Annually make an individually significant financial contribution
- Consider including the nonprofit in your estate plans & leave a charitable philanthropic legacy
- Annually evaluate the work of the Board as a whole
- Annually evaluate the work of the Executive Director/CEO
- Actively serve on at least one Board Committee

Committee Chair reports at each Board meeting & Chairs committee work sessions between Board meetings.



The expected time commitment is 4-8 hours per month:

Quarterly Board meetings @2 hours + quarterly committees @2 hours + prep/follow up
+ attend programs, trainings events & fundraisers

Board terms are 2 years, with a maximum of two consecutive terms. One-third of the Board rotates each year.