

# Why Boards Don't Govern

By Jan Masaoka and Mike Allison

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In the aftermath of every “nonprofit mismanagement” news story is the question: Why didn't the board do something? Yet the boards of the United Way of America, Shanti Project, Covenant House and others *did not do any less than most nonprofit boards*. The reality is that most nonprofit boards are ineffective in their governing function. Only when gross mismanagement occurs does a failure at governance come to the fore.

The overlooked reason is that the prevailing “team” model for the relationship between boards of directors and their staff is only half of the story. “Team” members are understood to bring different skills and play different roles to support and build the organization, working toward common goals. But while board members should and do act as supporters and builders, they have another role to play as questioners and monitors of the organization. As part of the team, the board stands with their well-intentioned organization as it operates in a demanding world. In contrast, in their governing role, the board must stand outside the organization and hold it accountable to the public interest.

Both these roles—supporting and governing—are critical to effective work by

nonprofit organizations. Rather than try to eliminate the contradictions and tensions of their governance role, boards must find techniques for strengthening their independence and creatively using this tension for the good of the organization and the purpose it was created to serve. This paper begins with a discussion of the governance role and draws contrasts with some standard practices. Specific factors mitigating against successful board governance are then outlined. We conclude with some modest proposals for more effective governance.

## What *is* governance?

The two roles of support and governance encompass different tasks. In the role of supporters board members strive to ensure the success of the organization. Boards raise money, bring contacts and clout to the organization, provide special skills such as in law or accounting, and act as ambassadors to the community. The many books, articles and seminars on the subject testify to the emphasis on helping boards help—on strengthening organizations by means of board assistance.

The governance role, on the other hand, has as its goal protection of the public

interest. Governance responsibilities for boards include selecting the top executive (the Chief Executive Officer) and assessing his or her performance, reviewing and authorizing plans and commitments, ensuring compliance with legal and contract requirements, and evaluating the organization's work.

Both of these board roles are distinguished from that of management, the province of the Chief Executive Officer.

## What's wrong with the "ideal board member"?

When most board members and executive directors dream of their ideal board member they envision someone who contributes money, obtains contributions from others, helps the organization get media coverage and political contacts, brings specialized expertise, and helps diversify the board's composition. This ideal board member also identifies with the organization, is liked and admired by staff and other board members, "fits in." These characteristics describe a board member who can help provide the critical support agencies need to succeed.

But the very qualities that make board members good supporters are often qualities that limit their ability to carry out their governance responsibilities. In particular, board members are recruited to bring assistance and skills from other sectors of society, and are typically unfamiliar with both the program field and with the business of nonprofit management.

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Because board members typically come from outside the program field, they are limited in their ability to know what trends, factors and technologies exist in the field; in short, they are limited in their ability to plan, to evaluate, to determine strategies, to see whether they are achieving success. For example, board members of a homeless shelter for youth are unlikely to know what similar programs serving disadvantaged youth are offered by other local agencies. Board members of a mental health agency may not be aware that the treatment field is moving away from their agency's methods. Board members are typically informed (by staff) about their own programs, and often less aware of work done by overlapping, competing organizations.

A different problem is posed by unfamiliarity with nonprofit management. Nonprofits are a fundamentally different type of business from either large corporations or small businesses. For example, a restaurant losing money all year can't hope to make it up with a big fundraiser or grant at the end of the year. A manufacturer can drop a product line without the ill social consequences of a social service agency dropping a service. Business people from the private sector have many skills to offer nonprofits, but expertise in nonprofit management is not always one of them. In particular, three areas important to nonprofit success are unfamiliar to business people: volunteer management, indirect cost rates, and financial strategies based on contributed rather than earned monies.

One additional limitation on board effectiveness is simply the lack of time that board members have to work with the agency. Board members are generally achievers with many responsibilities. Even a dedicated board member finds it difficult to attend board and committee meetings, study materials, and attend organizational functions. In response, organizations try to keep meetings short and have fewer of them per year. Yet the assumption continues that meaningful planning and governance can take place on a board that spends only a few hours a month considering the issues.

### **Are corporate boards any different?**

Boards of directors governing for-profit corporations face many of these same obstacles. They are busy and short of time; they lack familiarity with the field, and they may not be managers. The question was posed to a partner in a venture capital firm who sits on five corporate boards in which her firm has an equity interest. How does such a board member tell if the company is well managed? Although she doesn't know as much about microchip production or about the market for frozen pizzas, she must act to direct and oversee the growth of the company.

Her answer: because of her unfamiliarity with the field and its markets, she reads trade journals and industry publications. To supplement the information received from management, she reads reports from consultants and analysts hired to assess the company's operations. She uses all the means available, including informal impressions from walking through the plant

or a chance conversation with an employee on the line, to obtain independent information. She follows up on rumors of mismanagement or takeovers. In short, she keeps her eyes and ears open all the time for information. With \$1 million of her firm's money invested, she makes the time and gets enough information.

**How does a board member tell if the company is well managed?**

Corporate boards have one important advantage over nonprofit boards in their oversight, governance role. They have two ready measures that can be used to measure performance: profit and market share. In contrast, successful performance in a museum, drug treatment program or family counseling program is much more elusive.

Perhaps a bigger difference though is that corporate board members like this venture capitalist also have a material stake in the success of the organization. If nonprofit board members each had \$100,000 of their own money invested in their own organizations, would they find more time and more information?

### **Boards govern in crisis**

Despite the obstacles and uncertainty, boards strive to perform their governance roles well. They make valiant efforts to read and understand financial statements. They listen attentively to reports about client-centered methodologies and new x-ray machines. They give up Saturdays for board retreats. When agencies are in crisis, boards go further. They give up weekends to attend emergency meetings where hard

questions are asked; they sort out financial problems, and meet with disgruntled funders and clients. They seek out a wide range of informants: funders, staff, colleagues in the field, and members or other boards. When serious charges are brought to boards about CEOs, boards often hire independent investigators or analysts to report on charges of sexual harassment, racial or gender discrimination, alcohol or drug abuse, or mis-use of funds. In crisis, boards realize that while they can't manage, they must govern. And to do so they need information sources that are independent of executive staff; they need their own, diverse channels of information.

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If boards can act to overcome some of their limitations and act effectively as governors in time of crisis, what are some reasons why they don't act that way in normal times?

## **Why don't nonprofit boards govern all the time?**

When Kenneth Dayton drew a line between governance and management in his famous paper, "Governance is Governance," he called for boards to stop meddling in the management of agencies. If anything, boards have taken his sound advice too literally. These days boards are reluctant to call staff to question about anything.

Some reasons why boards don't govern all the time have been noted: lack of time, lack of independent information, and lack of familiarity with the "business." But in addition, another important factor is at work: a desire to avoid tension and conflict.

When boards act in their governance and oversight roles, uncomfortable questions may be asked; tensions may enter the room. It takes a lot of nerve for a board member to challenge a staff recommendation in a board meeting. New board members are often quiet, waiting until they know more before speaking up. But long-time board members too are reluctant to appear adversarial, not "with the team."

In fact, when asking probing, "tough" questions, board members may feel guilty. Is it fair to question staff competency in fundraising when I've only made an average contribution myself? Is it being distrustful to ask for a list of salaries and comparable salaries in similar organizations? Does my admiration for a competing organization's programs reflect a lack of loyalty to my own organization?

A subtle cause of this avoidance of conflict is the emphasis on a smooth working partnership. Boards often view tension as a symptom of an illness which everyone must work to avoid catching. Conflicts should be smoothed over. Staff frequently see board members with serious questions as obstacles at best, enemies at worst. (This is exacerbated when board members who don't do much as supporters still want to ask questions.) As a result, some boards neglect this responsibility all together and act as a rubber-stamp for the director. Just as often, boards will allow one or two members to be the chronic complainers without allowing them any real influence.

The wider nonprofit community has colluded with this avoidance through the scant attention given to the governance role in books, academic papers and other management literature. A small industry has grown up around board training and consulting. While consultants and trainers have done a great deal to help boards raise more money, they have done little to help boards be more effective as governors. One reason is that they have been hired to help the board support the organization, not to help it govern.

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In crisis, the emphasis on a smooth working relationship takes a back seat to the need for action and straight answers. It is "okay" in a crisis to ask tough questions. In normal times, boards need to learn how to use the authority they are willing to assert in times of crisis.

A second reason boards don't govern is that, at least narrowly speaking, it is not in the interest of executive staff to have an active, governing board. Supporters help the manager get the job done; governors often make the job harder. The governance role is an outsider's role, holding the organization, and specifically the executive staff, to high standards of performance. While most nonprofit managers work hard to do a good job, it is not in any manager's personal interest to make her own job harder.

Finally, except very infrequently, the consequences for inadequate governance have not been borne by nonprofit leaders as

individuals. The most extreme consequence for poor governance is organizational failure. However, board members are unlikely to have their careers or status in the community affected as a result of organizational failure, and the executive director can usually find another job. The big losers are the people or community purpose the organization was designed to serve. Nonprofits are often perceived as weak and struggling. Supporters are recruited to help it survive, not to rein it in. In short, there has been no one holding boards accountable: a lack of governance hasn't really mattered to board members as individuals.

## **Governance in planning and budgeting**

The planning process on the board of a nonprofit mental health clinic provides an instructive example of board governance under the conventional model. The last five years have seen large numbers of nonprofits develop strategic plans. Boards struggle with mission statements, goal statements, outcome statements. They try to "set program directions" and program objectives. Through examining this process, a more realistic and limited definition of the board's governance role can be developed.

As noted above, some of the factors mitigating against meaningful board planning include:

- The board members are "lay," neither mental health professionals nor clients of the mental health clinic. As a result, they do not bring with them independent

experience with the field, issues surrounding case management or licensing, funding opportunities and client needs.

- Board members from corporations, small business and churches seldom have the time to develop a deep enough grasp of the organization's strengths, weaknesses, and environment to make informed planning decisions.
- Many key decisions have in effect been made by staff already, in response to funding cuts, new licensing requirements, or the opportunity to hire a person with unusual qualifications.

As a result, planning by the mental health clinic board tends to devolve into either a minor re-working of staff-made plans, or simply a mechanism for organizing the board's supporting role in implementing the plan. This latter is not unimportant, but it is not governance.

A parallel dynamic in the budgeting process was pointed out by John Carver in *Nonprofit Management and Leadership*. The budget approval process tends to lean either towards minor revisions of staff-made budgets or to rubber stamping. The conventional budget approval process often leaves board members with the uneasy feeling they have approved something they don't fully understand.

To balance the dual roles of governance and support roles in planning and budgeting, the board needs to ask a different set of questions.

First, rather than attempting to develop the plan, the board should focus on the quality of the plan. Boards should ask what

information was used in planning, and require clearly stated assumptions about the most critical issues facing the organization and clearly stated strategies for dealing with these issues. What will be accomplished? How will we know? Are these the right things to be accomplished? Why? One doesn't need to understand internal combustion to make a sound, informed decision about which car will best suit your transportation needs and meet your budget. The board is buying a plan and a budget; it must be able to determine whether it is getting the plan that will best meet its organization's needs.

Second, once the board has "bought" the plan, and it delegates management of the plan to staff, it needs to see what it is getting for its money. This involves careful evaluation, oversight and monitoring of the activities and results achieved.

To do a good job of monitoring, the board should supervise independent program evaluations, and contract independent management evaluators as well. In other words, the board needs to acquire independent information, a "second opinion."

## **The paradox and the challenge**

The board-staff relationship is a paradoxical one. When acting in their governing role, the board must stand above staff and be the "boss." But when acting in their supporting role, board members act to support and assist staff-led work.

Some boards become so excited about their roles as governors that they mistake

governance for close supervision of management and begin meddling in minor management affairs. In other cases, as boards govern more, they shirk their supporting role. The challenge is to fulfill both roles, not simply switch from one to the other.

In short, boards have some inherent limitations in their ability to govern, including lack of time, lack of familiarity with the field, and lack of material stake. These limitations have been supplemented by the sector's nearly exclusive emphasis on the board's supporting role and by a human tendency to avoid conflict. A first step towards an effective board is acknowledgment of the paradox, and the need to perform both functions equally well. A failure to govern as well as support is a transgression both against clients and the wider community.

## **We also propose some practical ways to strengthen governance:**

1. Have auditors and program evaluators report to the board. Agencies frequently hire two types of independent evaluators: CPA auditors and program evaluators. But in both cases these independent professionals are typically chosen by staff (often with just a cursory approval by the board), report to staff, and work as partners to staff in the staff's relationship with the board. Instead, such evaluators should make their reports directly to the board and to the staff. Auditors should be selected by and report to the board or the board audit committee.

2. Hire independent management evaluators. In addition to auditors and program evaluators, boards need unbiased sources of information about management as well. One of the most difficult tasks for boards is the evaluation of the CEO. On one hand a board can't interview staff about their opinions, but on the other hand, problems are created when a board obtains all its information from the person being evaluated. An independent evaluator might interview staff, and, for example, if there were several allegations of sexual harassment, would report to the board that such charges exist.

3. Make governance an explicit part of meetings. Boards should affirm their responsibilities in both support and governance. Board agendas should be clearly marked "Governance Items," and "Supporting Items." Among the qualities we should seek and reward in board members are critical thought, discernment, questioning attitude. When someone raises an objection or concern, or votes against the majority, the board president should make a point of going up to that person and expressing appreciation for the seriousness and courage to make the point.

4. Consider board stipends. To give a signal about the importance and seriousness of board work, we should take another look at the corporate practice of payments for board service. Much of the nonprofit sector has summarily dismissed such stipends: isn't the board supposed to raise money? Some large nonprofit institutions already pay board members \$200/meeting, but smaller organizations could consider small stipends such as \$15/meeting. Such stipends reimburse

board members for expenses, and demonstrate visibly that the agency places a real value on board support and governance. (Some board members may choose to contribute their stipends back to their organizations.)

5. Consider a paid secretary to the board.

Local government councils and commissions often have their own staff, separate from the agency staff that reports to the Chief Administrative Officer. Boards of many nonprofits have far-reaching responsibilities, and board officers may not have personal secretaries they can assign to board support. A paid board secretary, perhaps working only a few hours a week, can act as the board's facilitator, reminder, educator. Duties might include: board correspondence, obtaining information from staff or others at board request, clipping from professional journals for the board, minutes and follow-up for the board, meeting arrangements, and helping new

officers with their responsibilities. Having their "own" staff can help board members be better supporters as well as governors.

6. Recruit governors.

When recruiting, boards should seek members who are good governors as well as those who are good supporters: people who know clients as well as people who know philanthropists, people familiar with nonprofit management as well as those familiar with business, operational volunteers as well as fundraising volunteers, people who ask critical questions as well as people who cheer. A diverse board such as this will keep the agency rooted in the world it serves as well as in the world in which it raises funds. In many cases, governors and supporters may turn out to be the same people once governing responsibilities are recognized and valued as much as supporting responsibilities are.

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