First Principles

We present here a set of first principles—basic premises that underlie the chapters that follow. Much like the overture to a Broadway show that can only be written after the composers have finished the score, we developed these principles toward the end, not the start, of the work that produced this book. These were not preconceived notions that generated predetermined content. To the contrary, this chapter appears first but was actually written last. We were only able to discern some first principles retrospectively because the propositions emerged as we discussed and drafted the other chapters. Only then did we notice some familiar refrains.

There are two ironies here. First, we maintain in Chapter 5 that organizations discover "emergent" strategies as well as design "deliberate" or planned strategies. Strategies, in effect, sneak up on organizations much as first principles sneak up on authors. Second, we contend in Chapter 5 that effective governance rests heavily on a board's capacity for retrospective "sensemaking"—acting and then thinking, making sense of past events to produce new meanings. We arrived at a new construct, *governance as leadership,* by writing and then reflecting, reframing, and revising—and by rethinking where governance stands today and why. While we never expressly intended to do so, the way

we worked and the sense we made of governance echo the *leit-motif* of this book. The four principles summarized here distill recurrent themes and foreshadow arguments amplified in other chapters. To return to the analogy of the Broadway musical, these synopses are a medley, not the score.

PRINCIPLE ONE: NONPROFIT MANAGERS HAVE BECOME LEADERS

Nonprofit managers are not what they used to be, and most board members would probably respond "Thank goodness." Historically, the stereotypical image of a nonprofit administrator was a well-intentioned "do-gooder," perhaps trained as a social worker, educator, cleric, artist, or physician. The most successful practitioners—utterly unschooled about management, finances, investments, strategies, labor relations, and other "real world" realms—reluctantly, and sometimes accidentally, assumed greater managerial responsibility and eventually ascended to the top of the organization. Yesterday's naive nonprofit administrator or executive director has become today's sophisticated president or CEO, titles that betray changes in the stature, perception, and professionalism of the positions. (Likewise, staff have become "line officers" with such businesslike titles as vice president of marketing, strategy, technology, or knowledge management.)

Many executives have earned graduate degrees in nonprofit management from reputable universities; even more have attended executive education seminars and institutes on these same prestigious campuses. More important, nonprofit executives have acquired what formal education alone cannot confer: standing as organizational leaders (a status often underscored by the compensation package). As a result, trustees, employees,

clients, and donors expect far more of nonprofit CEOs today than a genial personality, moral probity, managerial acumen, and a passionate commitment to the organization's social mission. Stakeholders, in a word, expect *leadership.*

Constituents expect nonprofit CEOs to articulate clearly and persuasively the organization's mission, beliefs, values, and culture. Both the process and the substance should galvanize widespread commitment toward these ends. With input from stakeholders inside and outside the organization, leaders are expected to shape agendas, not impose priorities; to allocate attention, not dictate results; and to define problems, not mandate solutions. These expectations we now have for leaders closely resemble conventional notions of *governing.*

In the not-for-profit context, governing means, to a substantial degree, engaging in these very activities. In theory, if not in practice, boards of trustees are supposed to be the ultimate guardians of institutional ethos and organizational values. Boards are charged with setting the organization's agenda and priorities, typically through review, approval, and oversight of a strategic plan. Boards are empowered to specify the most important problems and opportunities that management should pursue. If this logic holds, as we contend, then many nonprofit executives are not only leading their organizations, but by practicing this new version of leadership, they are actually governing them as well.

The transition from nonprofit administrators to organizational leaders has been almost universally heralded as a positive development. Almost everyone touts the value of leaders and, in any case, that is not at debate here. If, however, managers have become leaders, and leadership has enveloped core elements of governance, then a profound question arises: What have been

the consequences to boards as the most powerful levers of governing have migrated to the portfolio and purview of leaders?

PRINCIPLE TWO: TRUSTEES ARE ACTING MORE LIKE MANAGERS

While nonprofit managers have gravitated toward the role of leadership, trustees have tilted more toward the role of management. The shift has occurred because (as described in the Preface) trusteeship, as a concept, has stalled while leadership, as a concept, has accelerated. The net effect has been that trustees function, more and more, like managers.

This will no doubt strike many as an unlikely claim since the number one injunction of governance has been that boards should not meddle or micromanage. Despite this oft-repeated admonition, much of the prescriptive literature on trusteeship actually focuses squarely on operational details: budgets, audits, facilities, maintenance, fundraisers, program reviews, and the like. To discharge that work, most boards structure committees around the portfolios of line officers: finance, development, government relations, program evaluation, and customer/client relations, for example. Moreover, management competence typically ranks high on the list of desired attributes of prospective trustees. Nonprofits usually want a Noah's ark of professional experts. As a result, many boards resemble a diversified consulting firm with specialties in law, labor, finance, marketing, strategy, and human resources. Constructed and organized in this way, boards are predisposed, if not predestined, to attend to the routine, technical work that managers-turned-leaders have attempted to shed or limit.

With sophisticated leaders at the helm of nonprofits, a substantial portion of the governance portfolio has moved to the

executive suite. The residue remains in the boardroom. This surprise twist in the story line suggests that the real threat to nonprofit governance may not be a board that micro*manages,* but a board that micro*governs,* attentive to a technical, managerial version of trusteeship while blind to governance as leadership.

This quandary of *migratory governance* could be viewed as a winner-take-all joust between the CEO as the leader and the board as a source of leadership. Or the problem could be framed as a zero-sum contest in which trustees must forego the "bread and butter," canonical components of governance (for example, finances, facilities, strategy, and development) in order to reclaim from executives a significant measure of influence over the most potent facets of governance (for example, mission, values, beliefs, culture, agendas). However, the formulation of governance as leadership provides a more affirmative and constructive approach that expands the pie, provides more occasions and levers for leadership, and enhances the trustees' value to the organization. Just as significantly, governance as leadership enhances the organization's value to trustees. Board members will become more fulfilled and less frustrated as opportunities multiply for meaningful engagement in consequential issues. Toward that end, governance must be recast from a fixed and unidimensional practice to a contingent, multidimensional practice with three distinct yet complimentary modes. In other words, governing is too complicated to reduce to simple aphorisms, however seductive, like "boards set policies which administrators implement" or "boards establish ends and management determines means."

Although new when applied to governance, "complexity" is now routinely accepted in other realms. In fact, "complexity science" (Zimmerman, Lindberg, and Plsek, 1998) and "complex systems" (Scott, 2003) have already entered the lexicon of organizational behavior. There are two obvious analogues to

governance. First, "intelligence" once denoted analytical horse-power. Then, Howard Gardner introduced the concept of "multiple intelligences" (1983) which conceptualized personal competence as a varied repertoire. Intelligence could be denominated as linguistic, logical, spatial, kinesthetic, musical, inter-personal, and intrapersonal.[1] Second, leadership over the years has been (almost sequentially) associated with certain physical attributes and personality traits, then with power and influence, then with specific realms of expertise (for example, interpersonal skills, analytical skills, financial acumen), and then with particular activities (for example, planning, decision making). Now both theoreticians and practitioners realize that effective leaders are "cognitively complex" (Birnbaum, 1992), that is, able to think and work effectively and concurrently in multiple modes: for instance, as managers, entrepreneurs, politicians, visionaries, analysts, learners, icons, and culture makers.

Effective leaders move seamlessly from mode to mode as conditions warrant. Executives do not simply learn one mode or even two and then employ that mode regardless of the situation. Regrettably, trustees often do just that.

PRINCIPLE THREE: THERE ARE THREE MODES OF GOVERNANCE, ALL CREATED EQUAL

We posit that there are three modes of governance that comprise governance as leadership:

- Type I—the *fiduciary mode,* where boards are concerned primarily with the stewardship of tangible assets

---

[1]Gardner (1993) later proposed naturalist, spiritual, and existential intelligence and Goleman (1995) popularized "emotional intelligence."

- Type II—the *strategic mode,* where boards create a strategic partnership with management
- Type III—the *generative mode,* where boards provide a less recognized but critical source of leadership for the organization.

When trustees work well in all three of these modes, the board achieves governance as leadership.

Each type emphasizes different aspects of governance and rests on different assumptions about the nature of organizations and leadership. However, *all three types are equally important;* each fulfills vital purposes. Types I and II are, at present, the dominant modes of nonprofit governance; Type III is the least practiced (see Exhibit 1.1).

Type I constitutes the bedrock of governance—the fiduciary work intended to ensure that nonprofit organizations are faithful to mission, accountable for performance, and compliant with

EXHIBIT 1.1   **GOVERNANCE AS LEADERSHIP: THE GOVERNANCE TRIANGLE**
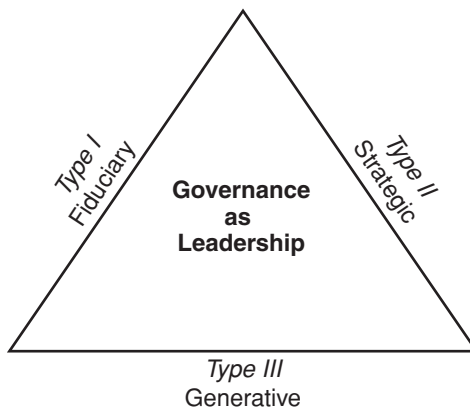
relevant laws and regulations. Without Type I, governance would have no purpose. If a board fails as fiduciaries, the organization could be irreparably tarnished or even destroyed. Type II concerns the strategic work that enables boards (and management) to set the organization's priorities and course, and to deploy resources accordingly. Without Type II, governance would have little power or influence. If a board neglects strategy, the organization could become ineffective or irrelevant.

Types I and II are undeniably important forms of governance. However, boards that *only* oversee assets and monitor strategy do work that is necessary but not sufficient to maximize the value of governance (generally) and the value of trustees (more particularly).

As one moves through the chapters that follow, it may appear that we assign greater importance to the generative mode or, at a minimum, that we position Type III as the first among equal modes. In truth, we assert no hierarchy of modes, and we do not advocate that boards abandon or neglect Types I and II. To the extent that we elevate Type III to prominence (and we do devote more attention to Type III), we do so not because Type III trumps I and II, but because the generative mode is less recognizable to nonprofit trustees and executives than the other modes and thus requires more elaboration. The disproportionate attention owes to the relative novelty, not the relative worth, of Type III vis-à-vis Types I and II.

PRINCIPLE FOUR: THREE MODES ARE BETTER THAN TWO OR ONE

A board's effectiveness increases as the trustees become more proficient in more modes. If the term "triple threat"—high

praise for an athlete—did not carry a negative connotation when attached to governing boards, we would adopt this phrase to convey the idea that exemplary boards perform skillfully in all three modes. Instead, we make do with "tri-modal."

In any case, a board that excels in one mode (or two) but flounders in another one (or two) will add far less value to an organization than a board that ably executes all three. Trustees quick to exhort the staff to outwit, outwork, and even out-spend the competition might consider an additional tactic: *outgovern* the competition. The greatest comparative advantage will accrue to "tri-modal" boards. In order to create more value, boards of trustees need to "cross-train" so that the "muscle memory" of one mode does not dominate to the detriment of the others. (This is one reason why world-class weightlifters are usually inept basketball players.) When boards overemphasize one mode to the exclusion of others (a common problem), the net results are worse, not better, governance.

The majority of boards work most of the time in either the fiduciary or strategic mode. These are comfortable zones for trustees. Nonetheless, many boards neither overcome the inherent challenges that Types I or II pose nor capitalize on the occasional leadership opportunities that fiduciary and strategic governance present. As a result, some of the board's potential to add value goes untapped, despite the trustees' familiarity with the mode. However, there may be an even steeper price to pay if boards overlook or underperform Type III work because, unlike Types I and II where there are moments for leadership, the generative mode is about leadership. It is the most fertile soil for boards to flower as a source of leadership.

Chapters 3 and 4 on Types I and II challenge boards to do better at what boards normally do; no one should discount the

value of continuous, incremental improvements as applied to trusteeship. By contrast, Chapters 5 and 6 on Type III invite (some might say compel) boards to invent new governance practices. Taken together, all three modes encourage nonprofit trustees and executives to combine ideas and practices, some familiar, others novel, into a new approach: *Governance as Leadership.*