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**INTRODUCTION**

Congratulations on having joined the board of a nonprofit! You have just become part of one of the most fulfilling and personally satisfying sectors of the economy. Currently, nonprofits account for more than 10 percent of the United States' economic activity and employment. Nonprofits cover a wide array of organizations spanning hospitals (half of which are nonprofits), schools, colleges, museums, professional service organizations, social service organizations, and so on. The boards of all of these organizations are rooted deeply in the American tradition of volunteerism and trying to help others. You are unpaid and giving of yourself to the community.

The number of nonprofit organizations has increased dramatically in recent years. These include a wide variety of organizations from charitable organizations, social services, religious and fraternal organizations, health care societies and health organizations, educational organizations, environmental organizations, sports and recreational organizations, to funding foundations, business and professional organizations, political parties, and so on. Their purpose is to generate improvements in the lives of individuals, members, organizations, communities, and society as a whole. Some of these organizations, such as charities, may be considered purely *social impact focused*, whereas others, such as professional organizations, may be primarily viewed as *member focused*. However, classifying nonprofit organizations is not easy as some have elements of both types. For this reason, one should rather think of a continuum of nonprofit organizations spanning

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**Table 1.1 Structure of Organizations**

<i>Usually Nonprofits</i>	<i>May Be For-Profit or Nonprofit</i>	<i>For-Profit</i>
Charitable	Educational institutions	Publicly traded corporations
Professional associations	Hospitals	Privately held firms
Religious and fraternal organizations		
Environmental		
Community foundations		

from purely socially focused to purely member focused organizations with numerous nonprofit organizations having dual roles of serving both their members and society. And, as noted in Table 1.1, there are some types of organizations that are always organized as nonprofits, whereas others like hospitals and certain educational institutions may be either for-profits or nonprofits.

Participation in nonprofits is a very important part of business executives' lives and until relatively recently unrecognized. Business leaders find themselves on boards of directors of nonprofit organizations. We also find these organizations being led by professionals from the business world including professional accountants instead of individuals from traditional social service backgrounds. Surveys of HBS alumni for example show 80 percent or more self-report being involved with nonprofits during their careers with more than 50 percent serving or having served on one or more nonprofit boards. These organizations vary in size from small community music schools to multibillion dollar health organizations. These activities are widely supported by American culture (despite description in such books as *Bowling Alone: The Collapse and Revival of American Community*<sup>1</sup>) and by U.S. federal tax policy where the Internal Revenue Service gives substantial relief for charitable deductions. In addition,

local communities often exempt assets of nonprofits from taxes (although in Massachusetts, for example, colleges and hospitals often give gifts to the towns and cities in lieu of taxes).

The roots of philanthropy go well back into the nineteenth century. Names of great business leaders like Andrew Carnegie, J. P. Morgan, and John D. Rockefeller spring quickly to mind, as also being enormously significant philanthropists. Warren Buffet and Bill and Melinda Gates are present-day philanthropists whose work attracts our attention.

We find the topic remains relevant to the leaders of tomorrow, with today's MBA students showing especial interest. Nearly half of the MBA students at the Harvard Business School are currently enrolled in one or more nonprofit courses, with nearly 10 percent of the incoming class coming from this sector as full-time employees. These facts have held for the past five years. On graduation, 3–5 percent of the class takes internships or appointments in the sector. Indeed, this phenomena is a global one with significant numbers of nonprofit CEOs (throughout the book the terms CEO, *president*, and *executive director* will be used synonymously) coming to Harvard's nonprofit programs from as far as Australia, China, Singapore, India, and the United Kingdom. This book, however, will be primarily focused on the United States because of its very large role as a matter of public policy (which cedes to nonprofits significant domains that are covered by government in other countries). The United States also has a strong focus on individual philanthropy that is quite unique in the world.

### **Comparing Nonprofits and For-Profits**

There are a number of important similarities and differences between the operations and challenges of nonprofits and for-profits of which a new nonprofit board member must be cognizant. Some of the more important items are discussed in this section.

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### **Similarities**

There are a number of similarities between for-profits and non-profits which make people with for-profit experience particularly helpful as board members. The key similarities include:

1. Both organizations can grow, transform, merge, or die. Success is not guaranteed for either type of organization, but requires sustained work.
2. In both cases, cash is king. This for-profit focus is critical for a nonprofit board.
3. In both settings, good management and leadership really matter. Delivery of service, motivating and inspiring staff, and conceiving of new directions for growth are all vitally important.
4. Planning, budgeting, and performance measurement systems are vital in both settings.
5. Both types of organizations face the challenges of integrating subject matter specialists into a generalist framework.
6. Both organizations add value to society. They just do it in different ways.

In short, there is much overlap between the skills needed and perspectives provided by leaders in the two types of organizations. This is a key reason why social enterprise courses have taken root in business schools and why, appropriately socialized, those with for-profit backgrounds can contribute so much to the nonprofit world.

Having noted all of this, the blunt question in your mind is: why do I need to read a book on nonprofit management? Isn't it just a subset of the for-profit world, with little difference in the tasks and perspectives of managers and board members? Cannot the tools, practices, and viewpoints developed through a career of successful for-profit work be transferred to this new realm of nonprofit? The authors answer this question with an emphatic

no! Although, as noted, many aspects are the same, in important areas there are deep differences. Failure to understand these differences can cause the new board member to stumble badly and perhaps irretrievably damage her credibility and effectiveness in a nonprofit organization.

## **Differences**

At its core the nonprofit is fundamentally different than the for-profit. At the center of the nonprofit is its societal mission. Understanding the mission, helping the organization to fulfill it, and adapting it to a changing world is the very core of nonprofit governance and management. It is for this reason this book starts with a detailed discussion of mission and how it grows. Without the mission there is no purpose. Right behind this are the two major intertwined strategic themes that the nonprofit trustee must deal with.

The first theme is fulfilling the mission and whether we are doing it in a fiscally responsible fashion. Chapter Two deals with the complex multifaceted issue of mission definition and evaluation of its appropriateness. Chapter Three shows, in a series of examples, how organizations can go about measuring their performance against mission. For the new trustee, understanding these issues is the place to begin her trusteeship. The second theme is financial solvency. Chapter Four deals with the board's fiduciary responsibility and financial sustainability. Our life experience drives us to put this behind "performance measurement against mission." Repeatedly we have seen new trustees and ineffective boards try to wag the mission dog with the financial tail. It just doesn't work that way. Without mission and its accountability we have nothing.

Achieving financial sustainability is very different for the nonprofit than the for-profit in that the nonprofit cannot easily access the public equity markets but instead has philanthropy as a potential additional source of funds. Chapter Five deals with

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the role of philanthropy and the trustee's role in it. This may be summarized by giving often and generously and when not giving helping others to give (hence the phrase give, get, or get off).

Finally, the execution of the work of the board is deeply different from that of boards in the for-profit world because of the tasks of mission performance measurement and different capital markets. As Chapter Six describes in detail, nonprofit boards are often larger, have more committees, and have a very different trustee life cycle. Further, as Chapter Seven describes, the heart of the governance process is a volunteer nonexecutive chairman and volunteer board, leading a staff of paid professionals. The dynamics of this are complex and profoundly different from the process in the for-profit world. Chapter Eight returns directly to you, the new trustee, addressing what you should consider before deciding to join a board and what you can do to make your trusteeship personally beneficial to you and the organization. The rest of this chapter gives an overview of these differences, which provide the structure of the book. These are highlighted in Table 1.2.

### **I. Mission**

In the absence of the discipline of a P&L statement, the development of a mission and measuring progress against it is a critical and different nonprofit task. Neither developing the mission nor tracking progress against it is easy to do. Mission will be discussed extensively in Chapter Two and mission performance metrics in Chapter Three, but we present a brief overview here. As a new trustee your single most important task in the first year is to internalize the full breadth and complexity of the organization's mission and assess how well you think the organization is working toward achieving it.

In the for-profit world, an economist would argue that the main objective and mission of an organization is through the provision of goods and services to earn an appropriate return on

**Table 1.2 Key Differences of For-Profit Versus Nonprofit Governance**

<i>For-Profits</i>	<i>Nonprofits</i>
<i>Mission</i>	
Mission important	Mission very important
Financial results	Cash loss generator may be key service
Nonfinancial metrics important	Nonfinancial metrics of mission performance very important
<i>Finance</i>	
Financial metrics of performance P&L, stock price, and cash flow very important	Financial metrics of meeting budget and cash flow projections also important
Funds come from operations and financial capital markets	Funds come from operations, debt, grants, and philanthropy
Short-term goals very important	Deep focus on long-term goals (as long as cash is there)
<i>Executive</i>	
Small board—paid governance	Often large board—volunteer governance
Few board committees	Often many board committees
Combined chair/CEO plus lead director	Nonexecutive volunteer chair, plus CEO

invested capital for its shareholders. The organization, of course, provides an additional variety of ancillary services such as employment, tax support for the community and state, and special contributions to local communities.

The nonprofit operates in the space between government-provided services and for-profit ones. Absent the discipline of the financial market on the one hand and government mandate on the other hand, special clarity is needed to both effectively allocate financial resources and monitor how they are spent. These tasks bring us to mission and mission accountability.

In its most basic form, mission is the reason the organization exists. It defines the specific social services the organization provides, guides investment decisions, and provides a basis for its

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performance to be evaluated. A case in point is the mission statement of the Dana Hall School,<sup>2</sup> a 100-year-old girls' school, which evolved through twenty-six drafts in a time of financial stress. In part, the statement reads: "Dana Hall School is committed to fostering excellence in academics, the arts and athletics within a vibrant caring community. . . . [It] provides its students with a unique opportunity to prepare themselves for challenges and choices as women."

The ideas in here were powerful. First, it will remain an all-girls' school because of the unique contribution it can make to *women*. Supported by a lot of research, it was nonetheless an out-of-favor concept at the time the mission statement was developed, in the mid-1980s. Leadership as well as math and science capabilities are examples of skills that research shows can be increased by all-girls' education. Secondly, it will strive to be excellent in academics ("We are not a remedial school and academics is our first priority"). Right behind (but behind) are arts and athletics, both of which can be very capital intensive. Next the word "caring" leaps out. "We are not Darwinian in our culture, but seek to help and be supportive." It can be contrasted with the mission statement of its closest competitor (a very fast-track all-girls' school, over half of whose graduates go to the Ivy League): "dedicated to developing the individual talents of academically promising and motivated girls." Finally, we can look at the statement of a boys' school in the same area: "dedicated to developing boys in mind, body and spirit . . . challeng[ing] and support[ing] students in and beyond the classroom . . . honor[ing] clear thinking and creativity, competition and team work. . . ." Not surprisingly, this all-boys' school has very strong athletic teams and good students.

Each of these statements captures the essence of a very different set of values—all good, but very different. For Dana Hall in 1995, following a decade of heavy operating losses, confidence in this mission meant taking on \$8 million in debt to build a new world-class science center; several years later it took

on more debt and built a world-class athletic center. Science, women, and excellence all combined to make this the obvious first investment and worth undertaking the attendant financial risk in a stretched organization. In 2010 it is thriving academically as it still deals with its debt load. In discussing mission numerous additional points emerge that are elaborated on in Chapter Two.

***Mission Development Process.*** The process of developing and disseminating mission is as important as the mission itself. The power of the Dana Hall Mission stemmed from a six-month series of discussions. These meetings included spirited discussions within the board, parents, alumni, student body, and faculty. Out of these discussions came a shared sense of strategic alignment and deep personal commitment “to take the path less travelled” which was crucial for an organization facing a time of financial stress. Finally it should be noted that because board membership changes over time, that the mission needs to be periodically revisited in discussions so that new members can be informed and feel informed.

## **II. Nonfinancial Performance Metrics Against Mission**

Over the past fifteen years, corporations have increasingly recognized the importance of appropriate nonfinancial performance metrics in evaluating organizational success in addition to the more traditional financial metrics (see for example, work on the balanced scorecard or dashboard). These measures of performance are desperately needed by most nonprofit organizations. What are the relevant indicators of performance?

Today many nonprofit organizations have been developing new performance measurement models and performance measures to track their nonfinancial performance. One example of a social impact-focused organization that has made

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progress here is KaBOOM! An example of a member-focused nonprofit organization that has made progress here is CMA Canada. More examples of measurement systems that can be used to evaluate performance against mission will be discussed in Chapter Three.

KaBOOM! is a nonprofit organization with the mission of building playgrounds and creating safe places to play for children all over America and a related goal of inspiring local residents to work together and become more proactive in revitalizing and maintaining their communities.<sup>3</sup> The organization has created an overall performance measurement system which includes the following financial performance measures: build efficiency in cost per build (actual versus planned), program efficiency (program expenses as percentage of total expenses), fund-raising efficiency (dollars spent to generate one dollar in revenue). Other indicators include total cash available at the end of the period, burn rate per month, annual revenue growth, total annual budget, and funds raised toward budget.

Along with these efficiency performance measures, KaBOOM! board uses other performance indicators to assess past impacts and to steer the organization toward future success. Exhibit 1.1 illustrates some of these other performance indicators.

CMA Canada, responsible for standards setting, accreditation, and the continuing professional development of Certified Management Accountants (CMAs), has a mission, “CMA drives value creation by developing professionals and resources to lead the advancement and integration of strategy, accounting and management,” and a vision, “CMA is the designation of choice.” The CMA Canada National Board of Directors and the Council of Chairs who is monitoring the twelve provincial and territorial partners and the national partner recognized the importance of measuring the progress of the initiatives in the strategic plan. A *multijurisdictional* balanced scorecard was therefore developed to measure the progress of the initiatives for CMA Canada, as well as the collective initiatives of all

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## **Exhibit 1.1. Sample: KaBOOM! Performance Indicator<sup>4</sup>**

### ***Performance measures***

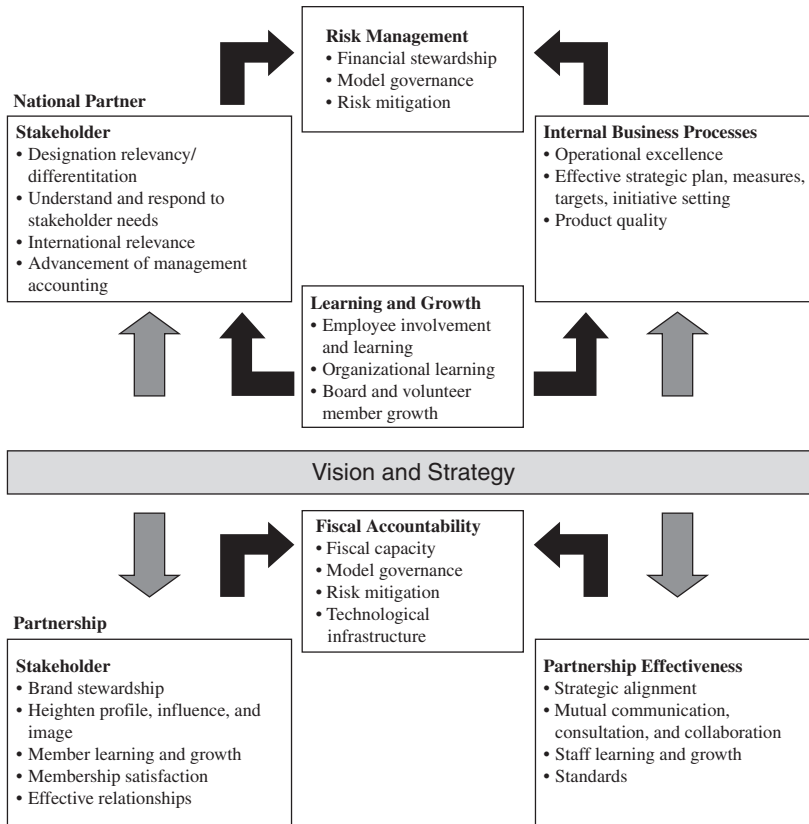
- Total number of volunteers per year
  - Average number of volunteers per build
  - Organizational culture
    - Staff turnover rate (gross)
    - Culture rating (scale from 1 to 4)
  - Brand
    - Number of media mentions per year
    - Number of click-throughs per year
    - Number of target marketing mentions per year
  - Number of children served within walking distance (actual versus plan)
  - Number of new or renewed playful sites
  - Number of playgrounds built; started and completed
  - Number of individuals who have taken a step beyond volunteering on a build
- 

partners. Figure 1.1 presents an overview of the CMA Canada's balanced scorecard, its central vision and strategy, perspectives, and the related major success factors.

The "learning and growth perspective" is considered the most important one in the model, as it fuels the stakeholder and internal business processes. The partners of CMA Canada have implemented a number of initiatives designed to increase the amount and effectiveness of this perspective. Each staff member also has a *personal balanced scorecard* and is rewarded after achieving the measures. The employees have thus been provided with a greater learning focus that is directly related to the strategic objectives of

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**Figure 1.1 CMA Canada Balanced Scorecard<sup>5</sup>**



the organization. To achieve the stakeholder and internal business process objectives, volunteers, especially the governance of the organization, also have established learning objectives in order to ensure that their fiduciary responsibilities are being effectively carried out. The strength of the volunteer learning objective is that the governance of the CMA partners is more focused on the strategic direction of the CMA partnership.<sup>6</sup>

**III. Financial Metrics**

The financial metrics and incentives are dramatically different between the two worlds. The income statement, earnings per

share, and growth in market capitalization are all widely focused performance metrics and important components of long-term and short-term executive performance assessment and compensation in the for-profit world. There are literally no analogies for these items in the nonprofit world. There is no ritual of tracking one's stock price on a continuous basis on PC screens in the nonprofit world. Two financial metrics of the for-profit world, free cash flow and revenue growth, however, are very relevant to the nonprofit world. As will be described in Chapter Five, an important additional source of funds for the nonprofit world is philanthropy in its various forms of annual giving, capital campaigns, and planned giving. The accounting framework for nonprofits is very different from that of for-profits. As will be noted in Chapter Four, normal accrual accounting concepts are often not applied, and something called "fund accounting" is used instead. Depreciation is often not used and fixed assets may be stated at a fraction of their real value. Informality of accounting practice may lead to the creation of very significant off-balance sheet liabilities. For those organizations that have an endowment, significant pressures exist on the board to both effectively manage it and have an appropriate rate of withdrawal. Cash flow is king with annual giving and capital gifts often being critical to financial viability. Finally, debt and its servicing status are important issues for those nonprofits that have access to the public debt market.

In short, there is need for for-profit financial skills on the nonprofit board, but the individuals have to be very sensitive to both the different nuances in financial reporting and to the role of finance in the nonprofit. This second point is particularly true because trustees who come from a for-profit background tend to relate well to the chief financial officer (CFO). That individual is often the only one in the nonprofit who speaks a language close to theirs. Conversely, the CFO, often frustrated by the problems of "mission-related" issues getting in the way of financial prudence, is delighted to find a kindred

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soul in the new board member. Whenever possible, we recommend trying to keep the new trustee off the finance committee for the first year or two and instead assign him or her to a mission-related committee to absorb the values and purposes of the organization before getting involved in the cost/service tradeoffs that the Finance Committee must make. Obviously, this cautionary note does not apply to membership on the audit and investment committees whose activities are much more independent of mission.

Because of the metrics of financial reporting, the for-profit world tends to have a strong short-term performance focus. Meeting the quarterly earnings targets, the annual earnings goal, and the steady drumbeat of the stock price all drive a short-term orientation. To overcome this, a variety of mid- and long-term incentive and planning tools have been put in place in the for-profit world to try to lengthen managerial horizons and focus on strategic challenges. Repeatedly, however, these approaches can be undercut after a three-hour strategy session, when the CEO asks in a throwaway comment what this means to next quarter's earnings. The very question in that setting dampens incentive for strategic thinking.

The pace of the nonprofit could not be more different. The heart of its financial activities is the preparation of the annual budget, its forecast of revenues, and the hard choices that are made on various costs. Monthly reviews focus on success in meeting cost and revenue targets where variances against budget are repeatedly analyzed. As will be discussed in Chapter Three, this is often complemented by a balanced scorecard or dashboard approach. The reality, however, is that negative variances just do not have the same impact on internal and external perceptions of performance as a missed EPS number does for the for-profit. Beyond all of this, of course, is the need to peer around the corner and look toward the long-term future challenges to the organization (sometimes five to ten years in the future).

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## IV. Governance

Best practice in governance has been changing for both profits and nonprofits in the past decade. For the for-profit world these issues have been very high profile. Many of these changes in for-profit governance have had an impact on the world of nonprofits. Beyond these changes in common, however, there are very significant differences between nonprofit governance and for-profit governance which are briefly noted here and will be discussed at length later in Chapters Six and Seven.

Best practice in for-profit governance has changed significantly in the past decade as a result of the excesses triggered by WorldCom, Tyco, and Enron. Key changes include:

1. The creation of the position of lead director, who is responsible for board process and direct continuous communication with the CEO. Although there is also significant movement to a nonexecutive chairman, the emergence of the lead director's role has muted some of the concerns on this topic. As will be noted, in nonprofits the unpaid nonexecutive chairman has always been the dominant organizational form.
2. Regularly scheduled executive sessions of external directors only, to create an environment for candid discussion of board concerns, review of CEO performance, and so on. This regular schedule is critical in blurring the organizational anxiety that tends to arise whenever a special executive meeting of external directors is called. This has had an equal impact on nonprofits.
3. An expanded role of the audit committee as a result of Sarbanes-Oxley and the requirement that at least one member must be a "financial expert" (a former CFO, CEO, or accounting firm partner). The average length of the for-profit audit committee meeting has grown by several hundred percent as dealing with material compliance issues

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- have become a much more important activity. This has become of equal concern to the nonprofit as a result of the new accounting standard for nonprofits, SAS112.
4. In 2011, the role of the compensation committee has become much more burdensome as a result of heightened public and regulatory concern over executive compensation. We are seeing much more use of outside consultants and benchmarking against peer group performance. Additionally, particular care is now taken with regard to the awarding of stock options and its associated accounting. The compensation committee has also become more important for the nonprofit. Excesses in nonprofit compensation have resulted in celebrated cases like Eliot Spitzer's pursuit of Dick Grasso in the New York Stock Exchange, and the attorney general of New Hampshire against the rector of St. Paul's School.
  5. The governance committee's role has become more significant. It has taken the initiative of screening and nominating new directors and managing committee assignments (as opposed to an earlier time when the CEO played a much more important role in the process). It also manages the annual CEO evaluation and counseling process (this may be done either by the governance committee or the compensation committee). This is also true for the nonprofit board.

Beyond this list, very different governance processes exist for the nonprofit board that deserve special note. The key ones are discussed in the following sections.

### **Size**

The size of the nonprofit board is larger (sometimes much larger), and its membership is much more heterogeneous. Two factors drive the size. One is the development role of the board.

For some people, an important part of their cultivation is putting them on the board of trustees. This can lead to very large boards of 25 to 30, or even as many as the 130 members who are on the Dana Farber Cancer Institute board (who collectively, with their friends, raise 75 percent of the funds of this most successful fund-raising organization). The second reason for larger size is to have appropriate community representatives who can be the nonprofit's eyes and ears in the community. One third of the board members of a recently studied nonprofit hospital were recruited in this way. They were invaluable as ambassadors in the community and thus indirectly helped to fill beds.

Realistically, these risks of board size are worth bearing because of the benefit of binding certain potential donors closer to the organization. One caveat, however, is that these board members must be able to behave in a discreet way, or at least not to be disruptive of the board processes. One chair of a museum lost the battle of trying to convince the governance committee of the value of appointing someone to the board who had given another organization a major gift, the size of which really caught the attention of the board chair of this cash-starved organization. In no uncertain terms, the governance committee chair would not acquiesce to the appointment as she saw the individual as potentially disruptive to board processes.

## **Committees**

There are often many more committees of the board in the nonprofit than the for-profit. The typical for-profit has an audit committee, a compensation committee, a governance committee, and maybe one other such as public relations or technology. The typical medium-size or larger nonprofit has a variety of standing committees beyond these, including the development committee, investment committee, and facilities committee. These committees are often staffed by individuals of extraordinary talents that the nonprofit could not possibly

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attract as full-time employees. The large nonprofit is also much more likely to form a series of ad hoc committees to deal with special issues. These could include a CEO search committee, a special program review committee, a capital campaign committee, and so forth.

### **Volunteer Versus Paid Governance**

The motivations of the nonprofit board members and their responsibilities could not be more different from those of their for-profit brethren. For-profit board members are compensated financially well for their service. In addition to attractive retainers and board meeting attendance fees, they are often awarded stock in the company. Former retirement plans have evolved into annual contributions of restricted stock into a deferred compensation plan which only vests on retirement from the board. As a result, they are keenly interested in stock price and the economic performance of the company. There are, to be sure, times of great stress such as hostile takeovers, SEC investigations, and so on. In general, however, board members are well compensated for these events. When they finish their term, or the company is sold, however, the relationship between the director and the company usually abruptly and completely ends. Their participation in a social system disappears.

The world of the nonprofit trustees could not be more different. Not only is there no compensation, but because of the philanthropic aspect the financial compensation is negative and often deeply negative. In some cases, such as museum trusteeship, expectations for capital gifts, annual giving, and participation in galas, and the like are so high that many people cannot afford to consider being a trustee.

Unlike the for-profit board, where time demands are somewhat predictable (other than during a crisis), the longer a trustee remains on a nonprofit board, the more time is demanded until burnout becomes a real problem. Board chairs

and chairs of capital campaigns and CEO search committees, for example, are high burnout positions. Recently a board chair of a nonprofit that was six months into a merger was caustically asked by his spouse whether he had quit his regular position (it was actually a fair question based on expenditure of time).

Emotional engagement, however, is one of the real benefits of nonprofit board membership. Though meetings can be long and sometimes meandering, the ability to viscerally contribute to something you believe is really positively changing society is a very powerful tonic and can help you overcome a lot of frustration.

Finally, and most important, unlike the for-profit world, appropriate engagement with a nonprofit is often a lifelong arrangement. When you leave the board, the alert nonprofit makes sure you are involved for the rest of your life. Former trustee meetings, honorary trustees, and membership in the corporation are all tools the nonprofit uses to keep the link for philanthropic and ambassadorial purposes. The reality is the authors have remained in contact with almost all of their former boards and usually contribute financially to them as well.

## **V. Chair-CEO Relationship**

First and foremost, the nonprofit board chair is almost always a volunteer. As will be discussed in Chapter Seven, this is a very important and sensitive relationship, often with significant information asymmetries. In the normal circumstance, the board chair turns over more rapidly than the CEO position. This means the CEO not only has a much deeper grasp (we hope) of the operational nuances but also often a much longer insight into how issues are playing out and their context. Sometimes, however, an incoming chair picked by the governance committee may have a different set of organizational priorities than her predecessor and, in fact, her selection may have been the product of the governance committee wanting to send a signal to the

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CEO. Disagreement between the two in public can send confusing signals to all involved. A good friend of the authors chaired three boards. Although she often argued strenuously with the CEOs, she noted that it was always done in private. In public, they were careful to keep a united face so as to not confuse administrators or board members.

While the nonexecutive chair of for-profits is common in the United Kingdom and Australia, it is emerging in the United States. In the nonprofit, the relationship between the chair and the CEO is probably the most important two-person relationship in the organization. As will be discussed in Chapter Seven, it plays out very differently from one organization to another, and evolves over time within an organization. Several preliminary points, however, should be made at this juncture in the book.

1. The governance committee is ultimately responsible for the execution of board governance processes, including those concerning the evaluation and selection of the CEO. This sounds easier than it is because in many nonprofits, the CEO has much longer tenure than the chair and has a much deeper grasp of organization mission and the operational details. Often, in fact, the CEO is such a dominant person in the board meeting that many board members feel like so many docile mushrooms (warm and completely in the dark). Often this works, sometimes even for a long time as shown by the successful forty-year tenure of one New England school head, but when the organization goes off the rails, a heavy burden falls on both the board and the chair to take corrective action.
2. Great care must be taken in selecting the board chair. In times of organizational crisis, the chair will be the person who makes things happen. For example, in 1992 at Trinity College, Connecticut, when both the president and dean resigned, the de facto operational control of the college was

left to the chairman until an interim head was chosen (a one-month period). The chair needs to have the confidence of the board, a good working relationship with the head, and a broad understanding of the organization's mission and operational challenges. This normally means the chair is someone who has spent some time on the board in order to gather these perspectives and develop relationships with the board members. In the spirit of George Orwell, all board members are equal, but some are more equal than others.

3. The CEO is the visible leader of the organization and must be treated in that light. The nonexecutive chair is normally relatively invisible. The CEO is not only the operational leader, but is also the primary external face of the organization. Major prospective donors expect to spend time with the CEO and, in times of capital campaigns, 50 percent or more of the CEO's time is devoted to development. It has been only half facetiously said that a university president is a high-end beggar who lives in a beautiful house.

Shaping and managing the board chair and CEO relationship takes time and effort on both sides. The case of the University of Hawaii board with only a three-year term for all trustees was a recipe for disaster. Going through four chairs in an eighteen-month period several years ago, their lack of experience and organization instability resulted in their firing of the university president in a way that unnecessarily cost the university millions of dollars.

## Summary

We hope this quick overview of the nonprofit world excites you and that you will decide to become actively involved in the nonprofit world as a board member. For many, as will be described in Chapter Eight, this is a lifelong relationship. Table 1.3 is a picture of a trustee's life cycle from the beginning of joining a board

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**Table 1.3 Trustee Life Cycle—Community Services Board Chair**

1980–1991	Becomes familiar with organization and contributes to annual fund
1992	Joins the board
1994	Assigned to cochair “alliance task force” following a letter to CEO and chair concerning strategic challenges facing organization
1995–1998	Becomes chair of board charged with executing strategic alliances which results in merging with several other organizations and becoming a subsidiary of merged organization; makes six-figure gift to organization
1999	Becomes vice chair of merged organization; resigns as board member of subsidiary
2004	Joins advisory board of subsidiary; continues as vice chair of merged organization
2008	Makes seven-figure capital campaign gift
2009	Becomes trustee emeritus subsidiary; retires as vice chair of merged organization
2010	Redrafts will to include planned gift to subsidiary
2011	To be determined

through to a period of postboard engagement. Tracing the career cycle of one of the board members studied over a period of years, this chart strikingly captures the idea that nonprofit engagement can be a lifelong affair of mutual fulfillment.

### Questions the Trustee Should Ask

Nonprofit governance is very different from for-profit governance in many respects. Following are some broad questions the nonprofit trustee should ask (these will be elaborated on in the following chapters).

- In the absence of financial earnings and numbers, does the organization have adequate surrogate performance measures?

- Does the organization have transparency on cash flows? Forecasts? Is cash clearly king?
- Is the board functioning effectively? Has it overcome challenges of size and multiplicity of committees?
- Do the board members really understand the organization's mission, its current relevance, and oversee the effectiveness of its implementation?
- Are all members of the board giving adequately of their time, talent, and treasure?
- Is the relationship between the chair and CEO helping the organization achieve its mission?

