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# WHY BOARDS DON'T GOVERN

BY JAN MASAOKA AND MIKE ALLISON

In the aftermath of every “nonprofit mismanagement” news story is the question: Why didn’t the board do something? Yet the boards of the nonprofits recently headlined with scandals such as outlandish compensation for executive directors, the use of organizational funds for personal luxuries, or nepotism 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 is discovered does a failure at governance come to the fore. Sometimes the failure does not involve personal scandal but reveals organizational laxity, such as an organization using funds raised for one purpose for other program areas.

Nothing can dampen donors’ interest more quickly than an organization that does not seem to be taking responsibility for itself — and that responsibility lies in those who govern.

## WHAT IS GOVERNANCE?

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

The governance role, in contrast, has a different goal: protection of the public interest. Governance responsibilities for boards include selecting the top executive (the chief executive officer or executive director) 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, which is the province of the executive director.

## 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, and “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 them as governors. The reason boards don’t govern is less because they are uneducated or uninterested than because of some crucial, inherent reasons:

- *Board members rely on staff for information.* Because board members are often recruited to bring assistance and skills from other sectors of society, they often rely on staff for information about both the field and the organization. Unless they are themselves part of the people served (patrons of the community theater, adult children of Alzheimers patients, tenants of affordable housing), they typically have no independent information about the organization on which to draw.

- *Board members are often unfamiliar with nonprofit management.* Nonprofits are fundamentally different from either large corporations or small businesses. For example, a manufacturer can drop an unprofitable product line without the ill social consequences of an after-school program closing. In particular, people from business are often unacquainted with volunteer management, indirect cost rates, and fundraising strategies.

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• *A crucial limitation on board effectiveness is the simple lack of time.* Board members are usually achievers with many responsibilities and find it difficult to attend meetings, study materials, and attend functions. In response, organizations try to keep meetings short and have fewer of them per year, or simply demand more time than most people can give.

• *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, the consequences for inadequate governance have rarely been borne by nonprofit leaders as individuals.* Even when an organization fails, board members are unlikely to have their careers or reputations affected, and the executive director can usually find another job. The big losers are the people or community purpose the organization was designed to serve.

## **BOARDS GOVERN IN CRISIS, SO WHY DON'T THEY GOVERN ALL THE TIME?**

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 misuse 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.

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

Some reasons that 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 that everyone must try 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 altogether 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 permitting 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.

In crisis, the emphasis on a smooth working relationship takes a back seat to the need for action and straight

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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.

## 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 toward an effective board is acknowledgment of the paradox and an understanding of the need to perform both functions equally well. A failure to govern as well as support is a transgression both against clients and against the wider community.

## STRENGTHENING GOVERNANCE

Here are some practical ways to strengthen governance:

**1. Make sure that, as a board member, you have information about the financial and program performance of the organization that comes from independent sources.** Too often boards get all their information from the executive director; they may not realize that the organization is having financial difficulties until too late, or that the organization’s programs are not keeping up with changes in the world. To obtain independent financial information, make sure that the board (or its audit/finance committee) selects the external auditor, hears the auditor’s report, and has at least one meeting per year with the auditor and without staff present. Periodically the board should similarly work with independent program evaluators and outside experts who make their reports directly to the board and the staff jointly. Organizations that are too small to need an audit should make sure that someone outside of staff periodically looks over the financial situation.

**2. Use 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 executive director. 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, and a questioning attitude. When someone raises an objection or concern, or votes against the majority, the board president should make a point of expressing appreciation for the seriousness and courage to make the point.

**4. Board chairs should encourage dissent, debate, and questions.** The board chair should make comments such as the following at each meeting: “Marc, thank you for bringing up the risks involved with this idea,” or “Well, we may all be in agreement... but Crystal, could you serve as our devil’s advocate and give a strong argument for the other side?”

**5. 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

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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. **GF**

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