

A modern conference room with a large wooden table, leather chairs, and a red carpet. The room has large windows and a recessed ceiling with circular lights. The text is overlaid on the image.

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*Reference Materials – Board Source, Washington DC

Critical Components of Effective Governance

Exceptional Boards Advance
the Common Good With
Uncommonly Good Work

Objectives

- Explore basic roles and responsibilities
- Learn critical components of effective board practice to work more effectively
- Explore insights and information about effective governance
- Strengthen the boards performance

If the rate of change outside the organization is greater and faster than the rate of change inside the organization, the end it in sight.

What Distinguishes Nonprofits?

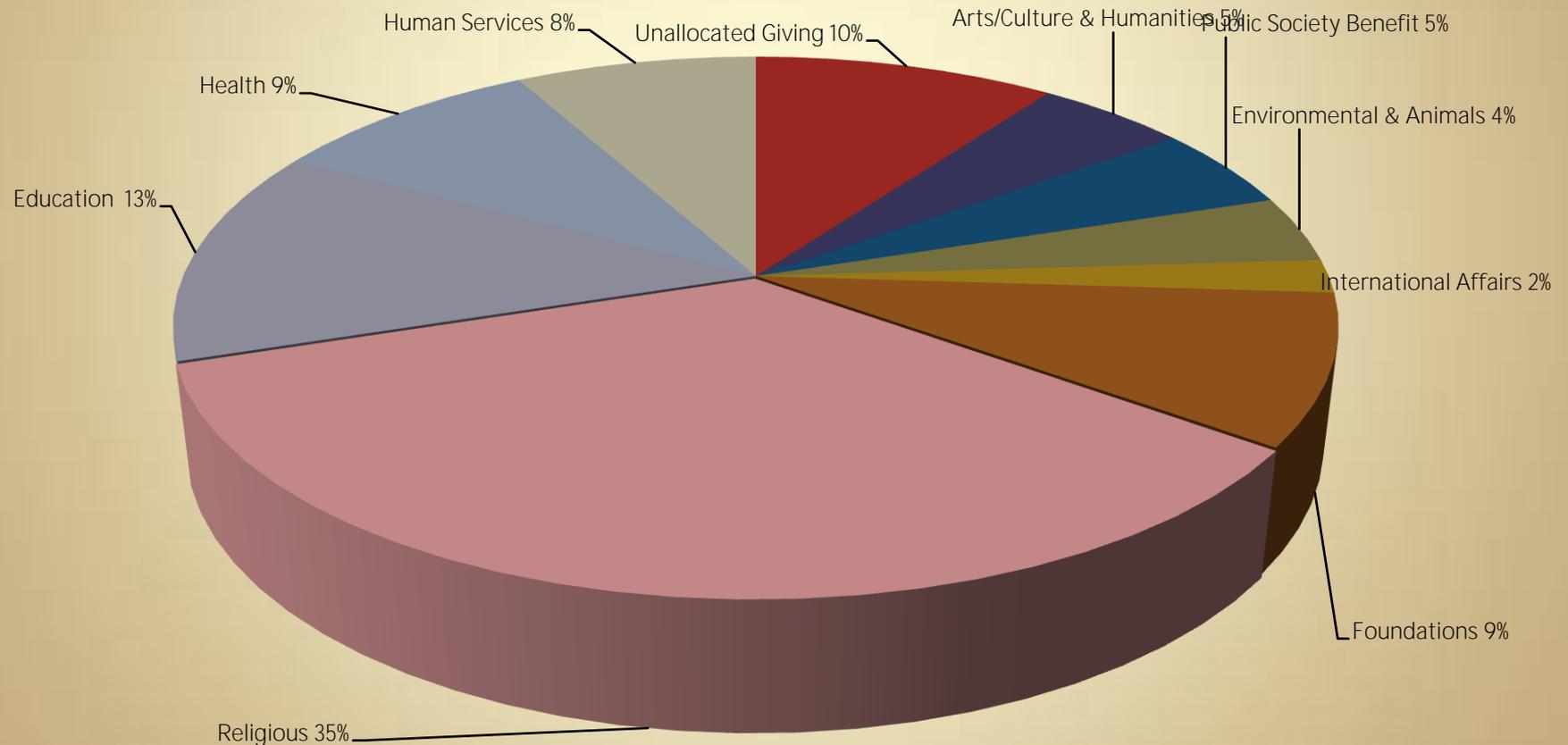
“Your organization is a mission based business, not a charity. For profits chase profits – nonprofits pursue their mission. But, just because you aren’t primarily motivated by profit doesn’t give you license to be sloppy or to ignore a good idea simply because it was initially developed for the for profit sector.”

Mission Based Management – Peter C. Brinkerhoff (2000)

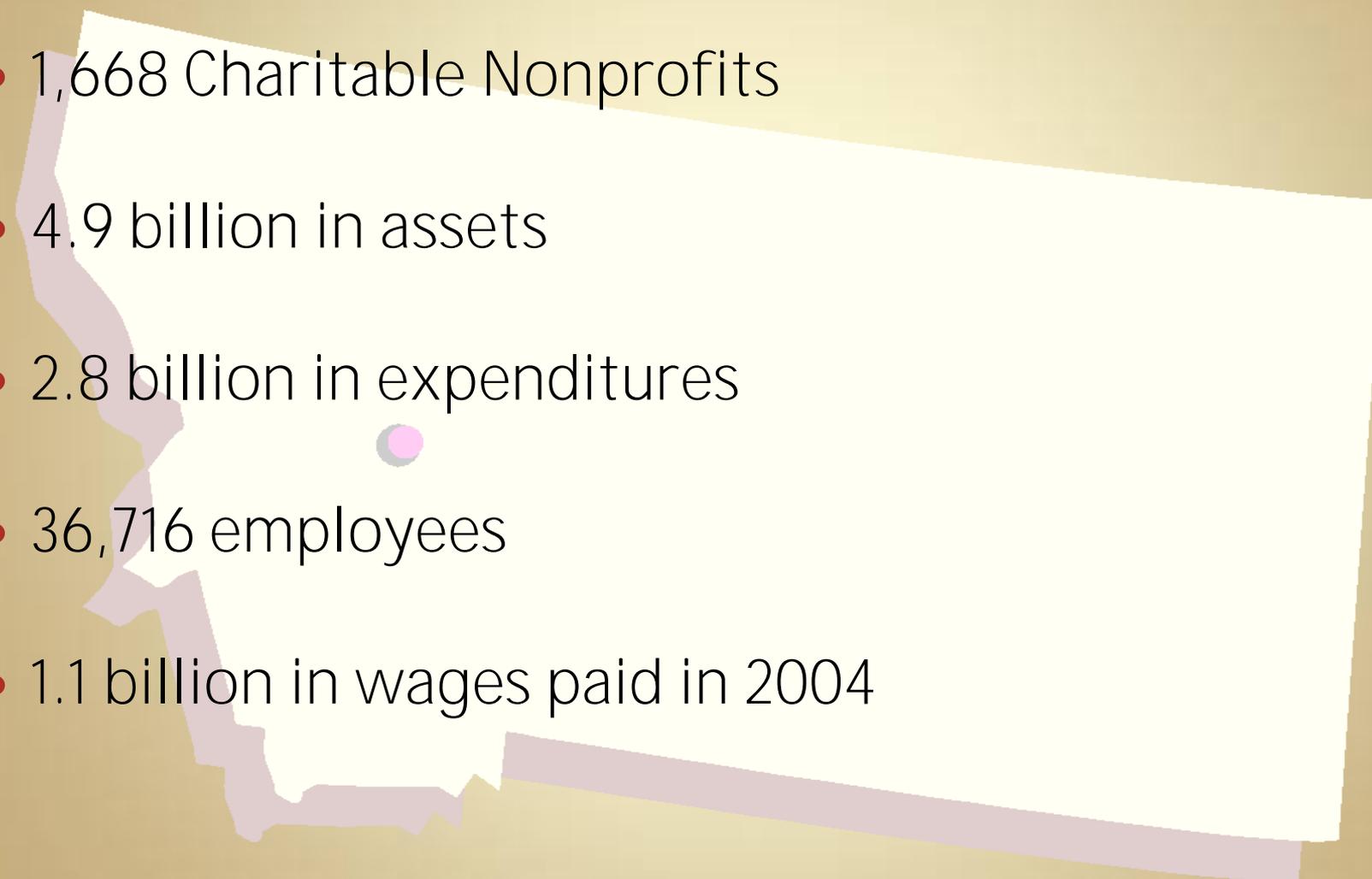
The Size and Scope of the US and Global Nonprofit Sector

- In 2004 – 1.4 million nonprofit organizations reported in US
- Majority founded after WWII
- 11 million paid employees in nonprofit sector
- 2005 – 29% of Americans volunteered through nonprofit organizations
- \$300 Billion contributed to nonprofit sector in US

2007 Contributions: 300 Billion by Type of Recipient Organization



In Montana...

- 1,668 Charitable Nonprofits
 - 4.9 billion in assets
 - 2.8 billion in expenditures
 - 36,716 employees
 - 1.1 billion in wages paid in 2004
- 

Nonprofit Leadership

- Definition of Leadership – Ability to inspire others for a shared aspiration
- Shared between the board and the chief executive
- A partnership in organizational governance

Demands on the Nonprofit Sector & Boards

- Effectiveness
 - Outcomes, results
- Efficiency
 - Money, time, energy
- Accountability
 - Trustworthiness, accurate communication with constituency
 - Increased regulatory interest and oversight; more standards being established (i.e. Sarbanes-Oxley Act)
 - Government and public expectation for greater transparency in board practices
- Fiduciary Responsibility
 - Trustees of organization responsible for the assets on behalf of the greater community – corporate survival, financial reliability, program success

Three Key Stages of Board Growth

1. Organizing Board (following boards, leading boards)
2. Governing Board
3. Institutional Board



Evolution of Nonprofit Organizational Governance

Handout in your workbook

Board Life Cycles

Founding board, passionate,
committed

Startup

Expansion of programs, reach
& corrections, board
relinquishes operational role

Adolescent

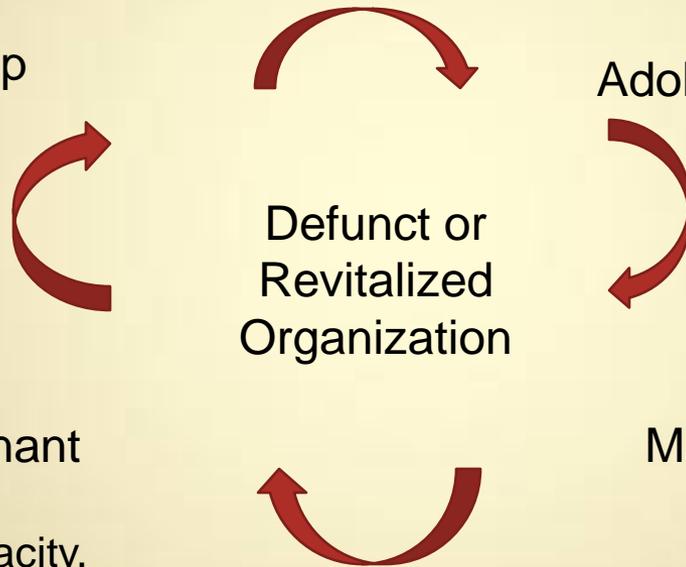
Defunct or
Revitalized
Organization

Stagnant

Mature

Lack of adaptive capacity,
complacency, declining client
base, unclear goals

Increases policy &
oversight functions,
formalizes structure



Board Trend: Focus

- *From operational to strategic* : focus on outcomes rather than how things are being done
- *From an emphasis on structures and operations to the importance of governance relationships*
- *From internal focus to organizational context*: changes in the environment
- *From stand-alone to collaboration*: spectrum from cooperation to mergers

Board Trend: Process

- *Board Communications*: Use of informational technology for information dissemination, for discussion, and for routine decisions
- *From show and tell to give and take*: action focused committee reports; agendas
- *Generational sensitivity*

Board Trend: Simplicity and Structures

- *Size*: Whatever is needed to facilitate both active participation and effective decision making
- *Committees*: Fewer standing committees; more use of ad hoc committees and time-limited task forces
- *Officers*: Move toward empowering the board secretary position to play the role of chief governance officer
- *Team Approach*: Shared responsibilities and joint commitment

Board Trend: Intentional Board Development

- *Board Composition*: From personal connections to strategic diversity
- *Board Orientation*: From informal to formal
- *Board Education*: Mission related issues as well as board responsibilities
- *Board Evaluation*: Accountability

Twelve Principles of Governance that Power Exceptional Boards

1. Constructive Partnership
2. Mission Driven
3. Strategic Thinking
4. Culture of Inquiry
5. Independent-Mindedness
6. Ethos of Transparency
7. Compliance with Integrity
8. Sustaining Resources
9. Results-Oriented
10. Intentional Board Practices
11. Continuous Learning
12. Revitalization

Hallmarks of an Effective Board

- Clarity about roles and responsibilities
- Focuses time and attention on important issues
- Restructure of work to get important things done
- Composition is viewed as strategic
- Self evaluation is seen as constructive and not critical
- Courage to take risks
- Constructive relationship with staff
- Open and honest communication
- Works together as an effective corporate unit

Skills

Mission

Measurable Goals

Accountability

How Is This Accomplished?

Board and Organizational Governance

- The board is accountable to the public trust
- The board has the moral responsibility to safeguard the **organizations' mission, vision and values** as a way to maintain the public trust
- The board has ultimate responsibility for organizational effectiveness through appropriate policies/procedures and a system to monitor the implementation of the policies and procedures
- The board does not micromanage, manages through effective delegation of authority
- **The board is responsible for the organization's performance and outcomes**
- CEO is responsible for the means

Critical Questions for the Board

- ❖ Who are we?
- ❖ What do we believe?
- ❖ Whom do we serve
- ❖ What good shall we accomplish?
- ❖ What is the cost?



The Board Understands Its Legal Requirements

- Duty as Legal Guardian
 - Duty of Care
 - Duty of Loyalty
 - Duty of Obedience

Duty as Legal Guardian

The Board is the legal guardian of the organization and responsible for its current and future welfare



Duty of Care

- Know your job and do your job
- Participate in the decisions of the board
- Be well-informed about the issues on which the board will make decisions
- Use the same care that an ordinary prudent person would exercise in a like position
- Use sound business judgment



Duty of Loyalty

- Act in the best interests of the agency NOT in your own best interests or the best interests of another person
- Undivided allegiance when making decisions affecting the organization



Duty of Obedience

Activities should remain consistent with the central purpose of the organization: stay true to the mission, vision and values: follow laws and regulations that apply to nonprofits



Sarbanes-Oxley and Implications for Nonprofit Organizations

- CEO/CFO careful review of Form 990 before submitted to ensure accuracy
- Provide general public with accurate picture of financials (disclosure), electronic filing – **990's**
- Board has ultimate fiduciary responsibility for approving financial reports
- Whistle Blower protection: Written policies concerning accounting practices, misconduct, employee complaints
- Document retention and periodic destruction policies (hard copy, electronic filing and voicemail)

Handling Conflicts of Interest

- Organization has a clear and understood Conflict of Interest Policy which contains:
 1. Full Disclosure Conflict of Interest Form – updated annually
 2. Board Member(s) abstention from discussion and voting if an actual or potential conflict exists
 3. Staff members having an actual or potential conflict should not be involved in substantial decision making affecting such transactions

Please Complete the Following Phrase:

The board is to the organization as

_____ is to _____.



3 Key Roles of the Board

1. Set direction
2. Ensure the Necessary Resources
3. Provide Oversight

