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BOARD MEMBER

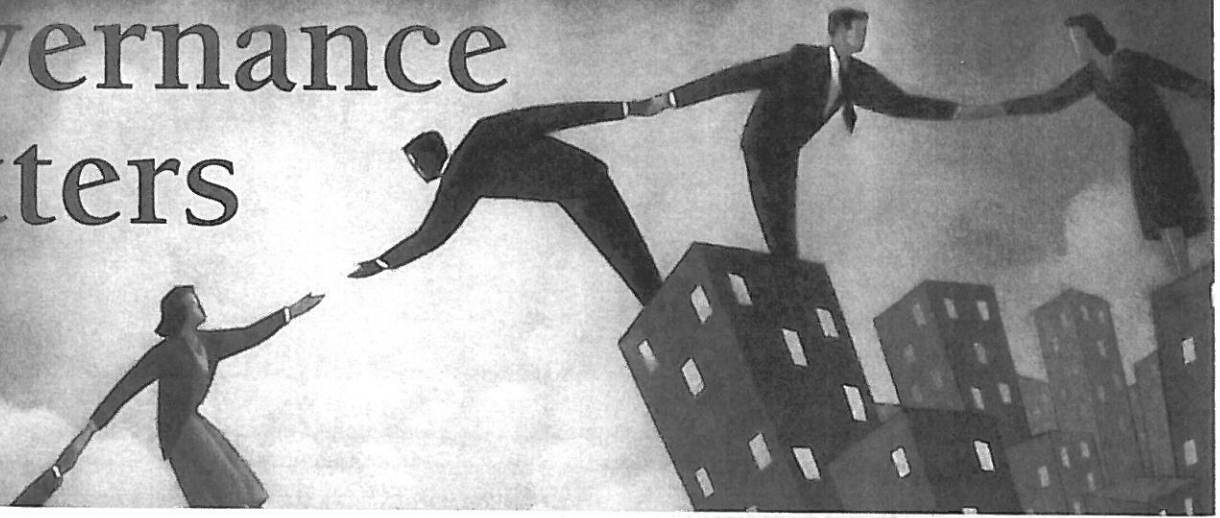
Exceptional Boards

Raising the bar on governance

ALSO INSIDE

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Governance Matters



By Deborah S. Hechinger
and Marla J. Bobowick

The heightened public debate and increased regulatory scrutiny regarding nonprofit governance has largely centered on compliance. With exposés in the press and congressional hearings highlighting malfeasance, it's no wonder that the focus has been on legal and ethical responsibilities. While attention to those concerns is absolutely essential, boards need to do more to help their organizations meet the challenges of their missions.

With more than 1.5 million organizations that receive nearly \$250 billion in charitable contributions, the size and influence of the nonprofit sector make it imperative that nonprofit boards operate ethically, legally, and to their fullest

may preclude the organization from reaching its potential.

Good governance is about providing critical capital — intellect, reputation, resources, and access — to strengthen the organization and in turn the community it serves. An exceptional board recognizes the impact of its leadership, and board members understand that they must be thoughtful and engaged leaders, not competent but passive stewards.

THE SOURCE OF POWER

Boards often represent underperforming assets for nonprofit organizations that need every resource they can muster. To help boards operate at the best and highest use of their collective ability, we developed *The Source: Twelve Principles of Governance That Power Exceptional Boards*. Drawing on observations, aca-

ating the chief executive annually, and participating in fundraising.

An exceptional board operates on a higher level that is both “more” and “different.” Undoubtedly, its members give more — of their time, talent, and treasure. But, they also give differently — their time may be spent more wisely, their skills and social networks better leveraged, and their treasure more strategically deployed. Exceptional boards measure organizational impact and evaluate their own performance, discuss and debate issues, and open doors and make connections.

The difference between responsible and exceptional lies in thoughtfulness and intentionality, action and engagement, knowledge and communication. This difference is what we call the

“Governance is **not** an either/or dilemma. It's a **both/and** situation – both compliance and leadership, oversight and fundraising, **challenge and support.**”

potential. Failure to carry out this critical role can have significant ramifications, from lost opportunities and mission drift to risky behavior and even bankruptcy.

THERE'S MORE TO GOOD GOVERNANCE THAN COMPLIANCE

Governance is not an either/or dilemma. It's a both/and situation — both compliance and leadership, oversight and fundraising, challenge and support. Boards must focus on compliance and on advancing their organization's mission through active leadership.

A board may meet every legal requirement, adhere to proper procedures, and still be ineffective if it is not engaged in setting strategic direction and supporting the organization. If a board neglects the full range of its responsibilities, it

demic knowledge, and proven practices, we identified the common traits and actions of boards that have made discernible differences to their organizations (see pages 6 and 7).

Those boards that made discernable differences to their organizations behaved differently from other boards. To highlight these differences, we distinguished between “responsible” boards and “exceptional” boards. A responsible board is capable and dutiful in carrying out its responsibilities. This is not always an easy feat, nor should it be taken for granted by either board or staff members. A responsible board understands its fiduciary obligations, and it adds value to the organization by approving strategic plans and budgets, regularly reviewing financial statements, evalu-

ating the chief executive annually, and participating in fundraising.

COMMON DENOMINATORS

As Peter Drucker said, “Management is doing things right; leadership is doing the right things.” Boards need to add how they govern to that maxim. They need to invest time and energy in building collaborative relationships among board members and with the chief executive. They need to be willing and able to think strategically, challenge ideas, and probe for better solutions. While they must bring independent thinking to decision making, they must do so collegially and with an eye toward inviting consensus. In the give and take in the boardroom, they must remember that governance is, fundamentally, a team sport.

The twelve principles of governance, summarized on the following pages, get at what boards do and how they do it. They include the fundamentals, such as financial oversight activities, and the intangibles, such as group dynamics. They depend as much on a good board as

board, after asking how it could add real value to the institution, shifted the foundation's focus from fundraising to commercialization of intellectual property. In turn, the board populated itself with individuals who have significant professional expertise in law, finance, and research

chief executives, offering a vision of an empowered board that is a strategic asset to be leveraged, not an obstacle to be circumvented.

Nonprofit organizations — public charities and private foundations alike — differ in size, structure, and complexity, but

“The difference between **responsible** and **exceptional** lies in thoughtfulness and intentionality, action and engagement, knowledge and communication.”

on a good chief executive. They share some common denominators that enable the board to operate at an exceptional level.

A FRANK AND OPEN RELATIONSHIP

In order to function at the exceptional level, the chief executive must be more than competent and confident. He or she must also be open and honest with the board. The board, in turn, must be committed to ensuring success, while recognizing that nonprofit organizations are complex and constantly changing. As interlocking pieces in a jigsaw puzzle that together create a complete picture, the chief executive and the board are complements, with mutual trust, respect, and appreciation building the foundation for a leadership team that can handle short- and long-term challenges.

Consider This: Working together, the board and head of an independent school created a leadership succession plan a few years before the head of school was to retire. Board and staff members participated in a collaborative, holistic review process that included articulating the institution's values, evaluating the school's other internal infrastructure needs, and assessing the board — all *before* the executive search officially started.

INTENTIONALITY

As Cyril Houle said, “A good board is a victory, not a gift.” Great governance doesn't just happen by accident. It takes the right people in the right place at the right time. Who's on a board matters, and board composition is an important indicator of an exceptional board. An exceptional board is also thoughtful, self-aware, and proactive. It balances the need for long-term stability with the need to adapt its own structures and practices as circumstances change and the organization evolves.

Consider This: A university foundation

and development. Given the foundation's new role, the board also redefined its relationship with the university's administration and governing board, as well as with foundation and fundraising staff.

ENGAGEMENT

Board work is just that, work. It requires more than mere attendance at meetings. It requires of board members personal motivation and commitment, as well as intellectual curiosity and challenge. They must share a passion for the organization's cause. In turn, the chief executive must be ready, willing, and able to engage board members in making sense of situations, in determining what matters, and in solving dilemmas. Neither the board nor the chief executive can simply go through the governance motions and expect great results.

Consider This: A board member led a process that resulted in an emotionally powerful vision statement at an environmental organization. The board and the staff were inspired to reframe strategies, elevate goals, and embark on an ambitious fundraising campaign. The campaign raised significantly more money than expected, fueling even greater conservation success.

BENEFITS OF THE SOURCE

The Source represents the wisdom of a working group of nine governance experts and insights from an advisory panel of 27 distinguished leaders from across the nonprofit and corporate sectors. These twelve principles are intended to focus the conversation about nonprofit boards on the core issues that we believe make the most difference to board performance and, in turn, to organizational success.

The Source helps board members understand and meet the expectations and requirements of their positions, providing a vision of what is possible and a way to reach a higher level of effectiveness. The twelve principles also serve as a tool for

the characteristics of exceptional governance do not. These twelve principles are universal. They represent the essence of what great boards do differently and how they do it.

Exceptional nonprofit boards advance the common good through uncommonly good work. ☼

A Glimpse of Exceptional Boards

A large professional society spent a year identifying what the board had learned from governance changes, where it could add the greatest value, how it could work most effectively with staff, and where it should invest time over the next year. The results were used to orient and assimilate new board members, engage less active board members, and involve the entire board in changes to policies and practices.

A state-based nonprofit financial institution has a board that's committed to the mission and organization, as evidenced by 100 percent attendance at meetings. Board members are prepared, engaged, and active in committees. Already known for an impeccable organization, outstanding fiduciary oversight and compliance, and transparency, the board now seeks to improve its capabilities in strategic thinking and visioning, and is recruiting accordingly.

The Twelve Principles of Governance

Exceptional boards add significant value to their organizations, making a discernible difference in their advance on mission. Good governance requires the board to balance its role as an oversight body with its role as a force supporting the organization. The difference between responsible and exceptional boards lies in thoughtfulness and intentionality, action and engagement, knowledge and communication. The following twelve principles offer **chief executives** a description of an empowered board that is a strategic asset to be leveraged. They provide **board members** with a vision of what is possible and a way to add lasting value to the organization they lead.

CONSTRUCTIVE PARTNERSHIP ¹

Exceptional boards govern in constructive partnership with the chief executive, recognizing that the effectiveness of the board and chief executive are interdependent. They build this partnership through trust, candor, respect, and honest communication.

MISSION DRIVEN ²

Exceptional boards shape and uphold the mission, articulate a compelling vision, and ensure the congruence between decisions and core values. They treat questions of mission, vision, and core values not as exercises to be done once, but as statements of crucial importance to be drilled down and folded into deliberations.

STRATEGIC THINKING ³

Exceptional boards allocate time to what matters most and continuously engage in strategic thinking to hone the organization's direction. They not only align agendas and goals with strategic priorities, but also use them for assessing the chief executive, driving meeting agendas, and shaping board recruitment.

CULTURE OF INQUIRY ⁴

Exceptional boards institutionalize a culture of inquiry, mutual respect, and constructive debate that leads to sound and shared decision making. They seek more information, question assumptions, and challenge conclusions so that they may advocate for solutions based on analysis.

INDEPENDENT-MINDEDNESS ⁵

Exceptional boards are independent-minded. They apply rigorous conflict-of-interest procedures, and their board members put the interests of the organization above all else when making decisions. They do not allow their votes to be unduly influenced by loyalty to the chief executive or by seniority, position, or reputation of fellow board members, staff, or donors.

ETHOS OF TRANSPARENCY ⁶

Exceptional boards promote an ethos of transparency by ensuring that donors, stakeholders, and interested members of the public have access to appropriate and accurate information regarding finances,

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That Power Exceptional Boards

operations, and results. They also extend transparency internally, ensuring that every board member has equal access to relevant materials when making decisions.

COMPLIANCE WITH INTEGRITY ⁷

Exceptional boards promote strong ethical values and disciplined compliance by establishing appropriate mechanisms for active oversight. They use these mechanisms, such as independent audits, to ensure accountability and sufficient controls; to deepen their understanding of the organization; and to reduce the risk of waste, fraud, and abuse.

SUSTAINING RESOURCES ⁸

Exceptional boards link bold visions and ambitious plans to financial support, expertise, and networks of influence. Linking budgeting to strategic planning, they approve activities that can be realistically financed with existing or attainable resources, while ensuring that the organization has the infrastructure and internal capacity it needs.

RESULTS-ORIENTED ⁹

Exceptional boards are results-oriented. They measure the organization's progress towards mission and evaluate the performance of major programs and services. They gauge efficiency, effectiveness, and impact, while simultaneously assessing the quality of service delivery, integrating benchmarks against peers, and calculating return on investment.

INTENTIONAL BOARD PRACTICES ¹⁰

Exceptional boards purposefully structure themselves to fulfill essential governance duties and to support organizational priorities. Making governance intentional, not incidental, exceptional boards invest in structures and practices that can be thoughtfully adapted to changing circumstances.

CONTINUOUS LEARNING ¹¹

Exceptional boards embrace the qualities of a continuous learning organization, evaluating their own performance and assessing the value they add to the organization. They embed learning opportunities into routine governance work and in activities outside of the boardroom.

REVITALIZATION ¹²

Exceptional boards energize themselves through planned turnover, thoughtful recruitment, and inclusiveness. They see the correlation between mission, strategy, and board composition, and they understand the importance of fresh perspectives and the risks of closed groups. They revitalize themselves through diversity of experience and through continuous recruitment.

Excerpted from *The Source: Twelve Principles of Governance That Power Exceptional Boards*. BoardSource, 2005.

What Do You Know?

When board members regularly share knowledge, everyone gets an education

Remember that old saying "It's not what you know, it's who you know"? Exceptional boards might argue with that. They know that the "what" — knowledge of the organization's structure, operating environment, and traditions — is essential to keeping board members engaged and effective. So they take steps to ensure continuous learning.

Board members, especially new ones, need guidance in governance duties, nonprofit practices, and their organization's field of endeavor. But long-time board members also benefit from a regular exchange of information with fellow board members and new recruits. These continuing education conversations are important ways to pass on knowledge and to nurture board relationships.

Smart boards make knowledge acquisition and transfer regular and routine. They provide opportunities for members to interact formally and informally, and in this way enable new members to learn about board culture, mission, and strategies, and to gain insight into the specialized knowledge and expertise of all board members.

The benefits of continuous learning are enormous: greater productivity, continued engagement, and optimal performance, to name just a few. And when a board member rotates off the board, another member is better able to step in quickly and provide a transition because of information shared before the member left. So how do you capture and transfer relevant information, especially for new recruits?

1. Recognize that knowledge is personal.

People are more likely to share knowledge in an atmosphere of trust and when they believe other people value their insights and expertise. Make sure members feel comfortable with each other and trust one another, or you won't get them to share their best thinking.

2. Create opportunities for knowledge exchange.

Such opportunities might include informal meetings, new-member orientations, or mentoring programs. In these ways, all members (new and old) get to talk about how they handle their governance duties, and more important, what's worked and what hasn't. You don't want new board members to waste time on the learning curve or reinventing the wheel.

3. Facilitate mutual knowledge sharing.

Knowledge acquisition and transfer are not one-way streets. New board members need to gain specific knowledge, say about the organization's programs or its development strategy, as well as general board knowledge.

But long-time board members can benefit both from the fresh perspective that new members bring as well as the knowledge they bring from their personal and professional experiences.

4. Transfer both tacit and explicit knowledge.

Explicit knowledge can be readily documented, saved for posterity, and shared with future leaders. A policies and procedures manual, along with board job descriptions will certainly go a long way toward codifying how things work. But what about the stuff in people's heads that can't be so easily written down? This type of tacit knowledge, when shared, provides extra insight and adds richness to board work. Retreats and social gatherings create opportunities for informal conversation where the organization's history, traditions, and lessons learned can be passed on.

5. Develop a people-centered, not technology-centered, process.

Acquiring knowledge is a loose process. Its success is dependent on messy human-related factors like motivation, commitment, fears, hopes, and rewards. It is more driven by community and trust than by logic and edicts. So, if you want board members to share what they know so everyone can learn faster and be more effective, start by creating an atmosphere that will allow that to happen. It may sound funny to tell board members to just talk to each other, but that's one way knowledge gets passed on. Establishing board mentors and fostering board/staff interactions can go a long way toward helping everyone transfer important knowledge. ☉

*These principles were adapted from **Continuity Management** by Hamilton Beazley, Jeremiah Boenisch, and David Harden, John Wiley & Sons, 2002.*

Resources:

"Balancing Act: How To Capture Knowledge without Killing It" by John Seely Brown and Paul Duguid. *Harvard Business Review*, May–June, 2000.

The Board Building Cycle: Nine Steps to Finding, Recruiting, and Engaging Nonprofit Board Members by Sandra R. Hughes, Bert M. Lakey, and Maria J. Bobowick. BoardSource, 2000.

Prescription for Greatness

The Rapides Foundation board and chief executive demonstrate that exceptional's the rule



Joseph R.
Rosier



Regionald
Seastrunk

What does an exceptional board look like? How do its members and the chief executive conduct themselves on the path from responsible oversight to exceptional governance?

Board Member identified a board that adheres to many of the principles of exceptional governance and asked two key members to share their secrets. Board Chair Regionald Seastrunk and President and Chief Executive Officer Joseph R. Rosier of The Rapides Foundation agreed to talk to us. Not surprisingly, we learned that being exceptional doesn't happen by accident. Everyone involved works hard at building and maintaining a strong board/chief executive partnership, at being open and honest in communications, at asking hard questions about performance, and at being results-oriented and committed to continuous improvement.

The Rapides Foundation was established in 1994 and became the largest endowed charitable foundation in Louisiana with initial assets of almost \$150 million. Its mission is to improve community health and brighten the future through building capacity to resolve local challenges. As a philanthropic organization, Rapides provides grants to organizations throughout Central Louisiana to enable them to exploit opportunities that strengthen health and well-being, education, and the arts and humanities.

Board Member: One of the hallmarks of exceptional boards and chief executives is transparency — in reporting and communicating information about finances, operations, and results. How do you make this happen?

Rosier: It's in my DNA. I'm a CPA and former auditor. My tendency is to shine light on everything. My motto is "No secrets, no surprises." Even if it's bad news, I get it out there. Both trustees and staff work to develop our business plan and, once adopted, it becomes the blueprint for all we do. The board knows it's an open map to our work — there is flexibility, but there are no surprises.

Seastrunk: Joe ensures that our trustees are fully informed and engaged. They all have ample opportunity to ask questions.

It's also helpful that Joe has no agenda other than to set the tone and implement the Rapides strategy.

Board Member: Was it difficult to build a constructive partnership between the board and the chief executive?

Seastrunk: Well, it didn't just happen. Previous board chairs made a conscious effort to clearly define roles to ensure that day-to-day leadership would remain the purview of the chief executive. We ensure this "institutional attitude" remains in place, even though trustees rotate, by having policies that clearly explain roles.

Rosier: Regionald's right. The process was very organic. Overnight, the foundation was established and the board found itself sitting on a big pile of money, surrounded by expectations. Fortunately, all of the trustees were open to the idea of building a strong chief executive/board partnership. But we didn't have all the answers. We asked ourselves what we needed to do, and we became "sponges," visiting other foundations and soaking up insight and ideas on best practices. The board and I work closely together, and we try to be thoughtful about the future, always looking for ways we can improve.

Board Member: You mentioned that trustees rotate. How do you revitalize the board without changing important aspects of your culture or losing commitment to your mission?

Seastrunk: A few years ago, we talked about succession planning. Our intent was to recruit members in such a way that we would bring the board to a higher level. We wanted to get fresh ideas while maintaining our commitment to our mission. So trustee terms are staggered to ensure continuity, and each new trustee gets orientation and training in duties, responsibilities, mission, goals, culture, and so forth. But Rapides has a unique challenge caused partly by geography. Because of our rural location, we've had to figure out how to expand the recruitment pool. We've solved this, in part, by helping to develop the local boards of nonprofits in the rural communities so that one day these individuals will be ready to serve on large boards such as ours.

Rosier: We inaugurated term limits in 2001 to ensure that we would always have new blood. In order to maintain continuity, we formalized desired characteristics for trustees, developed written job descriptions, and defined board responsibilities. This has been especially important because we continually seek people outside board members' daily contacts in order to achieve diversity. Our board works hard recruiting the most qualified people with a variety of knowledge and life experiences, so the whole is definitely greater than the sum of its parts. And like Regionald said, we make sure new members go through orientation, but we don't stop there. We work really hard at keeping them engaged their first year, and that sets the tone for the rest of their term.

Board Member: Your board has a reputation for focusing on results and evaluation. How do you do this?

Seastrunk: Our staff and consultants have developed metrics to measure results and outcomes. Of course, this is easier in our grantees' programs that deliver prescription drugs, or in education programs where you can measure test scores. In cases where measurement is more difficult, we routinely conduct studies or hire consultants to help us determine if a program is meeting expectations.

Rosier: This is what keeps me awake at night. How do we know if we're being effective? If you ask fifteen different people what community health is, you'll get fifteen different answers. Beyond our obvious fiduciary obligations, there's a responsibility to do the right thing, the best thing, for our community consistent with our legacy and mission. At our upcoming board retreat, we will be looking at all the different measures and asking ourselves hard questions about our performance to make sure we're focusing our energy on areas where we can make a difference. ☉

Resource:

Governance as Leadership: Reframing the Work of Nonprofit Boards by Richard P. Chait, William P. Ryan, and Barbara E. Taylor. John Wiley & Sons, 2005.