Nonprofit Governance: Trends and Emerging Practices

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President/CEO • MHS

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Mission: Strengthening faithfulness and effectiveness of nonprofit organizations

Alliance
74 Members
(14 Sponsored)

Consulting
~150 Clients

International
coalition
emerging

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A national nonprofit network

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Alliance

Development and delivery of services that transform member organizations

- Sustaining core identities and relationships with community of faith
- Governance development
- Collective business/product development
- Alliance and affiliation formation
- Building coalitions internationally

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Consulting

Serving nonprofits beyond the network for over 5 years

- Strategic and Operational Enhancement
  - Strategic Positioning/Planning
  - Due Diligence/Prospect Consideration
  - Organizational Performance Assessment
  - Market Intelligence
  - Financial Analysis/Feasibility
- Leadership Transition &Executive Recruitment
- Governance Support & Development

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International Coalition

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LeadingAge Quality First Elements

- Commitment

- Governance and Accountability

- Leading-edge Care and Services

- Community Involvement

- Continuous Quality Improvement

continued

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LeadingAge™ *Quality First Elements*

continued

- Human Resources Development
- Consumer-friendly Information
- Consumer Participation
- Research Findings and Education
- Public Trust and Consumer Confidence

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Building our Knowledge Base

Broad Trends in NFP Governance

➡️ Smaller boards

➡️ Fewer standing committees

➡️ Fewer meetings

➡️ Greater delegation to management

➡️ Monitoring of key performance indicators

continued

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Broad Trends in NFP Governance

continued

➡️ Greater attention to strategic/generative work

➡️ Greater diversification on boards

➡️ Increased social accountability

➡️ Greater sophistication in structures to support fundraising

➡️ More rigorous board-driven evaluation and growth

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**SOME INTERESTING TIDBITS
FROM THE STUDY:**

**"NONPROFIT GOVERNANCE
IN THE UNITED STATES"**

(Representing 5,000 NFPs)

Source: Francie Ostrower, "Nonprofit Governance in the United
States: Findings on Performance and Accountability from the
First National Representative Study," The Urban Institute, 2007

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Standards of Good Governance
(Sarbanes-Oxley 2002)

1. Having an external audit
2. Having an independent audit committee
3. Rotating audit firms/lead partners every 5 years
4. Having a written conflict of interest policy
5. Having a formal process for employee complaints
6. Having a document destruction and retention policy"

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Source: Ostrower, "Nonprofit Governance in
the United States," The Urban Institute, 2007

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Key Findings
Correlation to good governance…

Positive:

- Corporate (business) individuals on board
- Higher racial/ethnic diversity
- Reliance on government funding
- Larger organization size

Negative:

- CEO as board member

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Source: Ostrower, "Nonprofit Governance in the United States," The Urban Institute, 2007

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Key Findings
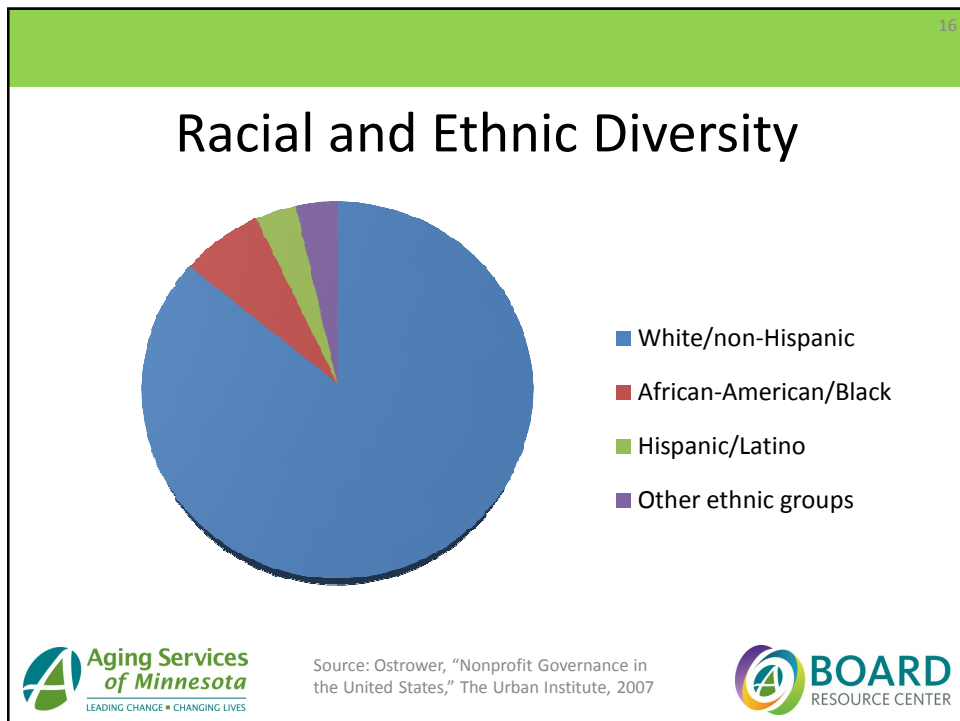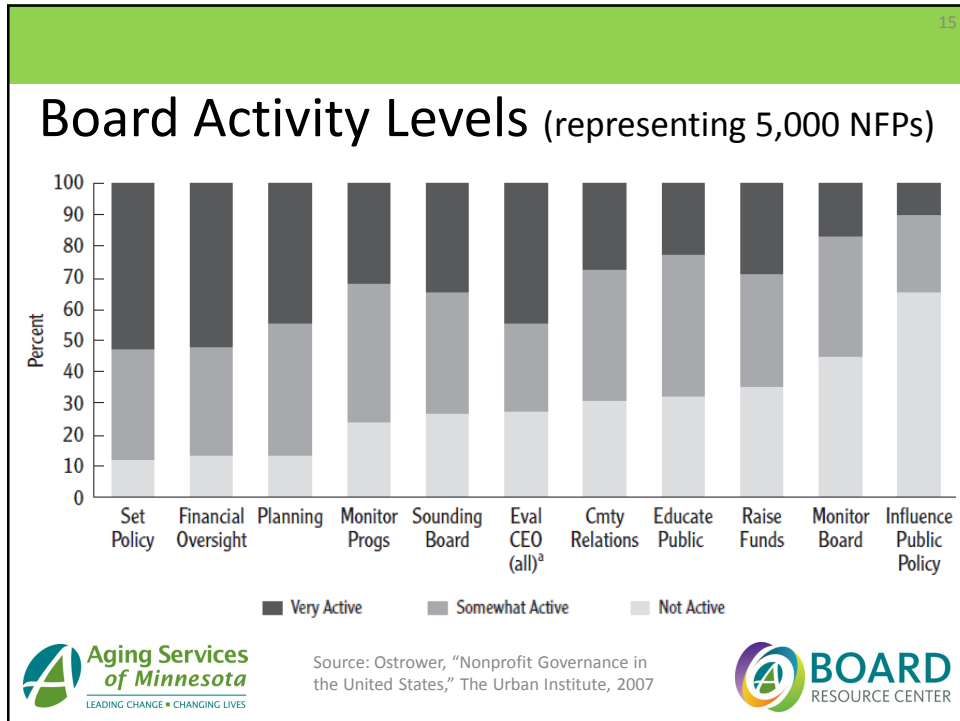
Only a minority of boards were very active with:
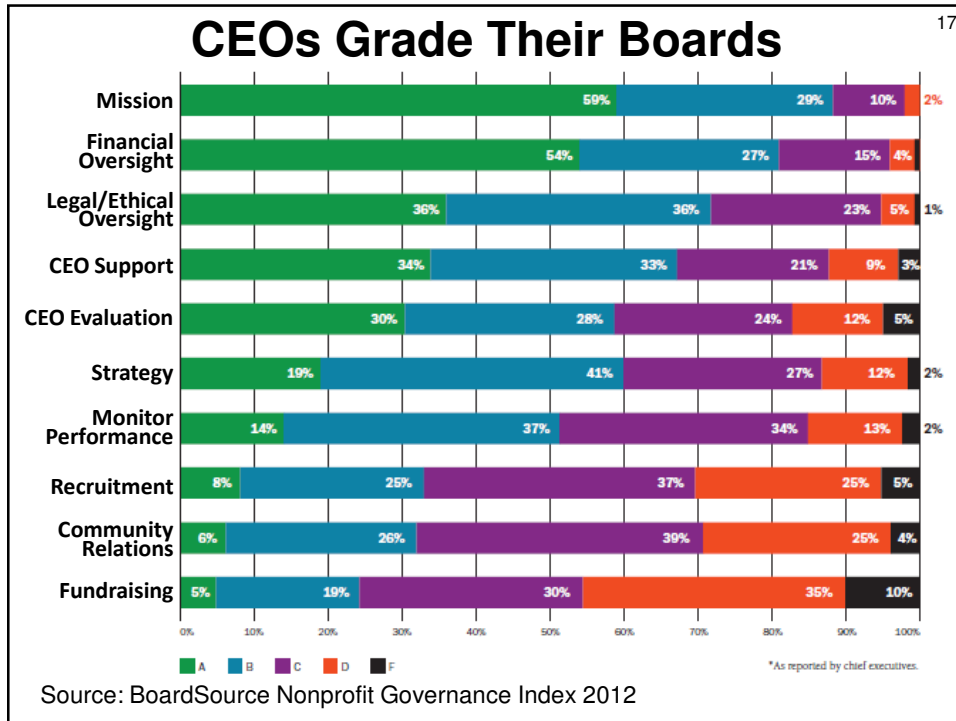
29% Fundraising

17% Monitoring the board's own performance

27% Community relations

23% Educating the public about the organization and its mission

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Source: Ostrower, "Nonprofit Governance in the United States," The Urban Institute, 2007

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Board Activity Levels (representing 5,000 NFPs)

Source: Ostrower, "Nonprofit Governance in the United States," The Urban Institute, 2007

Racial and Ethnic Diversity

- White/non-Hispanic
- African-American/Black
- Hispanic/Latino
- Other ethnic groups

Source: Ostrower, "Nonprofit Governance in the United States," The Urban Institute, 2007

CEOs Grade Their Boards

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	A	B	C	D	F
Mission	59%	29%	10%	2%	
Financial Oversight	54%	27%	15%	4%	
Legal/Ethical Oversight	36%	36%	23%	5%	1%
CEO Support	34%	33%	21%	9%	3%
CEO Evaluation	30%	28%	24%	12%	5%
Strategy	19%	41%	27%	12%	2%
Monitor Performance	14%	37%	34%	13%	2%
Recruitment	8%	25%	37%	25%	5%
Community Relations	6%	26%	39%	25%	4%
Fundraising	5%	19%	30%	35%	10%

*As reported by chief executives.

Source: BoardSource Nonprofit Governance Index 2012

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All approaches to governance imply strategic engagement

- Roles and Responsibilities
- Policy Governance®
- Governance as Leadership
- Hybrid Models

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Ten Basic Responsibilities

1. Determine mission and purposes
2. Select the chief executive
3. Support and evaluate the chief executive
4. Ensure effective planning
5. Monitor and strengthen program and services

continued

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Richard T. Ingram, *Ten Basic Responsibilities of Nonprofit Boards,* BoardSource, 2010

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Ten Basic Responsibilities

continued

6. Ensure adequate financial resources
7. Protect assets and provide financial oversight
8. Build a competent board
9. Ensure legal and ethical integrity
10. Enhance the organization's public standing

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Richard T. Ingram, *Ten Basic Responsibilities of Nonprofit Boards,* BoardSource, 2010

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Policy Governance®

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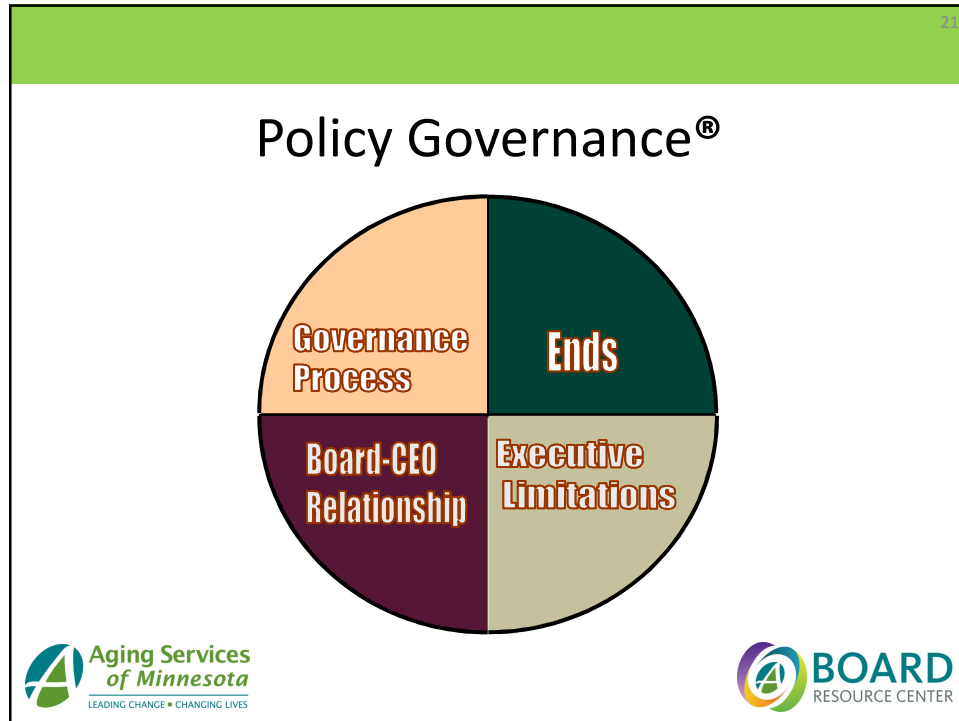
Policy Governance®: Core Features

- Four policy categories
- Policy developed from broad to specific
- Being concise: "any reasonable interpretation"
- Saving time: What have we already said?
- Focus on the *difference* in the world (vs. activities)

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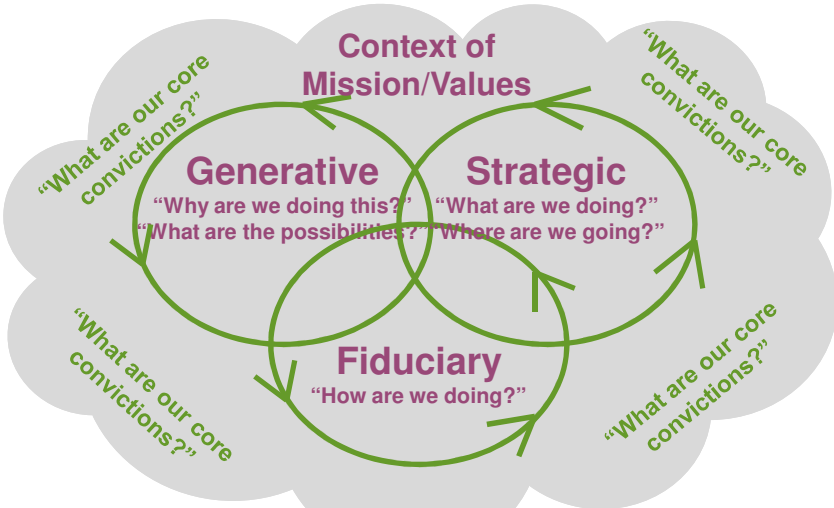LEADING CHANGE • CHANGING LIVES

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Policy Governance®: Core Features

- Ends: What benefit, for whom, at what worth?
- Establish parameters (i.e. manage risk)
- CEO/staff decide how to achieve "ends," inside parameters set by board
- Set rules for board's own processes and how board links to operational side

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Governance as Leadership

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Context of Mission/Values

"What are our core convictions?"

Generative
"Why are we doing this?"
"What are the possibilities?"

Strategic
"What are we doing?"
"Where are we going?"

Fiduciary
"How are we doing?"

"What are our core convictions?"

"What are our core convictions?"

"What are our core convictions?"

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Adapted from: *Governance as Leadership,*
Chait, Ryan, Taylor, 2004

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Governance as Leadership: Core Features

Views governance as involving three types of work:
fiduciary, strategic, and **generative.**

- Each type requires a different set of skills for the board to hone and use.
- Like any skill, these thinking modes of engagement need to be used to keep developing the skills of the Board.

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Adapted from: *Governance as Leadership,*
Chait, Ryan, Taylor, 2004

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Governance as Leadership: Core Features

- **Fiduciary Work**

  - Monitor financial performance and other vitality metrics

  - Ensure compliance with local, state and federal regulations

  - "Out the rear window work"

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Adapted from: *Governance as Leadership,*
Chait, Ryan, Taylor, 2004

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Governance as Leadership: Core Features

Fiduciary Work

Inquiry:

- Does the budget reflect our priorities and values?
- Is it ethical?
- What is the opportunity cost?

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Adapted from: *Governance as Leadership,*
Chait, Ryan, Taylor, 2004

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Governance as Leadership: Core Features

Strategic Work

- Study trends, do strategic analysis, consider alternative strategies/pathways
- Set strategic direction and approve a strategic plan
- Make decisions that have significance for future well-being of organization
- Assist with funding the plan

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Adapted from: *Governance as Leadership,*
Chait, Ryan, Taylor, 2004

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Governance as Leadership: Core Features

Strategic Work

Inquiry:
- Ask outside-in questions (zoom in/zoom out—Collins)
- Look at the big picture and how pieces align for the future
- Recognize there are choices for alternative futures
- Discuss information from many sources
- Align board agenda and meeting design to deal with strategic

Governance as Leadership: Core Features

Generative Work

- Learn and discern about what is going on in the environment
- Explore issues before a decision is required
- Define mission and deepest held convictions
- Focus critical questions: ask why or why not?

"Generativity" Defined

"Generativity" can seem like a big word, but can be understood as work that focuses on an organization's "roots"—its mission and deepest held convictions, as well as its work on "wings"— the possibilities ahead.

-Rick Stiffney

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Hybrid Model

	Unitary	
	Policy Governance •Rational •Linear •Ends/linkage •Relatively fixed categories	**Entrepreneurial** •Highly adaptable •Alignment relatively easy •Mono-cultural •Efficient/highly results-oriented
	Constituency/ Representative • Power/authority broadly distributed •Communication intensive •Adaptable, but through "voting"	**Emergent-Cellular** •Power/authority distribution •Federation framework •Fluid structures •Highly adaptable

Pluralist

Established ⟶ **Innovative**

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Adapted from work of Patricia Bradshaw, 2003

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Toward a Hybrid Model

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Unitary

Pluralist

Policy Governance

Entrepreneurial

?

?

Vortex-Hybrid Model

?

?

Constituency/
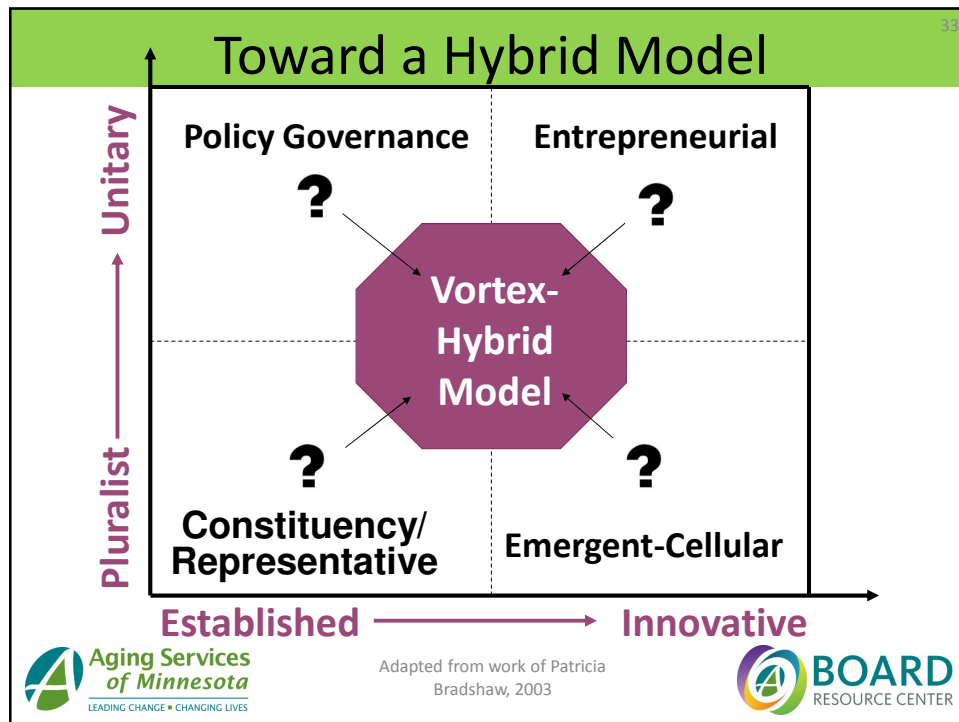Representative

Emergent-Cellular

Established — Innovative

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Adapted from work of Patricia
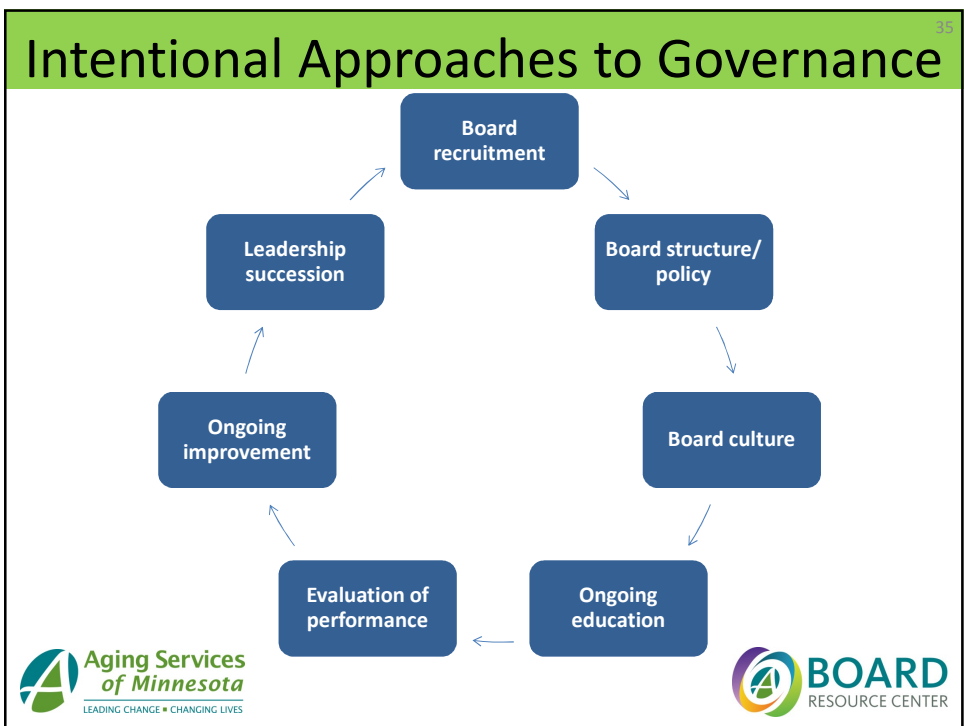Bradshaw, 2003

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Choose an approach to governance

- Any approach has strengths and weaknesses.

- Habits (some bad) are hard to change.

- Choosing an approach gives you a way of thinking concretely about what you are doing.

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Intentional Approaches to Governance

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Board recruitment → Board structure/ policy → Board culture → Ongoing education → Evaluation of performance → Ongoing improvement → Leadership succession → Board recruitment

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Own your work

- Recruit intentionally

- Orient with vigor

- Indoctrinate in culture quickly

- Evaluate engagement and participation

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Strive for excellence

Build really wise agendas:
"blocked and timed"

"The agenda is a tool…"

Engage Strategically

- Aggressive learning lab design
- Focus groups/community gap analysis
- Imagination work
- Scenario planning

Illustration

1. _____

2. _____

3. _____

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Evaluate Your Work

☑ Excellent
☐ Very good
☐ Good
☐ Average
☐ Poor

- Board assessment
- Peer reviews at time of reappointment
- Ongoing learning
- Growth/development

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Excerpt from online 2014 MHS Board Assessment

File   Edit   View   Favorites   Tools   Help

Exit this survey

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* 2. The board understands the factors that impact financial performance.

○ Excellent   ○ Acceptable   ○ Improvement Needed   ○ Not Sure   ○ Does not Apply

* 3. The board routinely monitors key organizational performance indicators.

○ Excellent   ○ Acceptable   ○ Improvement Needed   ○ Not Sure   ○ Does not Apply

* 4. The board has a good understanding of the organization's present financial status including the availability of cash for operations.

○ Excellent   ○ Acceptable   ○ Improvement Needed   ○ Not Sure   ○ Does not Apply

* 5. The board takes appropriate steps to proactively plan for the future viability of the organization and its mission.

○ Excellent   ○ Acceptable   ○ Improvement Needed   ○ Not Sure   ○ Does not Apply

6. Are there specific issues related to our financial performance or stewardship of resources that you believe need attention?

[Prev]   [Next]

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Summary Perspectives:
Governance must be…

- Contextually relevant
- Getting the right things done
  - by about the right people
    - at about the right time
- Constantly learning
- Adaptable

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Adapted from work of Patricia Bradshaw, 2003

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Ongoing Learning

Opportunity	Next Steps
1. _____	1. _____
2. _____	2. _____
3. _____	3. _____

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