

Building Better Boards

Congress has focused on compliance, but effective governance requires strong leadership.

BY DEBORAH S. HECHINGER

It is exceedingly difficult to find anything good in the murderous wake of the recent earthquake and ensuing tsunami in Southeast Asia. The latest death toll is more than 220,000 and thousands more were injured or orphaned. Whole communities simply disappeared. Nothing can minimize the scale or the horror of the tragedy. Amid the devastation created by those waves, nonprofits and governmental organizations struggled to address critical needs. In their efforts are three promising currents of hope.

First, the sheer size and urgency of the disaster created a need for organizations—governmental and nonprofit—to work together. Collaboration does not always come easily in the nonprofit sector, and collaboration between governmental entities and NGOs is even rarer. Yet, in many countries, nonprofits cooperated with other NGOs and with local and foreign governments. Foundations worked with them and with each other.

Second, some public charities demonstrated the kind of accountability that we all wish existed in every organization. The reported examples of Doctors Without Borders and Oxfam America declining donations directly earmarked for tsunami relief because they had all the funds they needed spoke loudly and clearly to transparent and accountable relationships with donors.

Third, donations were large and swift, coming from all sources. Some foundations, especially those with contacts on the ground, moved to provide immediate assistance. Individual donations were at record highs, especially in the United States. Americans have always been generous, but this outpouring belied concerns about a loss of public trust from news reports about unethical behavior, excessive compensation and misuse of nonprofit assets over the past couple of years. That unprecedented generosity has given all of us a second chance to prove our value and earn the public's trust.

Defining Reform

The scandals over the past several years have involved many foundations, as well as public charities, large and small. In response, the Senate Finance Committee released a draft discussing possible legislation, and Independent Sector convened a national panel to consider recommendations to improve the governance and accountability of nonprofits. That process is well under way, with the assistance of five task forces and two additional panels.

All in all, hundreds of foundations, associations and public charities are working together to define appropriate reforms for the nonprofit sector.

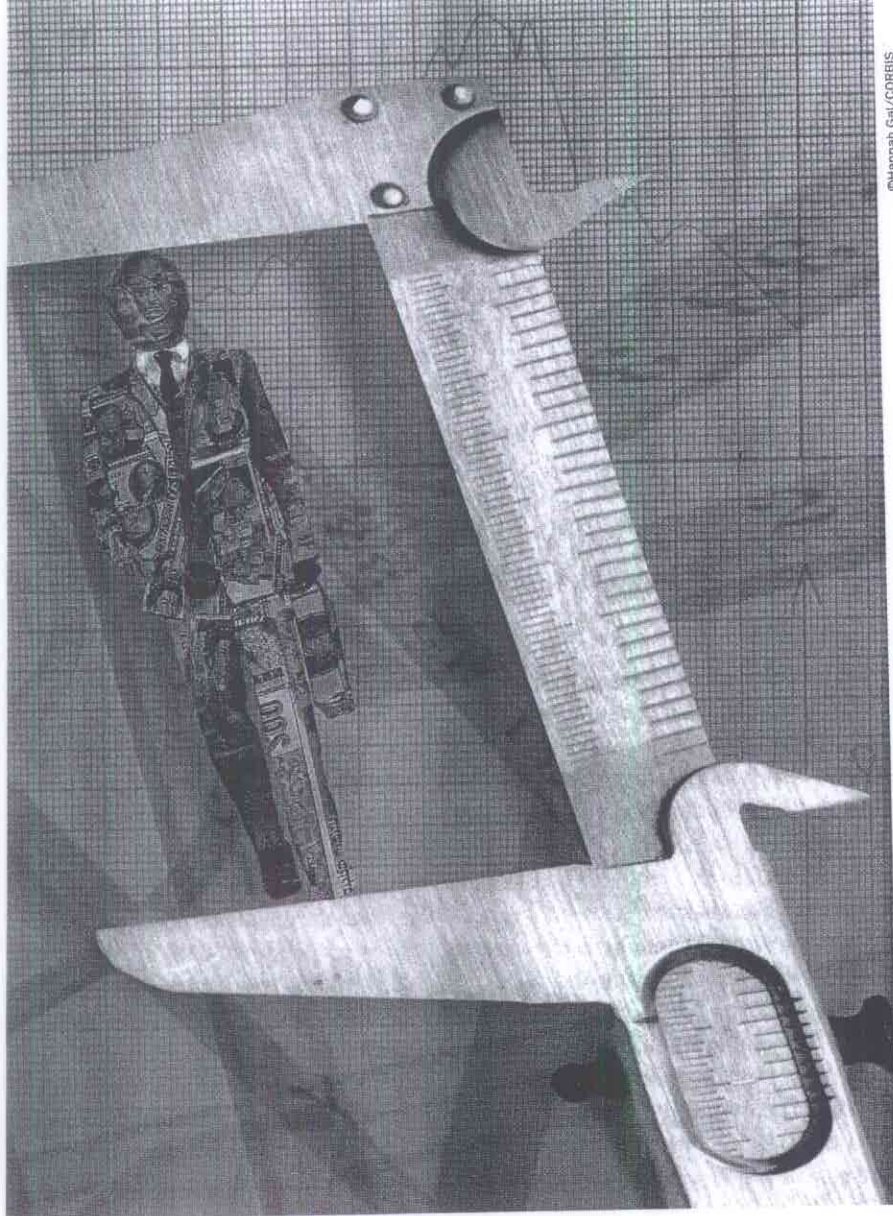
Much of the concern at the congress-

sional level has focused on compliance issues—those that involve the fiduciary responsibilities and legal requirements of boards, chief executives and other staff. Those matters are critically important, without a doubt. For foundations, they include trustee compensation, administrative expenses, financial reporting and director independence, as well as self-dealing and tax integrity issues. Solving those issues may reduce abusive and inappropriate behavior, but it will not ensure that foundations are well governed.

Governance Requires Leadership

Effective governance requires strong leadership by both the chief executive and the board—leadership that knows and adheres to the mission, leadership that evaluates the challenges and opportunities facing the foundation's programs and adapts strategies to meet them, makes the most of resources to support the foundation's mission and leverages the intellectual capital and reputation of an independent board. Of course, that leadership must also recognize the special status of tax-exempt organizations and take appropriate action to fulfill its fiduciary responsibilities.

The holy grail for governance is not an organization that dots the i's and crosses the t's. It is accomplishing the



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mission, whether that is challenging injustice, feeding the hungry or housing the poor. It is providing a good education; it is building schools and communities; and it is funding medical research. A well-governed foundation is worthy of respect, loyalty and support from grantees, colleagues, the government, the public and other stakeholders. This is an aspirational task, indeed, and one that partly depends on the quality and performance of the board.

So, what makes some boards stand apart from the rest? Are there approaches that might revitalize the current board? Are there characteristics that foundations should seek in board members? And, how is a high-performance board created?

Accountability Starts at Home

As fiduciaries for the foundation's assets and mission, board members are uniquely positioned to demand accountability—of the foundation itself, of its grantees and of themselves. Many foundations have developed mechanisms to assess grantee effectiveness; they have the salutary effect of pressing grantees to deliver real impact. Some foundations use sophisticated tools to evaluate their own programs, while others survey their grantees to assess the foundation's own effectiveness. All of those methods help to ensure that funds are spent appropriately.

But how many foundations acknowledge the importance of their grantees' boards and help to build them? How

many foundations assess the performances of their own boards?

Think Outside the Box

Recently, researchers Richard P. Chait, William P. Ryan and Barbara E. Taylor published *Governance as Leadership: Reframing the Work of Nonprofit Boards* (2004, Wiley, www.wiley.com), which looks at the board's governance role in an entirely new light. The book begins by questioning the purpose of the board and argues that great boards operate in three governance modes. Two of them are familiar. Boards operate in the *fiduciary mode* when they ask questions to ensure appropriate expenditures of funds. Boards operate in the *strategic mode* when they help the organization define and assess plans.

The third mode is less familiar. The authors suggest that highly effective boards also move into a *generative mode* when they think openly and creatively about the challenges and opportunities that organizations face and ask questions to help make sense of those situations. High performance boards operate in whichever mode suits the discussion, moving from one to another, throughout the meeting.

Not all boards have meetings that permit that kind of open, exploratory exchange, but the value of the board increases dramatically when its members

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COF Governance Resources (www.cof.org)

Foundation Management Series, Eleventh Edition, Volumes I–II—Foundation Governing Boards and Administration. 2004. Item #228. \$60. Nonmembers \$110.

The Guide for Community Foundation Board Members. (The Council on Foundations and BoardSource). 2003. Item #302. \$15. Nonmembers \$20.

Making the Most of Corporate Foundation Boards: Strategies and Practices. Laurie Regelbrugge. 2001. Item #1018. 2001. \$75. Nonmembers \$120.

know enough to ask penetrating questions and bring their views, experiences and perspectives to the table in open and far-ranging discussions. Foundation boards that move beyond grant reviews to discussions about pervasive community problems, their underlying causes and foundation strategies to redress them are boards that can then provide substantive guidance and sound oversight.

Value Engagement and Constructive Dissent

Without the right board, no amount of fiduciary, strategic or generative thinking will make high performance a reality. Selecting the right individuals to serve on a board is critical. Relevant experience, skills and knowledge enable board members to add real value to discussions and decisionmaking. Good board members are not afraid to constructively challenge assumptions, ideas, one another or the chief executive in the pursuit of the right conversation or the best answer.

The question of independence can be a difficult one depending on the type of foundation. In addition to adhering to the prohibitions on self-dealing, foundations need to ensure that conflicts of interest are disclosed and that procedures are in place so that decisions are made in the best interests of the foundation, not the individual. Beyond that, though, organizations that power their boards with individuals who are independent-minded (as distinct

from independent of conflicts)—especially in a culture that encourages open and thoughtful debate—have created institutional resources that can ask the right questions and facilitate good decisions.

Govern Intentionally

Of course, boards should be intentional about the role they play in foundations and they should be supportive and respectful partners to the chief executive in governing the organization, assuming he or she is performing adequately. Working together, boards and executive directors strengthen each other and, consequently, the institution. Board members who work well together as well as with the chief executive demonstrate a healthy balance of power and boost the institution's capacity to deliver on its goals.

Intentional governance demands that form follows function. In other words, good boards think about their responsibilities and their goals and set up structures to meet those needs. Knowing about the latest governance model is good; adopting it without thought is not.

Commit to Board Effectiveness

One of the best ways to analyze a foundation board's abilities is to conduct a self assessment to determine how well the board carries out its responsibilities and identify areas that need improvement. With qualified consultants, self assessments can help identify gov-

ernance issues, reevaluate strategies, define critical board tasks and launch new initiatives. Board assessments can also improve collegiality, expand or shrink boards, facilitate a change in board leadership and strengthen relationships within and between board members and the chief executive.

All Aboard for Impact

Effective foundation boards are able to satisfy their fiduciary responsibilities and bring real value to the foundation. Both are critically important to ensuring the continued support of both the general public and the government. Together, they offer the checks and balances necessary to reassure stakeholders that the organization is accountable. Good board members offer the promise of better organizational performance because they bring intellectual resources to the table, helping foundations think through mission and strategy, opportunity and challenge.

Now, as never before, foundation boards must step up to the task of working with chief executives to empower foundations to identify critical needs and to fund strong and effective programs. With urgent and growing needs for funding, and with resources and capital so scarce, the nonprofit sector needs all the help it can get. **FN&C**

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