High Performing Boards in Today's Dynamic World

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Nonprofit Management Series

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EXECUTIVE SUMMARY

After 34 years consulting hundreds of non-profit organizations in the United States, Canada, Latin America, Africa and other parts of the world, I have a keen understanding of why effective governance by the board of trustees is extremely difficult. Superior board performance has become an area of personal focus and is the subject of this article.

Our firm, NPL Impact Consulting, matches philanthropists, foundations and corporate sponsors with impactful people and organizations. We work with universities, health care institutions and human service organizations to help prepare them for greater success in philanthropy. In doing so, we have experienced the most common problem to be that the board and CEO are not partnering effectively to focus on the ***critical work*** of the organization. Too often we encounter groups of high-powered people on the governing board either modestly engaged in the organization or losing interest, because they are overloaded with irrelevant details by well-intended senior staff who do not themselves understand issues central to the institution's success.

A standard piece of wisdom nonprofit consultants have professed for years, is "that boards govern and set policy--and the CEO implements such policies." But we are not always clear in defining the differences, which become blurred. NPL has recently departed from this conventional wisdom in suggesting that in today's dynamic nonprofit environment, high functioning boards must do a little of both. A board must not only set policy, but also work with management to implement it. They must go beyond rubber stamping management's proposals and find out what issues really matter to the institution. It can do that by requiring the CEO to paint the big picture of the organization's strategic concerns and support the CEO in difficult management decisions. Furthermore, board members themselves should understand key stakeholders, consult experts and decide, along with the CEO, what needs to be measured in order to judge the institution's performance.

This article profiles several clients who recognized the difficulties of effective governance in a way to overcome such challenges. In these cases, leadership effectively harnessed collective efforts of accomplished individuals to center the organization on critical goals and gain confidence of stakeholders and philanthropists.

Summary Highlights

Trustees of a public trust have ultimate responsibility for achievement of the organization's mission

They should require the CEO, to paint the big picture of the organization's strategic concerns.

Trustees must go beyond rubber stamping management's proposals and find out what issues really matter to the institution

Together the board and CEO must define and focus on "*critical work*"

Each trustee should understand key stakeholders, consult experts and decide, along with the CEO, what needs to be measured in order to judge the institution's performance and impact.

Board members "check out" of business planning because they are not paid to think about the organization daily.

It is not clear that the board and CEO need to partner to establish:

1. **a clear, time bound vision based on mission and values;**

In too Many Nonprofit Organizations, Business Planning is "Siloed" and Not Properly Supported by Sufficient Data for Strategic Decisions. Roles are then vague, Measurements Unclear and Accountability Becomes Difficult

First I will begin with a discussion of business planning. NPL provides counsel to a US-based, national, organization with an affiliate model, which at the urging of a granting foundation, embarked upon a process to develop "best practices" in business planning to avoid the above mentioned problems. Our first job was to provide management with tools and processes to better understand their current and future customers, as well as the cost of serving such customers. Prior to this work, the organization had a firm grasp of its mission: reason for being--overall purpose statement-- and could articulate an ideology based on distinct and clear values. What it lacked was: 1) a clear, time-bound vision--description of where it intends to be in 3-5 years; 2) an understanding of fundamental marketing issues--such as customer, value proposition, distribution methods, service delivery partners and the cost of service delivery to new markets; 3) a system for organizing financial data for management decision-making in addition to outside regulators. In other words, a means to measure how costs would behave if the organization expanded or reached more customers; and 4) a process for conducting planning with clear roles and responsibilities for collecting, organizing and interpreting the above data for thoughtful and relevant strategic discussions and decisions.

Without the above, the organization was only prepared to do what we find most often board planning retreats is a compilation of numerous goals which are nothing more than wish lists in no particular priority order. At such meetings, no one dare challenge such goals, even persons well versed in for-profit business planning since, after all, each of these goals are noble in and of themselves, and being a human interest organization means it should try them all. Sarcasm aside, **why is it so difficult for board members to change ineffective business planning processes? For several reasons:**

1) board members are volunteers who are not paid to think about the nonprofit organization on a daily or weekly basis;
2) the board does not always understand constituent needs. As Peter Drucker articulates in <u>Managing the Non-Profit Organization,</u> for profit businesses have three primary constituencies--stock holders, customers and employees. Nonprofit organizations have numerous constituents making it considerably more complex;
3) many board members do not understand basic economics, demographics and politics of the industry and can be easily pacified by academicians, curators, and artists who would rather keep the board at a distance than establish ways for members to become educated; and
4) board members have little personal accountability because they are not measured by the nonprofit organization. They consider their volunteer activity to be an extracurricular activity and their standards of management are lower than in business**. While the stakes are low for them personally, they are high for the organization**.

At the above mentioned youth organization, our client team and NPL consultant, Dan Richards, and I considered these factors and designed a business planning process which made it as easy as possible for board members to contribute their skills in relevant ways. The system is outlined in generalities below, but illustrates at which points board members can and should contribute.

1. Defining Key Issues and Problems--CEO and Board
2. Creating Hypothesis around Solutions to Problems-CEO and Board (informed by staff)
3. Determining Exactly how the organization will Define Success (CEO and Board) informed by staff
4. Visioning-Based on Values and Mission-*Board and Senior Staff*

2. **an understanding of fundamental marketing issues including product/service model, customer, value proposition, distribution systems, delivery partners and costs;**

3. **a system for organizing financial data for management decision making, not just regulators—understanding how costs behave with changes; and**

4. **continuous assessment and improvement processes.**

5. Data Gathering--*CEO and Staff*
6. Analysis and Interpretation of Data-*CEO, Staff and Key Board Chairs*
7. Strategy Direction and Key Goals/Focus on ***Most Critical Work*** -*CEO and Board*
8. Success Measures- CEO and Board
9. Financial Analysis and Budgeting--Additional Research--*CEO and Staff, Board Approval. (Board must understand and manage to the long-term economic model)*
10. Prioritizing of Goals-Resource Allocation Process--*Board and Staff*
11. Determination of Measurements/Performance Indicators--*Board and CEO*
12. Tactical Operational Planning--*Staff*
13. Training--*Staff*
14. Ongoing Assessments and Adjustments of Plan--*Board and CEO, staff input and ownership*

By implementing the above process, affiliates of the organization could create healthier partnerships between the board and staff and also had means to measure themselves. Only when appropriate measurements are determined (around **central issues**—critical to the mission, vision and external markets of the organization) can an organization truly manage itself and hold the full team (board, staff and volunteers) accountable. Limited resources become appropriately focused--and ironically this attracts abundance in gift support.

One such example is the acquisition of a $10 million gift to the San Francisco-based affiliate of this organization from an individual impressed by a crisper organizational focus. While not all major donors will want to see detailed business plans, they certainly recognize organizations that are creating an ongoing culture of effective planning and intentional about their impact.

NPL's Board Call to Action

1. Board members should make it clear to the CEO that business planning is central to his or her position, and that he or she need not solve problems alone, but rather articulate key questions and guide a collaborative effort to formulate answers. They should encourage a partnership in this regard.

2. Board members can help the CEO define critical issues by talking to stakeholders, constituents, donors and industry experts. They can make certain that they are aligned with the CEO on priorities by encouraging the difficult discussions, particularly those that are unpopular within the organization or fall outside the staff's capabilities.

3. Board members can put themselves in the shoes of major donors, anticipating what they might want or need to know if considering philanthropic investments in the organization.

The Board Design/Structure is too Static—Recruitment is Casual and Apologetic

A second common problem we encounter with low-functioning boards relates to board structure and design. At NPL, we believe that every system/organization is perfectly designed to get results it is currently achieving. If you want to change results, you must examine and/or change the fundamental design. In some organizations we have counseled, small changes to the organization's Bylaws such as board terms, committee structure and officer positions descriptions can radically improve overall board performance. In general, we recommend that boards:

1. have term limits in order to attract high performers and increase overall accountability as well as urgency for contributing (members with stellar accomplishments can be awarded honorary or even life-time status, provided such positions are not overused);
2. limit the power of the Executive Committee since all members have fiduciary and fiscal responsibility and will lose interest if there is a perceived power group. The Executive Committee should function as a service to the board at large by helping to organize and summarize critical information;

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Utilize a Trustee Affairs Committee to help the board determine membership criteria and to focus on board recruitment as one of the organization's single most important functions

3. utilize a Trustee Affairs Committee to help the board determine membership criteria and to focus on board recruitment as one of the organization's single most important functions;
4. recruit new members as diligently and carefully as they would pursue a major philanthropist or a new executive to a company;
5. never apologize for the board's role and attract people who will contribute their time, wisdom and dollars. Not all board members need be major-gift donors, and every board needs a ***balance of wealth, work and wisdom***, but every board member should invest in the organization in accordance with his or her personal means, particularly during major gift or capital campaign efforts. It is difficult to gain confidence of outside philanthropists when board members are not contributing a respectable amount of the budgets they approve;
6. create a process for self-assessment and continual improvement closely aligned with organizational performance indicators.--That such a process be managed by The Trustee Affairs Committee and include performance criteria for board officers, committee chairs and individual board members in addition to the full team. We recommend that the Board Chair appoint members to the Trustee Affairs Committee, but not be a standing member of such a committee since one of the Committee's functions is to help assess officer performance.

Another one of our departures from conventional wisdom is that we now believe board committees should be flexible and structured around central organizational priorities rather than functions. In other words, traditional standing committees like buildings and grounds, academic affairs etc. may not address the most important organizational issues, and ***work that most matters***. After all, most critical board work occurs outside of monthly or quarterly business meetings.

In working with a drug and alcohol rehabilitation organization in the United States, our charge for engagement from the board chair was to help him transform board meetings from social events and "show and tell" sessions of committees to meaningful and relevant discussions with active participation by all board members. We succeeded in doing so by first making changes as suggested above, and secondly by having the CEO and board chair rank the most important challenges facing the organization. We then re-designed all board committees to reflect those priorities. One of the committees examined trends in managed care which, under the old structure, was grossly neglected, yet had high significance to strategic directions. After four months of changes to structure, the board chair was able to conduct meetings around goals rather than process, and members had a way to assess their progress and contributions.

When an organization embarks upon a capital fundraising campaign, we recommend the board have a committee to help guide the effort.

NPL's Board Call to Action

1. Board members can define, first for themselves then as a team, a definition of a high performance board. They can then create performance indicators and norms for the team to help inspire the group and attract other high performers

2. The Board Chair can instigate a board management process centered around the *work that matters* which then drives the frequency, format and duration of board and committee meetings.

3. Committee structure should be flexible, and the board should make good use of ad hoc committees to help staff solve problems.

The CEO is not Evaluated and Measured Effectively

One of the most important functions of a board is to hire, evaluate and if necessary replace the CEO. Yet in our experience, we observe many organizations with no formal communication and assessment processes between the Board and CEO. Often this leads to a CEO's trying to solve problems alone. They are usually highly accountable people who are deeply committed to their organizations and seek to improve them, but are not able or willing to share responsibility. While there are certainly some CEO's who are more comfortable with weak boards and fear full accountability, most CEO's want clear and measurable objectives. Many of our client's CEO's report that they have not had recent performance reviews, and those that do occur, happen irregularly, informally and subjectively.

Create a process for board self-assessment and continual improvement closely aligned with organizational performance indicators

Since CEOs report to the board at large, and not just one manager who routinely conducts employee performance reviews-- as in a typical business situation, this becomes an unnatural process in the nonprofit world.

Yet, to partner effectively with the CEO, board members must establish performance indicators linked to critical issues and *work that matters*. They must evaluate the CEO regularly. The CEO should have no question at any point in time about whether or not he or she is performing well. Additionally, CEOs and board members should work together to identify strengths and weaknesses of the top management team and to plan successfully for any leadership transition periods. This is not to say board members should be involved in micro-management or human resource issues at tactical levels. They should, however, provide full management support to the CEO.

Board committees should be flexible and structured around central organizational priorities and *work that most matters* rather than functions.

We worked with a client in the health care industry whose CEO made it his practice to utilize board members as mentors, management coaches and leadership counselors. Perhaps his comfort in doing so was related to the fact that his board did quarterly assessments of his performance and encouraged frequent conversations about issues and priorities. Knowing where he stood at all times encouraged him to be open about his owns strengths and weaknesses and to hire staff around weaknesses. In this way he and his board truly served their constituents.

NPL Board call to Action

Board members can ask the following questions:

1. Does the board understand what the CEO sees as critical issues? Have they asked? Here is perhaps the single most critical point where a board brings value.

2. What do stake holders and industry experts think? Has the CEO asked?

3. Are board members and the CEO aligned on priorities?

4. Is the board conducting objective and regular performance reviews of the CEO and encouraging open discussions based on the above?

Summary

The work of nonprofit organizations is difficult, yet when done well, can be one of the most meaningful and rewarding human experiences. While unnatural, due to the reasons explained above, the design and implementation of effective governance is of paramount importance and the gateway for short and long-term philanthropic support. Philanthropic support ensures ongoing service to the organization's beneficiaries and persons in need. I believe it is not lack of time which is the main barrier to a board's ability to perform, but rather failure to determine what matters, and to let strategic priorities drive board recruiting and interactions. By: 1) carefully designing an effective board structure; 2) recruiting the "right" members with confidence and conviction, 3) effectively supporting/partnering with the CEO and 3) holding itself and the CEO accountable to performance goals centered on critical issues, board members can raise the bar in the nonprofit sector and ensure more people benefit from the great works of their organizations.

One of the most important functions of a board is to hire, evaluate and if necessary replace the CEO, yet all too often the CEO is

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not evaluated properly and regularly against clear performance criteria.

Does the board understand what the CEO sees as critical issues? Have they asked? Here is perhaps the single most critical point where a board brings value.

It is not lack of time which is the main barrier to a board's ability to perform, but rather failure to determine what matters.

The work of non-profit governance and management is difficult, yet when done well, can be one of the most meaningful and rewarding human experiences and greatly impacts the health of our communities.