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The Role Of The Nonprofit Board In Today's World

Intense public scrutiny, increasing expectations for accountability, and more stringent government regulations have made the role of the nonprofit board of governors more important today than ever. But are those examinations of the organization by its board necessarily clear looks?

Abbie J. Von Schlegell, CFRE, managing director at New Canaan, Conn.-based consulting firm Brakeley Briscoe, Inc., posed that very question while speaking at the recent 2006 Blackbaud Conference for Nonprofits, held in Charleston, S.C. According to Von Schlegell, "Boards today must meet high expectations and endure intense scrutiny. And in truth, we cannot see clearly now; it's just gotten blurrier. We need boards to sharpen that focus."

The need for transparency is paramount, and that includes transparency of and by board members, who should take steps to abide by and enforce transparency standards. "Your organization is transparent when your stakeholders know or can readily learn what they think they need to know about you," said Von Schlegell. "We have to make certain that people have the opportunity to learn about us even when we don't know about it."

Von Schlegell attributed the Sarbanes-Oxley (SOX) legislation, increased government scrutiny and public trust (or mistrust) of the nonprofit sector as to why transparency has become so important. The 2002 SOX measure, although targeted to public corporations, has two aspects that apply to nonprofits: whistle blower measures and the need for an audit committee. Von Schlegell said she sees a nonprofit version on the horizon, with advocates in both Congress and the nonprofit sector.

Von Schlegell lauded the growing number of nonprofits that voluntarily observe the SOX measure, but would like to see similar measures spill over into other areas. In particular, that nonprofits consider changing their boards to mirror some aspects of those at for-profits. Von Schlegell offered the following comparisons and critiques:

Comparison: The for-profit sector seeks to grow market capitalization through products and services, while the nonprofit sector seeks to deliver services to key constituencies. For-profits want financial performance; nonprofits want the same, but balanced with other measures. The CEO at a for-profit is the sole boss. The CEO at a nonprofit reports to a non-executive board chair.

Critique: Von Schlegell said applying for-profit-like measures in certain areas makes good business sense. More important, though, is the need for transparency in terms of finances and governance.

In addition to financial performance, nonprofits focus on protecting donors and institutional integrity, and on serving the public trust. "Nonprofits play an important role in this society, we saw that in floodlights after (Hurricane) Katrina. If we don't regulate ourselves, someone else will. Let's be sure we drive that discussion."

Von Schlegell recommended the audience "google" their organizations, "see where you come up, what's said about you. You have the power to change that." Also, organizations should update their Web sites. "If it says 'Last updated in 2002,' that sends a bad message to the public."

Additionally, Von Schlegell recommended organizations seek certification, such as the Standards for Excellence Seal, offered by the Maryland Association of Nonprofit Organizations.

Comparison: The board at a for-profit is small, has an executive committee that's relatively limited in scope, a nominating committee that's relatively inactive, and no operations committee. Nonprofit boards are larger, composed of an executive committee that's vital but that can sometimes get out of control, a nominating committee constantly at work, and an operations committee that's essential.

Critique: "You can have people who are not on your board serve on a committee. Just put it in your by-laws," said Von Schlegell, who noted that nonprofit boards are oftentimes too large. After polling the audience of nonprofit professionals, Von Schlegell found less than half have a development or nominating, "and that's not good."

Comparison: The profile of for-profit board composition is predictable, often senior level business professionals, with the roles and the time the members dedicate being predictable as well; they serve many years and are highly paid.

In contrast, nonprofit boards are composed of diverse profiles, with one commonality: potential donors. Members generally do not pay to sit on the board, each play different roles, and collectively spend what Von Schlegall termed "anti-social hours" dedicated to the organization. Nonprofit boards have high turnover of members, "which is not always a bad thing."

Critique: Von Schlegell said nonprofits should implement terms for board members. If an organization serves a particular population, "be sure to have a member of that population on your board." And, "don't make the assumption that the poor won't give." Several conference attendees provided anecdotes about wealthy donors who under-give while less wealthy donors have been known to give above and beyond. "Ask everyone," said Von Schlegell. Nonprofits should have 100 percent board buy-in. In other words, "Give, get, or get off."

Comparison: At for-profits, financial transparency is to ensure shareholder value; at a nonprofit it's to ensure donors' rights. At for-profits, there's a need for transparency of management and governance in the financial context; at nonprofits that focus is fundamentally on governance. Whistleblower measures are paramount in the for-profit world, while there's been an almost deafening call for efficiency and effectiveness in the third sector.

Critique: "The more prepared you are, when something comes down the pipe you'll have been expecting it," said Von Schlegell, who advised all nonprofits comply now with the SOX regulations and prepare or review their institutional "corporate" code of ethics.

Practice prudence: transparency measures cost money and time, sometimes there's an assumption of liability without legal requirement, and the measures can impact board members without intent. "The perfectly clean organization may not be able to function. The perfectly clean sector may lose some of its core values