Critical Issues

• Why do we need a board?

• What are the board’s major responsibilities?

• How well do boards perform?

• Why are boards underperforming in the area we most need them? – Fundraising

• What can we do about it?
Why Do We Need a Board?

Legal Reasons    Ethical Reasons    Practical Reasons
Legal Reasons

Nonprofit corporations need a board to assume the fiduciary role for the organization’s wellbeing. These laws designate overall responsibility and liability to the board. In addition to the board’s responsibility as a governing body, individual board members are bound by their legal obligations:

• The Duty of **Care**

• The Duty of **Loyalty**

• The Duty of **Obedience**
Duty of Care

Act in **good faith** and with the degree of **diligence**, **care**, and **skill** that ordinary, prudent persons in a like position would exercise in similar circumstances.

**What does this mean for a director?**

• **DO:** Be informed.
• **DO:** Be active.
• **DO:** Exercise independent judgment.
• **DO:** Ask questions.
The duty of loyalty requires directors to exercise their powers in *good faith* and in the *best interests* of the corporation.

What does this mean for a director?

• **DO:** *Be conscious of potential conflicts of interests.*
• **DO:** *Follow the corporation’s conflict of interest policy.*
Duty of Obedience

Directors must be faithful to the **mission** and **purposes** of the corporation.

**What does this mean for a director?**

• **DO:** *Know what the corporation’s Certificate of Incorporation states as the purpose of the corporation.*

• **DO:** *Be aware that the corporation’s mission and activities must be consistent with the corporation’s stated purposes.*
Ethical Reasons

• Create a structure that functions to assure the public and all individual stakeholders that the organization is in good hands.

• The board assumes the responsibility for the achievements or lack thereof within the organization.

• Oversight is part of the ethical reason
Practical Reasons

Board’s role in start-up phase:
Often, start-up boards help draft organizational documents, work to find supplies and equipment, and get initial funding.

Role before staff is hired:
Frequently, before staff is hired, board members manage the daily affairs and run the programs of an all-volunteer organization.

Role after full-time staff is aboard:
In many nonprofits, as soon as the situation allows, the board hires its first Chief Executive, delegates the daily affairs to him/her, and provides support and guidance. At that point, the board can devote its time to governing, providing direction, and securing that the mission of the organization stays on course.
What Are the Board’s Major Responsibilities?

1. Determine the organization’s mission and purpose.
2. Select the CEO.
3. Provide proper financial oversight.
4. Ensure adequate resources.
5. Ensure legal and ethical integrity and maintain accountability.
6. Determine, monitor, and strengthen the organization’s programs and services.
7. Ensure effective organizational planning.
8. Enhance the organization’s public standing.
10. Support the CEO and assess his/her performance.

How Well Do Boards Perform?

Statistics from Grant Thornton, Boardsource/Independent Sector, TCC’s Core Capacity Assessment Tool (CCAT), and Theatre Facts
How Are Boards Responding to the Economic Downturn?

Grant Thornton 2009 National Board Governance Survey of Non-for-Profit Organizations

• Declining business environment.
  Declining revenues = expense reductions, staff cuts

• Increased focus on governance.
  IRS 990

• Rethinking strategic plans.

• Scrutiny of executive compensation.

• Increased attention on investments.
Accountability in the Sector

In 2010:

- **99%** of nonprofits kept minutes of all board and committee actions.
- **95%** had written conflict of interest policies.
- **87%** signed conflict of interest and annual disclosure statements.
- **86%** had a whistle-blower policy.
- **83%** had written documentation retention and destruction policies.
- **Over 70%** of organizations had formal, written performance evaluations.

Source: Boardsource Nonprofit Governance Index 2010
## Most Important Areas for Board Improvement

<table>
<thead>
<tr>
<th>Area</th>
<th>Chief Executive</th>
<th>Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fundraising</td>
<td>53%</td>
<td>54%</td>
</tr>
<tr>
<td>Strategic Planning</td>
<td>34%</td>
<td>37%</td>
</tr>
<tr>
<td>Focus (more strategic, less operational)</td>
<td>31%</td>
<td>27%</td>
</tr>
<tr>
<td>Board Composition and Diversity</td>
<td>30%</td>
<td>24%</td>
</tr>
<tr>
<td>Board Member Commitment, Engagement, Attendance</td>
<td>27%</td>
<td>28%</td>
</tr>
<tr>
<td>Board Self-Assessment</td>
<td>27%</td>
<td>17%</td>
</tr>
<tr>
<td>Board Recruitment</td>
<td>27%</td>
<td>27%</td>
</tr>
<tr>
<td>Board Development/Orientation</td>
<td>25%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Source: Boardsource Nonprofit Governance Index 2010
Report Card for 10 Basic Board Responsibilities

Reported by CEOs

Source: Boardsource Nonprofit Governance Index 2010
Board Giving Requirements and Participation

Source: Boardsource Nonprofit Governance Index 2010

- Large Boards: 82% require personal contribution, 93% percentage of board giving
- Medium Boards: 76% require personal contribution, 92% percentage of board giving
- Small Boards: 62% require personal contribution, 75% percentage of board giving
Board Member Comfort with Fundraising

* Because of rounding, sums of individual items may not equal 100%

Source: Boardsource Nonprofit Governance Index 2010
CCAT Findings: Board Member Effectiveness

Percentage of Nonprofits "Agreeing" that Most or All of their Board Members are Effective with:

- Involvement & Follow-Through: 13%
- Community Leadership: 13%
- Garnering Resources: 20%
- Holding Leaders Accountable: 26%
- Understand Mission: 30%
- Organizational Policy Making: 38%
- Passion for Mission: 40%
- Board-to-Leader Relationship: 61%
- Mission-Centered Decision-Making: 63%
- Financial Oversight: 92%

N = 1725
Theatre Facts 2010 Study

Individual Giving

• Combined individual contributions from trustees and non-trustees increased annually from 2006 to a 5-year high in 2009, falling 13.1% in 2010.
• Individuals were by far the greatest source of contributed funds each year.
• Unrestricted gifts for capital campaigns accounted for a low of 10% of total individual giving in 2010 and a high of 21% of total giving in 2009.

Trustee Giving

• Average trustee giving increased annually from 2006 through 2009 then decreased 15.8% in 2010.
• Even so, support from board members during tough economic times led to overall 3.5% growth in trustee support above inflation.
Why are Boards Underperforming in the Area We Most Need Them? – Fundraising
Dissatisfaction with Board Service

- Unrealistic expectations about responsibilities
- Time required
- Poor communications
- Connectivity
- Lack of organizational focus
Fundraising Issues

• Unwillingness to ask for money
• Reciprocity
• Overcommitted boards
• Board size
• Lack of fundraising skills
What Can We Do About It?
Governance Essentials

Improve **communication** to prospective and new members regarding responsibilities.

Be clear and serious about financial **commitments** from the beginning.

Conduct ongoing board member **assessments**.

- Term limits/rotation
- Advisory committees
- Grandfathering
Fundraising Essentials

- An energized board
- Optimal board size
- A willingness to ask for money
- A fundraising plan
- Fundraising training
- Clear “give or get” requirement
- A meaningful, personal commitment