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Volume 18, Issue 1

The Nonprofit Quarterly

Spring 2011

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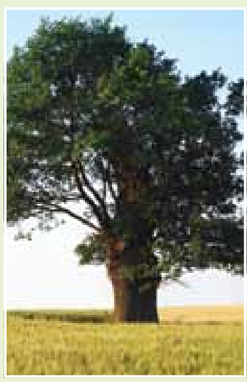

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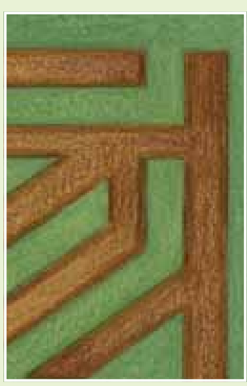

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The Nonprofit Quarterly

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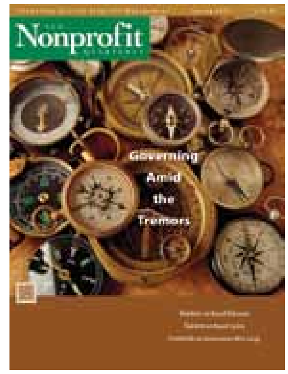
Welcome



Dear readers,

Welcome to the spring 2011 edition of the *Nonprofit Quarterly*, which focuses primarily on the topic of governance, with a minor in finance.

My favorite part of putting this issue together was asking all of you what was happening with your boards. We are always interested in what is actually going on in the field and how you analyze it, because without knowing that, how can we really be helpful? So, in this year's annual survey, we asked whether you had seen changes on your boards. Your answers helped us frame our own approach to the topic.

And that is as it should be. While every once in a while we need to introduce something new out of left field, most of the time it is you who should be telling us what we need to explore next.

In this issue we have a number of fascinating articles that, taken together, can provide a good deal of fodder for discussions at the board level. Two respond directly to what we saw in your responses to our survey. The first, "Here We Go Again: The Cyclical Nature of Board Behavior," by Julia Classen, is based on some research that, I think, has been slightly misrepresented in the twenty years since it was conducted. The article discusses the fact that boards often cycle through periods of attention and inattention—no matter what you do—and that the quality of board engagement often has more to do with externalities and the organization's capacity at the staff level to deal with those externalities than it does with any development path of its own. This knocks out the "stages of board development" theory, which never resonated for me particularly, and it seems to key well to the responses we got from you about how boards have been responding to the downturn.

The second article, by Jeanne Bell, should be read by every board in the United States. It takes as its premise that the financial oversight practices of most boards are nice but insufficient, and proposes a different role for boards in designing the financial sustainability of the organization. In fact, it is what many boards have been driven to in these times, and as a hard-won lesson it cannot be beat. Bell's writing is characteristically clear and powerful. Do not just read this article—use it!

There are a number of other excellent articles in the issue, of course. Our own Woods Bowman has contributed an eye-opening article, "The Nonprofit Difference," on some of the oddities of nonprofit financial structures and how they are the same as and different from those found in the business world; and Pat Bradshaw and Chris Fredette have written up some research they have done that pushes at the core of why many board "diversity" strategies do not work. In general, we believe this issue contains so many insights and ideas that you would do well to read it thoroughly and share it with your colleagues and board members.

As always, we'd love to know what you think.

The Nonprofit Ethicist

by Woods Bowman

DEAR NONPROFIT ETHICIST,

Recently, my organization's executive director proposed a new board member to our board governance committee. He is a private business owner who actively supports social-justice issues in our community. (Despite our substantial credibility within the community and with the justice system and local government, we have abysmal support from the business community for our interfaith criminal-justice agency.)

The committee chair objected to the business owner's membership as a conflict of interest, however, arguing that as the business owner's wife does minor bookkeeping for the agency on a contract basis, he would have to recuse himself from voting on financial issues. And, the chair argued, since recusal would be problematic for the board, the candidate should not be considered.

At the same time, the board recruited an accountant to serve as board member and treasurer, and arranged for him to handle the agency's accounting at no cost. This plan was made without the involvement of the executive director, who objected to the arrangement because it might place the organization's accounting under the control of the board rather than the executive director, and would eliminate the separation of fiscal responsibilities.

What's ethically right and wrong here?

Conflicted

Dear Conflicted,

Is this a trick question? Both actions are wrong for different reasons.

Situation one: Certainly the prospective board member should recuse himself from decisions involving his wife's contract, and he should not sit on the audit committee. But barring him from participation in any financial decision is ridiculous. It seems to be code for, "We just don't want him." The real issue turns on what you mean by "minor bookkeeping." If these tasks are more substantial than you think, other reasonable restrictions may be in order. At the extreme, if the wife is the de facto chief financial officer (CFO), the committee chair has a point.

Situation two: The answer is indirect, so bear with me. The Ethicist disapproves of executive directors who sit on their own boards, because they can subtly control the board's oversight function. It is worse when an executive director and a CFO both sit on a board. And it's worse still when a CFO sits on the board but an executive director does not, because the CFO can subtly control oversight of the finance function and create all sorts of problems for the boss.

Do you see where this is going? A board member who does the organization's financial work, although a volunteer, is like the third situation: not good at all. This "super volunteer" should do one job or the other, but not both.

Dear Nonprofit Ethicist,

One of our organization's board members is the mother of an employee. Is this a conflict of interest? Our executive director feels uncomfortable bringing personnel matters to the board, because we have reason to suspect that, unlike Vegas, what is said at the board meeting does not stay at the board meeting. How should we handle this?

Curious

Dear Curious,

It is so much better not to create this situation in the first place. Have people no anticipatory antennae? Let's assume that there is a compelling reason for this mom to be on the board, and take it from there.

Unfortunately, boards have a tendency to leak information like, um, the Titanic—even when dealing with sensitive issues that they would rather keep to themselves. This is a sad but true reality. Dealing with confidential information is always problematic. If the employee is not in a policy-making position, the strict conflict of interest may seem minor, but the potential for leakage could be major because an employee may not feel duty-bound to keep sensitive information from rocking the boat.

I understand the executive director's discomfort. This is an excellent time to establish a personnel committee of the board, where sensitive personnel matters can be addressed—and where they should stay. Of course, the committee should not include mom. And maybe that same personnel committee might make it its business to address the nepotism issue with an eye toward protecting the organization more thoroughly.

The executive director may also be concerned about the mother leaking information that is not confidential in a technical sense (personnel and legal matters) but might be premature for the staff to find out. But even without a family relationship involved, this can and does happen. At some point, we have to trust the common sense of board members.

Dear Nonprofit Ethicist,
The CFO of a huge regional nonprofit in Houston, Texas, has fiduciary responsibility for roughly $250 million, the majority of which is taxpayer funded. He is a convicted white-collar criminal who has been barred for life from serving as the CFO of any publicly traded American corporation. Is his hiring and tenure ethical in the third sector?

Worried

Dear Worried,
It's certainly unethical, and it's stupid to boot. It is alright to give convicted felons a second chance, but (1) there should be concrete evidence that they have reformed; (2) the organization should perform a background check to see whether other malfeasance arises; (3) they—and anyone who handles money—should undergo a credit check; and (4) they should not be hired into jobs that offer the same temptations as those to which they succumbed when they broke the law.

Just as child molesters should be kept away from children, embezzlers should never be allowed to handle money. If this person is barred for life from serving as the CFO of publicly traded American corporations, the organization was stupid to put him in charge of its money. Considering the amount of money involved, it was really, really stupid.

Dear Nonproft Ethicist,
I am on the board of two performing-arts organizations. In the recent past, both have run in the red—but one more than the other, and the other has no reserves. I believe that the nonprofit without cash offers a higher-quality product, but we all know that the world isn't fair. On the other hand, the organization with cash flow seems to be waiting for the other to fail so it can lay claim to the ruins—or whatever is left of audience share, donors, and so on. I believe that this wealthier organization has helped contribute to the instability.

This situation makes me uncomfortable. I have a duty of loyalty to both. If I quit the stronger one and stay with the one I prefer—which I am considering—it seems like a violation of my duty to keep quiet about what I know about the other organization's motives. On the other hand, I believe I have an ethical duty to the wealthier organization to keep inside information confidential. I am confused about what is ethical in this situation. Can you help?

Torn in Two

Dear Torn in Two,
If the financially weaker organization folds, there is no guarantee that the other can pick up the pieces, because consumer loyalty may vanish with it. If the weaker organization is on the brink, why not use your good offices to minimize its immediate vulnerability or actively work to effect a merger? This would allow artistic issues to be worked out in advance, thereby minimizing loss of support for the surviving organization. You do, of course, have an ethical duty to keep inside information confidential, but that should not stop you from helping to host some "getting to know you" conversations between the weaker organization and the stronger one. It sounds like the larger organization, on whose board you sit, may be interested in a merger, but if there are other potential mates, get acquainted with them too.

Mergers are never easy, however. The Ethicist has never seen a merger of equals: one organization effectively acquires another. Usually, the financially stronger organization is in the driver's seat. But this arrangement both saves face for those associated with the acquired organization and, more important, minimizes service disruption for consumers.

The most difficult conceptual issue is reframing the mission, but the messiest practical issues involve personnel. Who goes? Who stays? The new organization would need to be a blend of both organizations to succeed. The boards of both would want to use the opportunity to rethink the needs of the community, and everyone should think outside the box. The goal would be for the merged organization to create new excitement about the arts.

Woods Bowman is a professor of public service management at DePaul University in Chicago, Illinois.

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New Boards for a *New World*

by Ruth McCambridge

There were a lot of "dis" words attached to these situations: "disengaged," "disinterested," "disorganized," and "disjointed"—and one "dys" word came up again and again: "dysfunctional."

Every year, *NPQ* prepares a survey to ask you—our readers—what is on your minds. This year, we had an extra question for you: Are you noticing any changes in your organization's board, and if so, what?

Some of you said that you had seen no change or a slow continuing decline. There were a lot of "dis" words attached to these situations: "disengaged," "disinterested," "disorganized," and "disjointed"—and one "dys" word came up again and again: "dysfunctional."

In some cases, staff reported being blamed for fundraising declines and the loss of contracts:

> *"The more frustrated the board is regarding raising funds, the more they think it is the staff's fault."*

> *"The board has become obsessed with funding—not with raising it but with obsessing on its erratic ups and downs. . . . The board looks to what can be cut rather than how to strengthen the agency—even in these times—to ensure an even greater impact on troubled lives and a distressed central city."*

> *"In the midst of revenue decline the BOD has become hyper-vigilant, tending to micromanagement—asking for frequent interim financial and fundraising status reports. Staff has felt that strategic leadership is unstable as board has been in this hyper panic mode."*

And in other cases, board members just wandered away, struggling with their own intensifying problems related to the economic downturn.

But 58 percent of you said that you had indeed seen a discernable change, with most characterizing the shift as a greater sense of urgency on the part of the board, which in turn engendered more board member participation and focused attention on the organization's financial dynamics and programming:

Ruth McCambridge is the *Nonprofit Quarterly*'s editor in chief.

> *"The dynamics have changed rapidly, especially driven by the need to find new/replacement revenue. The poor economy and tightened resources have put unprecedented urgency on planning."*

> *"We had to ramp up our financial sophistication; our new business model gives us more cash flow vulnerability."*

> *"[The board has] become more focused on results as resources have become more scarce."*

> *"[Board members] are increasingly involved due to the significance of the issues. This is both good, because they have a variety of strategic ideas on important issues, and challenging, because it sometimes leads them into non-governance territory. . . . More problems in the state's ability to pay, combined with rule changes and drops or losses in funding that are unprecedented in our forty-year history, have sparked the changes."*

Interestingly, the challenging economic environment caused some boards to become more "conservative and risk averse"—driving them to controlling and micromanaging behavior:

> *"Our board has become much more conservative and focused on a single financial bottom line—sometimes crossing the line into management prerogatives."*

Others were reported to have become more innovative and creative:

> *"The board is opening up to more creative and provocative ways of fundraising and awareness raising."*

And willing to step up to even the most difficult issues . . .

> *"[They have] an increased participation in advocacy programs and a willingness to tackle difficult issues."*

> *"While they voted reluctantly to cut salaries, they have clearly taken on the emotional as well as the practical burden of this decision. They have significantly increased activities designed to increase employee morale and thank employees, and they have also increased their development activities."*

> *"The board spends very little time managing and more time thinking about the long-term good of the organization. It's been great. We went through layoffs and there's been no second guessing—only support for management and those who stayed. They understood how hard it was and backed up all of our decisions. The board is also more interested in fundraising and are looking at themselves more critically, wondering if we have the right people on the board. They are less tolerant of people who don't attend meetings. . . . We have had some conflict on the*

While the challenging economic environment caused some boards to become more "conservative and risk averse"—driving them to controlling and micromanaging behavior—others were reported to have become more innovative and creative.

board but it's all been positive—very issue-based and not at all personal. I think we've made better decisions . . . as they saw our finances deteriorate and then people and programs cut, they realized that if they don't follow through, the results can be pretty drastic. ”

If we do not as a standard of practice codify advances like the one suggested by Bell, when the crisis wanes so may the board's appetite for this core fiduciary work.

And for some organizations, there is both positive and negative intensity keeping the board engaged:

> “*The board is more engaged because we've had huge successes, but our financial status is fragile. The combination has increased [board members'] participation in meetings, prompting them to plan a retreat where we will think about the mission and strategize about programs and income. That has pushed them to make some very difficult decisions that have been necessary for the organization to move forward. It's also motivated them to take their own roles seriously.* ”

> “*We are a thirty-year-old organization that was 100 percent government-funded . . . the agency has experienced significant challenges which have forced the board to engage as they never have before (governor veto of a program that was 25 percent of our funding, subsequent staff layoffs, changing funding landscape, etc.). It is evident which board members are only interested in maintaining the status quo (showing up, nodding and eating cookies) and those who are beginning to ask great questions and then find the answer that is best for us right now.* ”

As we look at this 2010 profile of boards garnered from our readers, the picture is anything but consistent. Still, there are some recurring themes encompassed in the reports, and perhaps most important among them is a new willingness on the part of many boards to dig in and understand their organization's programmatic and financial choices in terms of impact and sustainability. Jeanne Bell addresses this in her article "Beyond Financial Oversight: Expanding the Board's Role in the Pursuit of Sustainability," later in this issue. Bell's article makes a clear distinction between a board's financial oversight/monitoring capacity and its capacity to help craft a clear and aligned programmatic/financial design that speaks to the best interests of the constituents, while attending to the future prospects of the group. I would venture to say that if this period of time could produce an understanding of the need for that higher level of financial literacy among boards, it would be an advance of some significance.

But in this issue you will also find Julia Classen's article "Here We Go Again: The Cyclical Nature of Board Behavior." Classen's article suggests that after their first founding period, many boards cycle between periods of attention and inattention, and that these cycles are largely determined by a combination of external stressors and internal capacity, but not really very much by the composition of the board itself. This suggests that if we do not as a standard of practice codify advances like the one suggested by Bell, when the crisis wanes so may the board's appetite for this core fiduciary work. It behooves us to introduce our boards to the distinction, and urge them to the framework suggested by Bell.

Let us know how it goes!

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Beyond Financial Oversight:

Expanding the Board's Role in the Pursuit of Sustainability

by Jeanne Bell, MNA

THROUGHOUT THE TEN YEARS PRIOR TO THE recession, it seemed that whenever anyone talked about boards and finances in the same sentence they were making a point about accountability. They were warning us that our Form 990s were now on GuideStar, so we'd better make sure that our boards were reading them. They were telling us to have an audit committee and a "Conflict of Interest" policy. They were telling us that we should study Sarbanes-Oxley and apply whatever we could to our own boards. They were making constant reference to a handful of nonprofit fraud cases, suggesting that this was what awaited us if our boards did not get very serious about oversight and accountability.

Throughout the ten years prior to the recession, it seemed that whenever anyone talked about boards and finances in the same sentence they were making a point about accountability.

Now, as community-based organizations continue to weather the severe, and in many cases

Jeanne Bell, MNA, is the CEO of CompassPoint Nonprofit Services, which provides organizational and leadership development services to nonprofits.

permanent, shifts in their operating environments caused by the recession, those accountability concerns seem downright quaint. The truth is that one of the roles that most decently functioning boards play quite well is providing financial oversight. Compared to other board functions, financial oversight is relatively clear: there is a dedicated officer role, the treasurer; nearly all boards have a finance committee; and there are tangible products such as an annual budget to approve, financial statements to distribute, and an auditor to select.

Board finance committees can look at annual budgets, financial statements, and audits forever, but if some group of board members is not considering those financial results in light of the organization's programming mix and its results, then their efforts are very unlikely to contribute to sustainability.

The problem is none of those tangible products in and of themselves has anything to do with nonprofit sustainability. And it is sustainability that is keeping executive directors up at night, not financial oversight. In a new book I coauthored, *Nonprofit Sustainability: Making Strategic Decisions for Financial Viability*, my colleagues and I define sustainability as being both programmatic and financial:[1]

> Sustainability encompasses both *financial sustainability* (the ability to generate resources to meet the needs of the present without compromising the future) and *programmatic sustainability* (the ability to develop, mature, and cycle out programs to be responsive to constituencies over time).

In other words, board finance committees can look at annual budgets, financial statements, and audits forever, but if some group of board members is not considering those financial results in light of the organization's programming mix and *its* results, then their efforts are very unlikely to contribute to sustainability.

Our boards, not unlike many of our staffs, are artificially siloed into groups that consider financial results, groups that consider programmatic results, and groups that consider fundraising results. Yet, for those of us without an endowment or many wealthy annual donors, program results in large part drive financial results. It is how many clients we case-manage that yields a particular contract reimbursement. It is how many units of housing we build that yields a particular developer's fee. It is how popular our new play turns out to be that yields a particular box office revenue. And just as critically, it is how many people respond to our direct mail campaign and to our special event invitation that determines how much subsidy we can raise for programs that don't cover their own costs. Put another way, if the board finance committee doesn't like the financial results it is seeing as it provides oversight, what is it going to do about it? It has to look to the programs and the fundraising activities of the organization to yield different financial results; that's the only way to make the financial statements say anything better.

So while financial oversight is absolutely critical, it is hardly sufficient. Boards of directors charged as stewards of an organization have to be fundamentally knowledgeable about and actively engaged in the business models of the organizations they govern. And nonprofit business models are typically the antithesis of siloed; they are instead a very interdependent mix of programs and fundraising activities that work together to achieve a set of impacts and financial results. How engaged are most boards in that interdependence? And if they are *not* engaged, how can they meaningfully assist with the dogged pursuit of sustainability in which so many of their executives find themselves?

The complex challenges facing community-based nonprofits require that we shift our mental model from boards being primarily about financial oversight and accountability, to boards being concerned in an ongoing way with the financial sustainability of their organizations.

When pivoting a board of directors from a strictly oversight orientation to a sustainability orientation, there are a number of things to consider. For instance, a board with a sustainability orientation requires board members who are financially literate. By this I mean that everyone has, or is actively developing, an understanding of the financial statements they receive. They have the fluency, for instance, to ask how a core program is performing both financially and programmatically. If only two or three people on the board can read the financial data, the board is unlikely to have holistic conversations that

Is Your Board Sustainability-Focused?

If you are considering making the pivot from an oversight orientation to a sustainability orientation, consider using these discussion questions to start off the conversation at your next board meeting:

1. How financially literate are we as a group? If we have knowledge gaps, how will we work together to close them, and by when?

2. Is our finance committee engaging in the key business-model questions facing our organization, or is it focused primarily on monitoring budget variance and preparing for the audit?

3. What major sustainability decisions are before us as an organization, and how will we structure our board and committee-meeting agendas over the next three to four months to ensure we make those decisions effectively?

4. Overall, how healthy is our organization financially? Is it healthier today than it was three years ago? Why or why not? When our board terms end, where do we want to leave the organization financially?

5. How strong is our partnership with staff leadership around issues of sustainability? Are we sharing information and ideas across staff and board in a way that truly leverages our individual and collective strengths and networks as board members in the sustainability pursuit?

take both mission impact and financial return into account. With a sustainability orientation, financial statements become a useful tool in the ongoing discussion of where the organization should go next rather than merely reports that the treasurer assures everyone he or she has reviewed on their behalf.

Practically, this means that board chairs and executives need to team up in creating a board culture that expects and supports financial literacy from all members. During the recruitment and orientation of new board members, thorough and transparent discussion of the organization's business model and its current financial challenges and opportunities should be central. A board with a strong sustainability orientation will most likely pass on the potential recruit who uses stale language such as, "I am not a numbers person. I leave that stuff to the treasurer." The response should be, "Our board is focused holistically on the sustainability of this organization, so everyone engages with our financial results. We will train you and support your development as a financial leader, but you have to be committed to our stance on this point to be successful on this board." In addition to this kind of strategic recruitment and orientation, board chairs and executives should prioritize financial training opportunities and consider mentoring among board members to support members who are in active development of their financial literacy. Once a year, all board members should receive a one-hour refresher on how to read and interpret the organization's particular set of monthly financial statements.

To signal and reinforce this sustainability stance, chairs and executives should consider renaming their finance committees and adding nontraditional members—folks who are financially literate but who have program or fundraising as their primary orientations, for instance. A board committee called "Finance and Sustainability" that is composed of both finance experts and programmatic folks actively engaging with the business model's concerns will support the pivot to a "beyond oversight" board. When a diverse group of members is reviewing and discussing the numbers, not only can it go beyond merely reporting to the full board how close to its budget the organization is or is not, it can also frame for the board the questions of "why?" and "what might we do about it?" With this approach, the treasurer role evolves from that of a CPA, who is among the only people able and willing to review financials, to a full leadership role that supports the full board's meaningful focus on the complex questions and difficult decision making of the sustainability pursuit.

Another key shift required for a sustainability orientation is the normalizing of profit. Profit, like program impact, is fundamental to sustainability. A board of directors that is uncomfortable

A board with a strong sustainability orientation will most likely pass on the potential recruit who uses stale language such as, "I am not a numbers person."

A board that is focused on sustainability will be working a handful of key business-model issues all the time.

budgeting for surplus and unwilling to face the brutal facts about the prospects for profitability of core activities is not operating with a sustainability orientation. It is important not to conflate profitability with earned income, however. Many community-based nonprofits achieve profitability—that is, consistent annual surpluses—through a mix of earned and donated income. A special event can be just as profitable as a fee-based service to the community. The key is for boards to be looking for profit wherever it can be generated in the model, and to be ensuring that, as a set, the organization's activities yield more than they consume.

Through the recession, many leaders have had to face the reality that they can no longer subsidize core activities that do not cover their own costs. The fact that an activity is core to an organization's mission and very needed by its constituency does not necessarily mean that the organization can afford to keep it in its business model. So many executives I talk to now lament not having faced those realities sooner. I attribute this reticence to act on unsustainable deficits in part to boards of directors not deeply engaging in *why* and *how* their organizations were incurring deficits. That is, they didn't deeply understand which activities in their business models were losing money, and how much; instead, they talked in macro terms about the organization's overall "not hitting budget." Part of pursuing sustainability is determining the desired profitability of every core activity—programmatic and fundraising. While most community-based organizations will elect to subsidize a handful of money-losers—allow the profits from an annual event to offset the losses in the government-funded job training program, for instance—the board should be very clear on these decisions and ensure that those subsidy decisions do not result in deficits for the organization overall.

The nature of financial plans and reports shifts too with a sustainability orientation. Ironically, the classic tools of annual budget, monthly financial statements, and an audit can actually keep a board focused on oversight rather than business-model sustainability. When boards focus too much on annual budget variance, for example, I find that they are often not sufficiently engaging in *projection*. Rather than focusing all of their analytical energy on how close the organization is to numbers it predicted six or eight months ago, members of the Finance and Sustainability Committee want to be anticipating the next several quarters' results, too. We spend too much time providing oversight on things that already happened, and not enough time considering the financial road ahead. For-profits engage in rolling projection, and I believe that nonprofits should do this as well.

Rolling projection moves the board of directors away from the silly obsession with "hitting the year-end budget" and toward the capacity to make earlier and better decisions given the economic forces happening in real time. Fiscal years are artificial time frames. All major decisions will have economic impact far beyond the current fiscal year. Put another way, it is just as important to have a good July as it is to have a good June. When boards focus only on predicting the coming twelve months (annual budget), monitoring variance from that increasingly outdated prediction (monthly financial statements with budget variance), and reviewing the past year's statements (audit), they risk not actually engaging in the pressing and emerging business issues facing their organizations right now. Again, financial oversight is critical but insufficient for sustainability.

A board that is focused on sustainability will be working a handful of key business-model issues all the time. In this economic climate, very few community-based organizations do not have to rethink some aspect of their business models. The Finance and Sustainability Committee members will partner with staff leadership to articulate those issues and find meaningful ways for the full board to understand them and, where possible, contribute to their resolution. For instance, the committee may come to the realization that the organization needs to close or transfer its drop-in program for teen dads because, while valued by the community, it has lost money for three years in a row, and its government contract is unlikely to survive the next round of county budget cuts. A committee member can partner with the executive director to craft a presentation to the full board, laying out the data and framing the key questions for board decision making: Are we prepared to end this program, and if so, by what date? Are there elements of this program that we can transfer to a collaborator or competitor? Are there financial implications of closing this program that we need to understand (for example, laying off staff, alienating a key funder, or losing the contract's modest contribution to defraying overhead costs)? One board member can be engaged in reaching out to another community organization about the potential for program transfer; another board member can join the executive director in breaking the news to the government funder; and so on. In this fashion, the full board is actively engaged in decision making and execution on a business-model issue essential to the organization's sustainability.

For too long, too much of our boards' finance focus has been on reviewing the past. For many nonprofits, this meant decision making was too slow in the face of the mounting recession. Modest reserves were depleted, and organizations were left exceedingly vulnerable during a time of great community need. The lesson of the recession is that boards must engage not only in financial oversight but also in the pursuit of sustainability. To do this well, boards have to be composed of financially literate members who engage in real-time analysis and focus on answering the complex business-model questions their organizations face today.

> For too long, too much of our boards' finance focus has been on reviewing the past. For many nonprofits, this meant decision making was too slow.

Endnote

1. Jeanne Bell, Jan Masaoka, and Steve Zimmerman, *Nonprofit Sustainability: Making Strategic Decisions for Financial Viability*. San Francisco: Jossey-Bass, 2010.

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Here We Go Again:
The Cyclical Nature of Board Behavior

by Julia Classen

"I've been here a long time and I've seen all this behavior before. I'm just so tired of it!"

I WAS TALKING WITH AN EXECUTIVE THE OTHER DAY about the problems she was having with her board, when she declared, "I've been here a long time and I've seen all this behavior before. I'm just so tired of it!" At that moment, I remembered an article by Miriam Wood, titled, "Is Governing Board Behavior Cyclical?"[1]

While digging out the article to reread it, I thought about all the changes that have occurred since the article was first published, in 1992. Since then, the nonprofit sector has seen exponential growth, increased professionalism, and an explosion in academic research, with a concomitant number of undergraduate and graduate degrees awarded in the field. Nonprofit governance research and practice have grown to the point that there is now a biannual conference that brings together scholars and practitioners to explore and advance the body of knowledge in the field. I found myself wondering whether the board behavior framework advanced by Wood was still as applicable today as it was in 1992. To address this question, I have drawn upon information from *NPQ*'s 2011 reader survey, and my own experience serving on nonprofits for more than thirty years as well as working for nonprofit boards as a consultant.

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Responding to Crises, Not Episodic Tensions

In her article, Wood describes a framework for nonprofit board behavior that begins with a nonrecurring founding period followed by a set of three distinct operating phases: *supermanaging*, *corporate*, and *ratifying*. When an organization reaches this last phase, it experiences a transformative change precipitated by an internal or external crisis, and the process begins all over again . . . and again . . . and again. These crises are fundamental to an organization. They are not small episodic tensions but rather events that jar the organization and compel the board to act differently. As an *NPQ* reader describes it, "The agency has experienced significant challenges which have forced the board to engage as they never have before."

Each time a board enters a new cycle it is different from the previous one, because the organization and external environment will have changed. The board's response to each new cycle will often be different, too, because the crises that move them are always evolving.

The Founding Period

The founding period has two sub-phases: collective and sustaining. In the collective phase, the board generally embodies the mission and believes the organization to be worthy of significant involvement. During this phase, board members serve because it fulfills a personal as well as a professional need. In the early days, weeks, or even years, there may not be a paid executive, but a leader does




eventually emerge. At some point, after funding has been secured, an executive is hired.

At this juncture, additional funding begins to flow in, and this often marks the shift to the sustaining phase. In this phase, the original board members begin to leave when they see that the organization has created a model that is relatively stable and has adequate resources, and new members take their place.

Despite its name, the founding period can last for years. It usually takes a substantial crisis to propel the board into the *supermanaging phase*.

Despite its name, the founding period can last for years. It usually takes a substantial crisis to propel the board into the *supermanaging phase*.

The Supermanaging Phase

As former member of the founding board of a community-based organization that provides direct services and advocacy for an underserved population, I watched as we followed the above series of events precisely. The organization had become well regarded—known for its ability to achieve large victories with a small and innovative group of staff members. Many of us on that founding board left when we felt that the organization was stable, with paid staff members, key signature programs, a solid funding stream, and a clear path forward. The next generation of community members who joined the board was as committed as the founding members but relied on the executive to raise funds, further develop the program, provide the analysis of community needs, and set the organizational direction. Then a crisis occurred.

The crisis was financial. The organization had come to rely heavily on a single stream of income for more than 50 percent of its budget; then, in the space of three years, that income stream declined by 75 percent. The board had not questioned the lopsided nature of the budget nor provided direction to the executive about how to manage the income. Board members relied on the executive to raise the funds and monitor the expenses. They simply approved the reports and budgets as necessary, and focused on development of the programs.

Enter the supermanaging phase. A characteristic response to crisis during an organization's founding period is to recruit board members with specific professional expertise or skills. Wood calls them MAPs (middle-aged professionals). Typically, MAPs are bureaucratic and rational in their approach—or, as Wood describes it—"corporate." MAPs are planners who like to know how the organization will achieve its goals. Like board members in the collective phase, they are committed to the organization's mission and they also understand that serving on the board may benefit both their altruism and their professional development. Thus, they are more practical in their approach to board work and what they hope to gain from it.

A supermanaging board recruits members for their skill sets and networks, and is more inclined to ask questions of the executive rather than simply ratify his or her actions. Committees that may or may not have already been in place are engaged and active. The board supplements information from the executive with informal sources that may include stakeholders, funders, committee members, etc.

As reported by Ruth McCambridge in this issue, *NPQ* readers were asked in a survey what changes they were noticing—if any—in their organization's board. One reader described "a great sense of urgency, which in turn engendered a greater sense of urgency, which in turn engendered more participation." Another reader gave the following description:

> [Board members] are increasingly involved due to the significance of the issues. This is both good, because they have a variety of strategic ideas on important issues, and challenging, because it sometimes leads them into non-governance territory . . . More problems in the state's ability to pay, combined with rule changes and drops or losses in funding that are unprecedented in our forty-year history, have sparked the changes.

Tensions may emerge between the board members and the executive as the power dynamics shift. The board may be perceived as no longer under the executive's thumb. Board members who had been acting as volunteers may now be seen as unprofessional, compromising the role of the board because of their dual service to the board and the organization. The board members begin to define their primary roles to be stewardship and oversight, and thus expect greater accountability and transparency from the executive. At this point, the board has begun to move into the *corporate phase*.

The Corporate Phase

During the financial crisis at the organization I described earlier, some board members left and MAPs were recruited to take their place. This new board, along with the executive, made a series of difficult decisions that stabilized the diminished organization. The board committees, which previously had been meeting sporadically, began to meet regularly and worked closely with staff members. The board initiated a strategic planning process, created a formal process to review the executive, and began to have strong attendance at meetings.

Another important change was the shift in allegiance from the executive to the organization, as board members became more focused on the organization's success. They became more willing to question the executive's actions, intervene when necessary, and overrule the executive's decisions. The board was now acting as the organization's manager.

Over time, the board members began to manage less, work more on board development, and create systems of oversight to ensure the financial crisis would not be repeated. The organization is still in this phase. It has gone through transition from a long-serving executive director to an interim executive director to a full-time executive director—and, recently, yet another new executive director—as well as significant board membership turnover due to exhaustion. Now that the organization has become stabilized with its strong third director and core group of MAPs, the board hopes to move forward. Once again, some sort of external or internal shift occurred to bring the board to the cusp of its new phase.

To some, the corporate phase is nonprofit governance nirvana. The committees meet regularly, the board is focused on mission and oversight, and decisions are made based on insightful and clear information provided by the executive director and leadership staff. The board makes policy decisions and staff members implement them, providing the board with complete and accurate reports on their progress in achieving the policy decisions and goals outlined in the strategic plan. The board may also receive additional internal and/or external information pertaining to organizational effectiveness, response to organizational needs, etc., from consultants, researchers, and organization partners.

An *NPQ* reader described her corporate board as having achieved just such an ideal state:

> The board spends very little time managing and more time thinking about the long-term good of the organization. It's been great. We went through layoffs and there's been no second-guessing—only support for management and those who stayed. They understood how hard it was and backed up all of our decisions. The board is also more interested in fundraising, and [board members are] looking at themselves more critically, wondering if [they] have the right people on the board. They are less tolerant of people who don't attend meetings . . . We have had some conflict on the board but it's all been positive—very issue based and not at all personal. I think we've made better decisions . . . as [we] saw our finances deteriorate and then people and programs cut, [we] realized that if [we] don't follow through, the results can be pretty drastic.

During the corporate phase, board-recruitment efforts focus on developing a board with more community, financial, and social clout. The operations of the board and organization become more professional and routine, and power flows smoothly from the board to the executive. However, sustaining this nirvana can be challenging. It is always a challenge to keep the board well informed and engaged. It is a balancing act to both engage the passion of the board members for the mission of the organization and tap into their skills and expertise without over-informing them, thus implying that they should manage rather than lead. On the other hand, under-informing a board can make members feel irrelevant or unnecessary. In my consulting practice, I have seen executives handle this balancing act by consciously weighing each communication with their board, and asking themselves the following questions:

1. What does the board need to know?
2. What does the board want to know?
3. What is my purpose in communicating this information to the board?
4. How can I get the board's best thinking to assist the organization?

To some, the corporate phase is nonprofit governance nirvana.

5. What board decision, action, or outcome do I wish to achieve?

But nothing lasts forever. Over time, a board's oversight and strategic decision-making functions may diminish, and meeting attendance may become sporadic. Recruitment of new board members often focuses more on how much time a prospective member has to contribute to the organization than on the prospective member's capacity to advance the organization's mission. Board discussions may become less robust and organizational leadership may be firmly placed with the executive and leadership staff members as the board moves into the *ratifying phase*.

But nothing lasts forever. Over time, a board's oversight and strategic decision-making functions may diminish.

The Ratifying Phase

During this phase, boards tend to meet less frequently and/or for shorter periods. Expediency is important, as the board comprises increasingly prestigious and busy individuals. Information is circulated almost exclusively by professional staff members, agendas for board and committee meetings are created by the staff, and the board or committee chairs follow those agendas. The executive has great autonomy and manages the board so that it performs its duties in a cursory manner.

Unlike the previous phases, the board in a ratifying phase may not be as cohesive a group, and members may not know each other very well. They are less likely to be spending much time thinking about the organization beyond the thirty minutes preceding each meeting. In sum, the board is functional but largely disengaged from the organization.

Starting Anew

This is where the cycle starts over again. A crisis occurs and a new cycle begins, starting with the supermanaging phase and continuing with other crises that move the board from phase to phase, helping the board to make the larger shifts that are necessary to its continued relevance to the organization.

Additionally, funding environments change, the nonprofit sector changes, and organizations often change, thus requiring the board to change as well. Each of these phases has a time and a place, but for various reasons none of them is permanent—either because members get too disengaged or burned out, or because they do not evolve with the organization.

When a board shifts from the ratifying phase to start the cycle over again, things look a little different. In fact, the changes that precipitate the movement from one phase to another may seem more intentional in response to internal or external contingencies. Regardless, the movement will still be precipitated by a new need that calls for a substantially different response from the board.

Another nonprofit organization I know of serves as a good example of the second cycle of Wood's framework. This small, infrastructure-building organization focuses on developing the nonprofit sector and serving a community need, and has been in existence for decades. The board had recently hired a well-regarded executive with excellent professional credentials. As the executive and board chair began looking at their board, the mission of the organization, and the level of organizational activity, they saw that something was amiss.

For decades, the organization had worked extensively one-on-one with nonprofits. As the sector grew, the number of nonprofits it worked with remained static. The organization was quickly becoming obsolete. Yet the board was in no position to strategically lead the organization to grow or shift as the environment changed. While the board comprised professionals who were well regarded because of their work, service, and knowledge, they met only bimonthly and had sporadic attendance. Interestingly, the board met at locations other than the nonprofit office, emblematic of the distance between the board and the operations of the organization. This board was in the ratifying phase.

The organization began to have annual budget deficits, and fundraising became increasingly difficult. As the board chair and executive saw the organization's relevance and resources diminish, they began to question their program model. Some board members engaged, and some left. The board began a strategic planning process that called for evaluation of the model and the possible creation of a new one. The board began utilizing its committees, asking for additional information from the new executive as well as from outside resources, conducting stakeholder interviews, and talking with staff members about their current model. The board began looking at the way staff members executed their current services and programs, and realized that the future of the organization was in jeopardy if it did not act. It had entered the supermanaging phase.

The board worked with the executive to develop a new programmatic model, convened stakeholder meetings to gather input and respond to questions and concerns, worked closely with staff members in leading the transition, and spoke with funders about their commitment and leadership with regard to the effort. The executive worked side by side with the board. As the new model was implemented, specific board members were asked to review it, and gave significant input to its development.

Finally, as the organization turned the corner, the board took a step back and moved toward the corporate phase. The board still has significant engagement in some of the program decision making, but it no longer participates in its implementation. The board returned to setting direction rather than setting and implementing change efforts.

This organization's executive did the following to move the organization into the next phase:

1. Welcomed the re-engagement of the board;
2. Partnered with the board chair to lead the change effort; and
3. Understood that the supermanaging phase was an indicator as well as an opportunity for strategic organizational change.

One of the major insights to be found in Wood's description of the cyclical nature of boards is that board behavior is not static but dynamic. It is driven by crises, some of which are beyond the control of the organization. Our current recession is a good example. Other crises may be triggered by such external or internal events as the loss of a major funder or a leadership transition. But crises can also stem from the board itself—whether from lack of oversight or undisciplined behavior.

An organization I worked with as a consultant had a board that was described as "out of control" by the interim executive. The organization had a budget in excess of $20 million. The board was externally mandated to have a mix of community members who were service recipients, MAPs, and elected officials.

In the year preceding my consulting with the board, they had fired their executive, stopped having an armed guard at board meetings, and directed officials to appoint representatives to the board rather than serving themselves.

The board members frequently battled openly among themselves. They felt emboldened to review and direct individually and collectively the most minute operations of the organization. The staff, having seen an executive get fired for questioning this behavior, was reluctant to confront them. The board had gone rogue. As the board continued down this path, funders both large and small began to withdraw, or threatened to do so.

Through training, pressure from outside funders, and the comprehension that in order to hire a new, high-caliber executive they would have to change, the board got back on track. The organization continues to provide vital community services now that it has the leadership of a dynamic executive and board.

This is why I believe that understanding Wood's framework describing the cyclical nature of board behavior is important. In the example above, the staff members and funders needed to believe that the board could and would change. They needed to trust that it could move to another phase that would enhance the organization rather than diminish it. They needed to believe that *this too shall pass*.

So the question of whether Miriam Wood's framework is still relevant nineteen years later is settled: Yes, indeed it is. It is essential that organizations understand that the behavior of boards is dynamic. As organizations continue to change and grow, so too will their boards—over and over again. Internal and external crises and contingencies provide opportunities for further board growth and development. Knowledge of the cyclical nature of boards may or may not help the board move more quickly through the various phases, but it can help to mitigate some of the detrimental behaviors of the board, as well as provide ways to build on its assets and strengths.

Crises may be triggered by such external or internal events as the loss of a major funder or a leadership transition. But crises can also stem from the board itself.

ENDNOTE

1. Miriam M. Wood, "Is Governing Board Behavior Cyclical?," *Nonprofit Management and Leadership*, vol. 3, no. 2, 1992.

Adding a Few More Pieces to the Puzzle: *Exploring the Practical Implications of Recent Research on Boards*

by David O. Renz, PhD

At first glance, it seems that academics and researchers report what we've known for quite some time: the world of nonprofit boards and governance is messier and more complex than ever.

The challenge of leading nonprofit organizations in today's tumultuous and complex environment encourages both nonprofit leaders and researchers to pay more attention to studying nonprofit boards and what enables them to be strong and effective. Perhaps more than ever, nonprofit organizations and their leaders are dedicated to developing highly effective ways to govern and lead, and to enhance their performance, competitiveness, and strategic advantage.

Unfortunately, even as we develop increasingly important insights into the changing nature of boards and their work, far too many in the sector continue to base their understanding of board work on anecdote, conventional wisdom, and stories from the past. Of course, in these challenging times this shouldn't be too surprising. Given the pressures of trying to keep their agencies afloat and find enough time to meet too many demands in too little time, most nonprofit leaders simply don't have the energy to sort out the practical implications and value of even the best research. In the spirit of help, this article offers an overview of some of the most useful recent research on nonprofit boards and governance, and suggests some of the practical insights the research has to offer.

The volume of published work on boards and governance continues to grow rapidly. Our review of recent research indicates that, compared with ten years ago, nearly three times as many board research articles have been published. Clearly, this is a significant market niche. But if we look at the research, what does it tell us? At first glance, it seems that academics and researchers report what we've known for quite some time: the world of nonprofit boards and governance is messier and more complex than ever. But embedded in this work are important elements of practical clarity for those who care to take notice.

As we continue to follow the growing body of nonprofit board research, we find particular value in five general streams of inquiry:

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(1) variation across the world of nonprofit boards; (2) important elements of board capacity; (3) assessment and understanding of board effectiveness; (4) understanding board design and roles; and (5) governance across organizational and other boundaries.

Each stream adds a little more to our understanding of the complicated and dynamic world of nonprofit boards.

For all that has been written over the past two decades on the subject, almost none of it reflects complete or systematic research toward understanding the universe of nonprofit boards.

Understanding Variation in the World of Boards

For all that has been written over the past two decades on the subject, almost none of it reflects complete or systematic research toward understanding the universe of nonprofit boards, how they are organized, and how they work. In a recent sector-wide study of more than 5,000 U.S. nonprofit charity boards, Francie Ostrower and colleagues have begun to rectify this shortcoming.[1] The study is the first ever to secure a truly representative sample of American nonprofit charities, and relies on executive directors as its source of information. So it reflects only one perspective on boards, yet offers valuable insight (and confirms some fears as well).

Ostrower's report presents useful statistics on boards and who serves on them. Not surprisingly, fully half of all nonprofit charity boards have only white (non-Latino) members. And while the average board is about 46 percent female, only 29 percent of very large nonprofits (with annual budgets of over $40 million) have any women on their boards at all. Furthermore, these boards are quite middle-aged: a full 78 percent of their members are between the ages of 36 and 65. Astonishingly, *only 7 percent of all charity board members in America are younger than 36*.

The Ostrower study also offers some important insight into the relationship between who sits on a board, how he or she came to be selected, and how well the board performs its key tasks (such as financial oversight, policy setting, community relations, influencing public policy, CEO oversight, fundraising, and monitoring board performance). Almost all boards report trouble recruiting well-qualified members: 70 percent say that it is difficult to find qualified board members, and 20 percent say that it is very difficult. Interestingly, Ostrower reports that there is no evidence to suggest that compensating board members helps agencies to attract more effective members (only roughly 2 percent of these nonprofits compensate their board members).

Furthermore, recruiting from among board members' friends and acquaintances—the most common approach—turns out to be counterproductive. Boards that rely on friend or acquaintance recruitment show lower levels of effectiveness on all aspects of board work other than fundraising. The study also surfaces an interesting finding about the link between chief executive board membership and board performance: chief executives serve as members of the board for roughly 21 percent of the agencies in the survey, yet boards that include the chief executive as a voting member generally perform less well in the areas of financial oversight, policy setting, community relations, and influencing public policy. In fact, no board activities are positively associated with having the chief executive as a board member.

The study offers many more insights than the few I share here, and I encourage all who are interested in boards and board effectiveness to review the reports that Ostrower and others have prepared (see references at the end of this article for relevant sites). I have to flag an additional insight from the study, however, that involves the impact of board size: Ostrower finds no relationship between the size of a board and the level of its members' engagement; nor does she find any link between the board's size and its performance. Apparently, board size does not matter.

Subsequent to the release of her initial reports, Ostrower had the opportunity to home in on the characteristics of what she labels "midsize" nonprofit organizations.[2] The organizations that fall into this group have annual budgets within the range of $500,000 to $5 million. One could argue that this range is so large as to include too diverse a group of nonprofits (there are significant differences between the half-million dollar nonprofits and the multi-million dollar nonprofits, for example), yet this newer research begins to offer additional insight into how board practices and characteristics vary according to organizational size.

Elements of Board Capacity

Three recent studies provide insight into the value of developing board capacity. Truth be told, the insights are not startling; but still, they raise some troubling questions about why we do not put into effect what we already know about ways to develop boards.

Bradley Wright and Judith Millesen examine the degree to which board members understand their roles and the expectations for their performance as members.[3] Their study surveyed both board members and chief executives, providing a nice mix of sources. It should not be surprising to learn that ambiguity about roles has an adverse affect on board-member engagement—multiple studies on volunteer performance and turnover have told us this for years. But what Wright and Millesen tell us about what we really do is troubling. Most board members report that they learned their roles "on the job"—while actually serving on the board—as opposed to having been provided the relevant information prior to starting their board service. Both chief executives and board members agree that boards do very little for members in the way of orientation, training, or ongoing feedback. And boards disagree about how well board members do their work. About two-thirds of all board members report that they understand the expectations and their roles well, yet only roughly 40 percent of chief executives are confident that their board members understand their roles. At the same time, chief executives tend to agree that they are not providing their board members with the orientation, training, feedback, or other ongoing board-performance information—*even though we know these efforts make a difference*

How do we know they make a difference? In 2007, Texas A&M University researcher William Brown studied board-development practices and linked them to assessments of board member competence and performance in credit unions.[4] The results have raised the spirits of consultants and board trainers everywhere. Brown examined the link between effective recruitment practices, orientation practices, and board and member job performance. He found that effective recruitment and orientation contribute to board member competence, and that board member competence is highly related to overall board performance. Interestingly, board orientation is also directly related to positive board performance overall, not just the competence of its members.

One final aspect of this study raises an important question: How is it that while Brown found a clear connection between the use of effective recruitment and orientation practices and overall board member competence, these practices explain only about one-third of the members' level of competence? Clearly, as we continue our research, there is more to learn.

A nice study done in 2006 by Sue Inglis and Shirley Cleve examines a different dimension of board capacity: the motivations that lead people to serve on nonprofit boards.[5] The article offers a complete review of the research on this field, and it does an excellent job of building on that work to help us better understand the needs and interests of those we want to attract to our boards. Inglis and Cleve found that board members' motivations to serve could be grouped into six general categories:

- Enhancement of self-worth;
- Learning through community;
- Helping community;
- Developing individual relationships;
- Unique contributions to the board; and
- Self-healing.

Given how difficult many nonprofits say it is to recruit good members to their boards, it makes sense for a board to consider these motivations in its recruitment and retention plans.

One of the most important and interesting new themes of board research focuses on the unique role of the board chair and the implications of board-chair effectiveness. Yvonne Harrison and her colleagues began this work in the mid-2000s and have since published the initial results in multiple publications, including the summer

It should not be surprising to learn that ambiguity about roles has an adverse affect on board-member engagement.

Several research studies of the past decade affirm that there is a strong positive relationship between board effectiveness and the effectiveness of nonprofit organizations.

2007 issue of *NPQ*, which was one of the first to print the results.[6] (Readers are encouraged to review that article for the work's key themes and insights.) It is not surprising to learn that the board-chair role has a significant impact on boards and their performance (this may be another case in which the typical nonprofit executive delivers a resounding "Duh!" to the research world), yet the value of Harrison's work lies in its more complete and systematic explanation of how this pivotal role uniquely influences board effectiveness.

Assessing and Understanding Board Effectiveness

Given the widespread recognition that board performance is closely related to the effectiveness of nonprofit organizations, many in both the research and practice worlds have been examining the question of how best to assess board effectiveness. A few of the older tools continue to be widely used (for example, the early board assessment developed by Larry Slesinger and the Board Self-Assessment Questionnaire developed by Douglas Jackson and Thomas Holland), but new tools are being developed.[7] Among the most recently published and empirically validated of board self-assessment tools is the Governance Self-Assessment Checklist (GSAC), which Mel Gill and colleagues created as a tool for in-depth assessment.[8] In addition, as part of the overall GSAC development process, Gill's team developed and validated a shorter tool, the Board Effectiveness Quick Check, which has also proven to be quite accurate in assessing board effectiveness. Several research studies of the past decade, including work that Robert Herman and I have implemented, affirm that there is a strong positive relationship between board effectiveness and the effectiveness of nonprofit organizations.[9]

An interesting by-product of the Gill team's research came from its effort to assess the comparative value of various board-development models. The team found that well-designed board-development initiatives can be valuable where improving board effectiveness is concerned, but there is *no specific board-development model or approach that is inherently better than any others for improving performance.* As long as the board-development initiative employs a well-conceived, systematic approach, it makes no difference which approach is taken.

This finding is consistent with that of researchers Patricia Nobbie and Jeffrey Brudney, who sought to compare the impact of using the "policy governance" approach to board development with other board-development approaches.[10] They, too, report that the use of a well-developed systematic intervention of any type makes a difference in performance. They also found no evidence that one approach is likely to achieve better outcomes than another. Policy governance has attracted ardent support from a number of nonprofit consultants, executives, and board leaders. But—to date—there remains almost no empirical research about the effectiveness of the policy-governance model or the conditions under which it works more or less well.

The Work of the Board

Several recent board studies have begun to examine boards' work from a "contingency perspective." In the field of organization studies, it is widely accepted that successful organizations (in any sector) vary their design and structure to align with the conditions and challenges posed by their relevant external environment. Organizations seek an appropriate "fit," or alignment, that enables them to best address the demands and opportunities posed by these external conditions. In other words, their design is *contingent* on the characteristics of their external environment. Given that most consider boards to be integral to a nonprofit's relationship to the external world, it makes sense that organizational researchers want to understand how board design and roles might vary according to the nature of an organization's external conditions.

In 2010, Ostrower and Melissa Stone published one of two studies examining the relationship between external conditions (for example, funding source characteristics), internal characteristics (the size of an organization, for example, and whether it has a paid chief executive), and the roles that boards perform.[11] They found that boards of very large organizations (i.e., in terms of budget) were likely to be less involved in external roles (community relations, for example) and more involved in internal roles (for example, in financial oversight). They also reported a link between having a paid chief executive and board activity: Boards with paid CEOs tend to focus their attention on financial monitoring and CEO performance monitoring, and they tend to be less active in monitoring an agency's programs and services as well as in a board's own performance. For nonprofits that do not have paid chief executives, a larger share of the boards is actively involved in program monitoring, but even for these organizations, less than half (43 percent) engage in such monitoring. Perhaps not surprisingly, Ostrower and Stone found a strong correlation between higher levels of government funding and greater board activity in external relations (and also in the extent to which an organization uses monitoring practices such as those prescribed in the Sarbanes-Oxley Act legislation). They found that boards of agencies that are highly reliant on funding from earned income (fees) were more active in implementing internal monitoring roles.

Importantly, in 2007, board researcher Chao Guo examined in greater depth the impact of government funding on patterns of nonprofit governance.[12] This timely study highlighted the complexities of the nonprofit-government relationship. Government funding places additional demands on nonprofits and has significant implications for the work of the board. As more and more nonprofits perceive growth in government funding as a positive option, this study offers important perspective and caution.

In another contingency-oriented study, Will Brown and Guo examined the roles that community foundation boards play, and how these roles vary under different conditions.[13] The study relied on information from a survey of chief executives who were asked which board roles were most important to them. Brown and Guo then examined how these roles differed when related to environmental uncertainty, the degree to which the organization was complex (i.e., had many different programs), and the relationship with the chief executive. In order of importance, the key roles executives cited were fund development, strategy and planning, financial oversight, public relations, ensuring board vitality, and policy oversight.

As might be expected, the study found that the boards of small foundations working in complex environments tend to focus more on strategy, while boards of larger, diversified foundations tend to emphasize oversight roles. Interestingly, boards of foundations that have chief executives with long tenure focus less on oversight. Notable but perhaps not surprising, boards of agencies in limited-resource environments tend to be more actively engaged in resource development roles.

Bigger Than Boards: Governance across Boundaries

One of the interesting new developments in research on nonprofit boards and governance is the emergence of several studies that examine unique kinds of governance, including those that cross organizational boundaries. These studies are designed to help us understand how multiple organizations and networks of organizations (including organizations from different sectors, such as government and nonprofit) are engaged together in governance processes that blur and cross organizational (and even sectoral) boundaries. Much remains to be learned about this new frontier of governance, and the possibilities for new forms of governance behavior are intriguing.

As communities work on complex and dynamic issues that cannot be addressed effectively by individual organizations, these phenomena take different forms in different settings. Some forms look like collaborations and alliances, some like layers of organizations that are "nested" within other larger and more extensive organizations, and some are networks of multiple organizations. For example, Canadian researcher Patricia Bradshaw has written about the emergence of systems of "nested governance" to describe the layers of governance activity that sometimes develop in federated and distributed organizations and networks.[14] Traditional models of governance are no longer resilient enough to be effective in these

Traditional models of governance are no longer resilient enough to be effective in these new, complicated environments.

new, complicated environments, she asserts, and these new "messier" forms of governance emerge to meet the needs of systems that are more politicized, complex, and conflict ridden.

There are board-member and board-development practices that have the potential to make a significant difference, but way too few of us are using them to help our boards grow and perform.

Stone and colleagues have begun an important set of studies to examine the governance dynamics that emerge when sets of community organizations (nonprofits as well as local and state government organizations) come together to address a complex set of transportation challenges and needs. Governance becomes much more complicated and dynamic in such settings, and these cross-sector relationships require some very different forms of governance.[15] I have found similar results in my own analyses of governance processes in multi-organization alliances and networks of service delivery (as I have reported in past issues of *NPQ*), and have found that the work of individual agency boards can change quite significantly in these situations. In fact, the entire governance process is very different (and can be confusing) for those who serve on boards of agencies that experience this "reframing," as their agencies work together to address more effectively the most dynamic and complex of community needs.[16]

This research niche is small but growing, largely because there is significant growth in the use of these more complicated forms of organization. Furthermore, as boundaries continue to blur between nonprofit and governmental activity, the range of questions about board work and the very meaning of governance will continue to grow.

So What Are We Learning?

Thus, we arrive at the fundamental question: What does any of this mean? I offer the following as a few of the insights I have drawn from the current generation of board research:

- It is both useful and important to draw a clear distinction between the function of governance and the work of boards. The work of governance is no longer necessarily synonymous with the boundaries of any individual nonprofit board, and even when it is, the alignment of the two constructs is not as simple as it once appeared to be.
- Board effectiveness makes a difference in organizational effectiveness, and boards can be developed to perform more effectively. Furthermore, board development does make a difference in both board and nonprofit performance.
- There are board-member and board-development practices that have the potential to make a significant difference, but way too few of us are using them to help our boards grow and perform. In particular, we have some work to do regarding practices for enhancing and capitalizing on the value of board diversity and strategies for true community engagement.
- Board work is changing, and there will continue to be changes in the operating environment of the nonprofit world. There are better and worse ways to organize, yet there is no single best model or form. Effective boards will invest time on a regular basis to reconsider what they do and how they do it.
- Environment matters to board design and practice, and the environment of government and its funding can make a critical difference. The boards of nonprofits that contract with government to deliver services are experiencing very significant stresses and challenges, some of which may threaten their capacity to govern the organization effectively.

As always, there's so much left to learn! Among other things, we'd still like to know more about (1) the effectiveness of various models of board design, including but not limited to the policy governance model; (2) the appropriate mix of value-adding board functions and roles as nonprofits become more enmeshed in extensive alliances, networks, and other collaborative ventures (i.e., the effects of these factors on governance); (3) whether, as many nonprofits seek to become increasingly entrepreneurial, there are governance-related differences relevant to governance in the work of boards of more- versus less-entrepreneurial nonprofits; and (4) alternative models and approaches to governance, and the strengths and weaknesses of each (i.e., which frameworks can best help us understand our options).

As nonprofit researchers and leaders continue to work closely together to share questions, challenges, and insights, the opportunities to develop the next generation of innovative and effective governance alternatives are better than ever. This is good news, because the stakes have grown ever larger as nonprofits continue to play a pivotal role in sustaining and building our communities.

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Governance under Fire: *A Dustup in Fresno*

by the editors

And, in fact, the employees got their bonuses. At least, they did for a time . . . until the agency took them back.

In the course of covering the stories of the sector, *NPQ* occasionally comes across one that gives us pause. The following story, from Fresno, California, recently came our way via Nathan Garber, an academic from Canada. For Garber it raised all kinds of governance considerations, and we agreed, so we decided to pass it along as food for thought about the complexities of governance. But before you read on, we caution you that this account was taken from news sources other than our own, and may contain some inaccuracies.

In July 2009, the board of Fresno's Central Valley Regional Center found it had an end-of-year surplus, and decided to give a one-time salary adjustment to its employees—in other words, a bonus. The employees had gone two years without a pay increase, and they were looking forward to what was expected to be a cash-poor year in which many of them would be furloughed or even let go. Every employee was to receive something in the neighborhood of 2.5 percent of his or her annual salary, averaging approximately $1,400 each. With 300 employees in the mix, the total for the bonuses would come to roughly half a million dollars.

And, in fact, the employees got their bonuses. At least, they did for a time . . . until the agency took them back. Why? The local newspaper and a local television station had gotten wind of the organization's move and issued stories characterizing it as yet another example of taxpayer-funded excess—involving bonuses, no less.

But the media were simply responding to the complaints of others. The *Fresno Bee* reported that California State Senate Majority Leader Dean Florez had sent a letter to the agency's director stating that the granting of the bonuses "certainly raises a whole host of ethical and programmatic questions . . . News of such pay bonuses is especially disturbing at a time when critical services, such as those your agency provides for the developmentally disabled, are being slashed to address the revenue shortfall in state government."

And in what must have been an "Et tu?" moment, the Central Valley Caucus of the California Disabilities Association issued a statement saying that it was "extremely shocked, confused and disappointed."

> At a time when we are being asked to slash needed programs that help protect the health and safety of Central Valley residents with developmental disabilities, the board's decision to offer bonuses is difficult to comprehend.

Thus the board's claw-back of the bonuses a month after they had been awarded. The board required employees to pay back their bonuses, reducing the salary of any staff member who could not pay his or her bonus back immediately. According to a local television station, these repayments were not used for services to the developmentally disabled but instead were returned to the State General Fund.

The way this story was framed suggested to us at first that the board had lost its relationships with some of its key partners and/or had misread the political and public-opinion environment—and that may or may not have been the case. But the full scope of the problem was larger than just this one organization.

On November 21, 2010, the *Sacramento Bee* reported that the regional centers, which that year had distributed $3.4 billion to organizations serving the developmentally disabled, were considered to be less than transparent, and often awarded contracts without a competitive bidding process. That same month, the Nonprofit Newswire reported that Jack Hinchman, a director of Benson House (a grantee of the Inland Regional Center), was paid $521,000 for his oversight of the $7 million agency. During the same period, Hinchman was also reported to have netted $281,000 from leasing personal properties to the organization. And Hinchman's own mother, as well as another relative, sat on the organization's board of directors.

Around that time, Jim Stream of The ARC of Riverside County said of the regional centers, "The lack of transparency and the lack of effective oversight by the Department of Developmental Services is of great concern to many families of people with developmental disabilities . . . They feel that without increased scrutiny by an entity outside DDS, it will be business as usual."

This story seems to exemplify David Renz's point made in "Reframing Governance," in *NPQ*'s winter 2010 issue, that the act of governance rarely resides within a single agency and that the framing decisions often occur elsewhere at a larger systemic level. A system that is perceived as far less than fully accountable sets itself up for unsympathetic treatment from both colleagues and stakeholders—even when it may not be fully deserved.

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The Inclusive Nonprofit Boardroom: *Leveraging the Transformative Potential of Diversity*

by Patricia Bradshaw, PhD, and Christopher Fredette, PhD

We are looking at a particular context in which such diversity is a concern for many nonprofits, and that context is the boardroom.

"Recognize that diversity brings richness. Diversity brings new ideas. Diversity brings growth. Diversity brings dynamism. Diversity brings energy. And lack of diversity means sameness, dullness, lack of growth."

—Interviewed board member

DIVERSITY ABOUNDS IN OUR COMMUNITIES AND organizations, and our understanding of what constitutes diversity continues to grow as patterns of difference shift, yet in many cases we, and our organizations, struggle to keep pace with societal trends. While diversity has many aspects, including individual differences along dimensions such as education or training, personality or style, this article focuses primarily on diversity based on dimensions such as culture, ethnicity, race, age, sexual orientation, and gender. We are looking at a particular context in which such diversity is a concern for many nonprofits, and that context is the boardroom.

The Urban Institute's Francie Ostrower noted in a national survey of nonprofit governance in the United States that 86 percent of board members are white (non-Latino); a mere 7 percent are African American or black; and 3.5 percent are Latino. In a survey of nonprofit boards from across Canada, conducted in 2008, we found that the majority of board members were between 30 and 60 years old, and 44 percent were women. Almost 28 percent of the organizations indicated that there was at least one person with a disability on their board, while 22.4 percent of those surveyed had a board member who was openly lesbian, gay, or bisexual. Only 13 percent of board members were what in Canada are termed "visible minorities," or persons of color.

While funders and others often seem to be advocating for more representative diversity on boards, this has not yet resulted in large shifts in board composition, with the exception of women. It is likely that you have heard the arguments in favor of increasing board diversity, including the claim that more diversity leads to superior financial performance, better strategic decision making, increased responsiveness to community and client stakeholders, and an enhanced ability

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BoaRD of DiRecToRs CLub
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NO STRANGERS ALLOWED!!!
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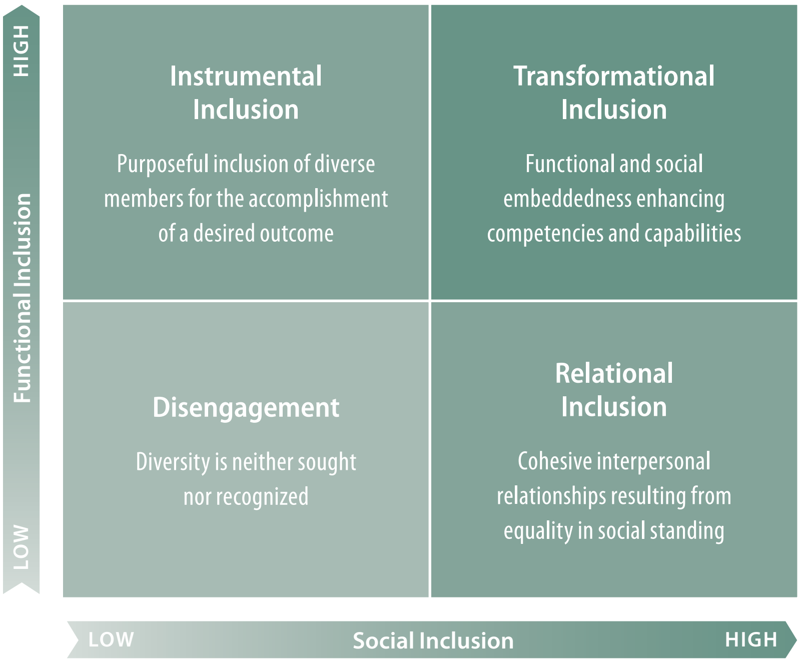
Figure 1: **A Typology of Inclusion**



Reflecting on our interviews, it seemed that our informants were talking about two different types of inclusion, and about how the two can work together to create something transformational.

to attract and retain top talent. But you may also have heard that researchers have found a correlation between increasing diversity among governing groups and greater conflict, as well as a deterioration in performance.

We too have struggled with these mixed messages. We wanted to deepen the conversation about diversity on boards through empirical research, in order to better understand the roots of this paradox and what is being done to respond to demands for both increased diversity and effectiveness.

We began by talking to eighteen board members from the voluntary sector in Canada who are viewed by their peers to be leaders in the effort to diversify boards. We were interested in looking at how they made sense of diversity, and what they saw as the best practices for enhancing it. While academics have tended to focus on diversity and the dynamics of "exclusion," communities of practice are now talking about "inclusion." Our informants described inclusion as an alternative to assimilation, in which all people are treated the same, or differentiation, where differences are celebrated and leveraged with the potential consequences of tokenism and exclusion.

We came to define board-level inclusion as the degree to which members of diverse and traditionally marginalized communities are present on boards and meaningfully engaged in the governance of their organizations. We also noted that our informants implied that at times inclusion had potential transformational impacts for both traditionally marginalized individuals and for the board itself. Kristina A. Bourne similarly describes an inclusion breakthrough as "a powerful transformation of an organization's culture to one in which every individual is valued as a vital component of the organization's success and competitive advantage." Bourne describes this concept as an alternative to seeing diversity as an end in itself or something to be managed or tolerated. But her claims, and those of our informants, have not yet been empirically examined. Reflecting on our interviews, it seemed that our informants were talking about two different types of inclusion—which we came to call "functional inclusion" and "social inclusion"—and about how the two can work together to create something transformational.

Functional inclusion emerged from our research as characterized by goal-driven and purposeful strategies for the increased inclusion of members of diverse or traditionally marginalized communities. Social inclusion, in contrast, is best characterized by the participation of members of diverse groups in the interpersonal dynamics and cultural fabric of the board, based on meaningful relational connections. Unlike the functional notions of inclusion, social inclusion also stresses the value derived from social standing and relational acceptance within the context of the board. Reflected in this view of relational acceptance is the need for members of traditionally marginalized communities to be authentically engaged as whole members of the board, avoiding marginalization and alienation.

We concluded that people were basing their comments on an implicit model, and we are suggesting that the combination of both types of inclusion could transform governance and create what we have come to call "transformational inclusion" (see Figure 1).

As Figure 1 proposes, the board that focuses exclusively on functional inclusion and on taking a "making the business case for diversity" approach will end up with what we are calling "instrumental inclusion." Similarly, boards that focus exclusively on social inclusion end up with what we are calling "relational inclusion," a model that tends to make people "feel" good. Boards that do both instrumental and relational inclusion, however, can generate transformational inclusion. To be really successful, boards of directors need to empower members using functional processes, and they must do so while integrating (rather than assimilating) diverse members using social and relational means as well. For these reasons, we hypothesized that governing groups which are more diverse, and which implement functionally and socially inclusive practices, will be more effective and have higher cohesion and greater commitment than their less diverse counterparts.

We decided that this hypothesis deserved to be tested, and developed a questionnaire that surveyed respondents from 234 boards of directors operating in Canada's nonprofit sector. We measured board diversity by counting the number of ethnocultural and visibly different groups represented on the boards. Our analysis of the impact of increased diversity on boards supports previous research documenting the challenges of diversity. We found that higher levels of diversity were correlated with perceptions on the part of our respondents of lower levels of board effectiveness.

Previous research similarly indicated that diversity leads to conflict and lower performance levels. Fortunately, this is not the end of the story, but it does tell us that it is not enough for boards to simply add members from diverse communities and expect positive outcomes to result. Unless meaningful steps are taken to include members in the functional and social aspects of board life, increasing diversity tends to result in perceptions of greater conflict and dissatisfaction with board performance.

Our study showed that meaningfully engaging diverse members in the social and functional aspects of board work attenuates, and in many cases mitigates, the perceived performance deterioration that occurs when diversity is increased along the lines of the functional or social model alone. This is an important finding, as it offers evidence that diverse governing groups need not sacrifice board performance for the sake of increased diversity. Indeed, functional inclusion was found to be positively associated with overall board effectiveness, cohesion, and commitment, while it did little for group cohesion and commitment. Social inclusion, on the other hand, had little direct impact on board effectiveness, but added significantly to group cohesion and commitment. There is a need to balance both social and functional inclusion, lest boards neglect one dimension (social inclusion) in favor of focusing prominently on the other (functional inclusion).

It is not enough for boards to simply add members from diverse communities and expect positive outcomes to result.

The cumulative implications of diversity and inclusion are complex and intertwined, but largely support our general theme that functional and social inclusion enhance the effectiveness and viability of governing groups, particularly in relation to making the more diverse groups effective, cohesive, and committed. The (direct and indirect) patterns of relationships that we found between board diversity and board effectiveness speak to the transformative potential that lies at the heart of inclusion.

Given these findings, what can boards that want to benefit from diversity actually do in order to create more inclusive governing bodies? In the following sections we describe steps that people we interviewed think are useful in building functional and social inclusion. These are steps that are being enacted by boards as a whole as well as by individual board members who care deeply about inclusion.

Functional Inclusion

We have characterized functional inclusion as goal driven and committed to purposeful strategies for the increased inclusion of individuals who identify as coming from diverse or traditionally marginalized communities. In the interviews, individuals who saw themselves as champions of change described many actions that they had personally taken to make their boards more inclusive, working to get on the board and into positions of influence—such as on governance, diversity, or executive committees—for example, and then pushing for more inclusion of others.

> "If you get the right person, that person can start advocating and then do something. Sometimes tokenism backfires on the people who try to use it."

These individuals expressed discomfort at rocking the boat and disrupting the status quo, but they did so intentionally. Some saw how this type of action could lead to tokenism, where a person is added to the board primarily because of his or her difference, or based on quotas or agendas. This opens the door to such questions as, "What do women think about this?" being asked of the only—or token—woman on a board, based on the faulty assumption that one person can speak for a whole demographic community. But the informants also said things like: "If you get the right person, that person can start advocating and then do something. Sometimes tokenism backfires on the people who try to use it." Having a seat at the table presented diverse board members with an opportunity to advance diversity interests and agendas. One person, for example, said:

> Before I came on the executive board, what was happening at the board meeting was the executive would decide what things should come to the board, and present them to the board, and the board [always] said yes. The chair thought that I would be a nice person to be appointed to the board, especially because I come from a diverse community. After about the third executive meeting, of course, she said, "I am very disappointed in you because, you know, we want executive solidarity." So I said, "You'll never get that as long as I'm on the executive board, you can be sure—because I came on the board to represent certain views, and you will hear about those things.

Functional inclusion at the level of the board involves steps taken by the board as a whole to increase representation of members of diverse communities through its policies, structures, practices, and processes. One characteristic of this approach is to focus on stakeholders and make what we often heard called "the business case for diversity." The business case involves assessing the benefits of diversity, and can include considerations such as creating greater access and legitimacy for different constituents, helping the board appear forward thinking, attracting resources, and to a greater extent representing the interests of the communities being served by the organization. The functional approach to inclusion was frequently characterized by a conscious investigation of the demographics of the agency's stakeholders, such as clients, members, or communities served. This would be followed by a "mapping" of that pattern of diversity onto the board to see if the external diversity was represented there. One nonprofit hospital described it this way:

> We looked around the board and saw that we had women covered because half the board members were female. But we wanted to be more reflective of the community, so we did a survey of the patients in the hospital. To be proportionate to the patient population, we realized that the board should add at least one culturally Italian and one culturally Cantonese Chinese board member.

Respondents provided examples of strategies for purposeful inclusion ranging from the general ("Gender diversity was very consciously planned to make sure to maintain a balance") to the scientific ("We had overall a good ratio of different ethnic backgrounds"), and, finally, the tactical ("We tried to think of women that we were working with in the community who were from more marginalized communities or traditionally marginalized communities, and decided to target them. We're doing purposeful recruitment, and I think that has really made a difference"). One particularly salient reason for attempting to include marginalized community members in the board structure is based on the expectations of powerful funding bodies; as one respondent succinctly stated, "The boards will wake up if the funders ask for it."

Although these strategies differ, they share an approach to including diversity within the existing framework of the board via functional approaches such as changing formal structures, processes, and policies. (See Figure 2, on opposite page, for other strategies we heard boards using to increase diversity.)

Social Inclusion

Social inclusion is characterized by the participation of members of diverse groups in the

Figure 2: **Approaches to Functional Inclusion**

Board Policies Addressing Inclusion	• Creating board policies related to recruitment and retention based on such differences as race, ethnicity, physical ability, sexual orientation, and/or gender. • Printed board policies related to discrimination and anti-oppression.
Practices to Enhance Inclusion	• Including diversity considerations during board self-assessments. • Incorporating issues of diversity in the board's work plans and strategic plans. • Attempting to reflect the demographic characteristics of clients, community, or members in the composition of the board. • Making the "business case for diversity," and communicating it to build support for diversity.
Recruitment Practices to Attract Diversity	• Advertising for board members in ethno-specific publications. • Partnering with ethnocultural organizations to make them aware of available positions and to help identify qualified candidates. • Building links to services that search for or match organizations with qualified board members.
Board Structure	• Creating a diversity committee tasked with making the board more inclusive. • Using board committees as a training context for members of diverse communities so they are well prepared to join the board.

interpersonal dynamics and cultural fabric of the board based on meaningful relational connections. Statements such as, "For me, diversity . . . it's definitely a sense of inclusivity of everyone and everything. I think that [it incorporates] inclusivity, respect. I think respect for different people's beliefs and values is critical," demonstrate an awareness of inclusion as existing beyond task or functional views. Respondents who spoke of overcoming feelings of alienation, made comments like, "I was feeling very uncomfortable, but after some time, of course, I had to assert myself, and I had the support of [a member of high social standing], so it was okay." Similarly, another person we interviewed spoke of the process of gaining inclusion, claiming, "I think I persevered, and really enjoy the experience now, and the group is just very receptive to everyone's ideas, and we all encourage one another."

Although the process of becoming included in social aspects of the board may not be automatic, it is an essential facet of genuine member integration. Individuals from traditionally marginalized communities we talked to spoke about how they used humor to help overcome tension, how they worked to build relationships, and how they were conscious of the need to build trust within the board.

Our informants also reflected on board-driven efforts to improve social inclusion that included mentorship and coaching, orientation practices, and other group-building processes such as retreats and workshops. These initiatives illustrated the belief that strong social relationships and higher levels of trust and respect are crucial to improving decision making and information sharing. For example, one board used mentors, and we heard the following statement: "We actually assign a board member to mentor new members, particularly young people. And that involves making a personal connection with them, phoning them to remind them about meetings, following up with them after meetings to see how they felt about how the meeting went."

Other strategies for building social inclusion included holding meetings at times and in locations where everyone could attend (in locations with elevators in order to be accessible to those with physical disabilities, or on days that accommodated religious holidays, for example), as well as providing such services as signing for the deaf or hard of hearing. Similarly, some boards made sure that any food that was served accommodated the dietary restrictions and cultural preferences of different members. There was sensitivity, too, regarding the use of humor and choices of subject matter (such as conversations about sports teams or summer cottages) that could marginalize or silence people, or exhibit unconscious privilege.

Thus, social inclusion at the board level centered on building connections and awareness with the intention to create a positive and inclusive board culture. Informants acknowledged the importance of using formal initiatives to create relational bonds that contribute to the

Although the process of becoming included in social aspects of the board may not be automatic, it is an essential facet of genuine member integration.

Rather than construing this effort as simply providing a new seat at the table, genuine transformational inclusivity will result in a distinctly changed entity.

performance of the board: "We did talk about the need for coaching people and partnering people, and giving people a friend on the board to provide extra support and translation. It's like cultural translation for any new member, but particularly for new members who either don't have a lot of experience or don't know there's a dominant culture at the board that is different from where they might be coming from." The energy spent building relationships to foster a shared understanding was considered by many to be important in attracting and maintaining an active membership within a more diverse board. A strong and welcoming organizational culture was depicted as another way of increasing feelings of inclusion, which reduced detachment and turnover.

Our results suggest that if you want to have diverse governing groups, you need to find a way to genuinely speak to people from marginalized communities, support these members through the transitional phases of board entry, and authentically engage them in social aspects that build strong relationships and board cohesion. One of the core findings of our investigation suggests that underlying social inclusion is the authentic understanding that social relationships have value in and of themselves beyond any value they may have as a way to accomplish functional ends.

Putting Social and Functional Inclusion Together: Transformational Inclusion

As described above, during our interviews we heard people talking about social inclusion and functional inclusion, but there seemed to be another, even more important message embedded in the conversations: When it comes to issues of diversity, all too often the relationship between traditionally marginalized individuals and the boardroom can be compared metaphorically to an egg used in the baking of a cake, as seen through the eyes of a child. We like this metaphor and ask you to visualize a child helping his or her father make a cake, first by mixing the dry ingredients together, and then removing an egg from the carton and placing it whole into the bowl and starting to stir. The father laughingly points out that the egg must be broken and the mixture transformed before the cake is ready for the oven.

Traditional views of diversity stress the benefits attributable to representation—like the unbroken egg placed carefully into the bowl. Missing from those perspectives is a discourse recognizing the transformative implications of mixing the egg into the otherwise dry batter, where both are irrevocably changed and it becomes impossible to separate out the various ingredients into their original forms. Also missing is the recognition that just as the cake batter is impacted by the heat in the oven, so are the changing expectations of funders, members, clients, and the public at large, who are turning up the heat on nonprofit boards and demanding that they be more representative of their communities. This article develops a theory of transformational inclusivity as a reconciliation of the dilemmas faced by individuals and organizations struggling with the challenges of workgroup diversity, which if not embraced from an inclusion perspective can actually lower the effectiveness of a board.

Returning to our cake baking metaphor, it is clear that neither eggs nor cake-mix alone are enough to create a cake. Both are necessary, but neither one is sufficient on its own. A similar assertion has been argued throughout the course of this article, based on our belief that neither functional nor social approaches to inclusion are independently sufficient for a board of directors to be truly inclusive in its orientation. Boards need to consider diversity as inclusivity that influences the board in its entirety—not only with respect to transforming composition but also in terms of transforming culture and structural parameters.

Inclusivity is a culture-changing process, and one that will bring a multitude of divergent logics and ideologies to bear on shared and sometimes divergent interests. Rather than construing this effort as simply providing a new seat at the table, genuine transformational inclusivity will result in a distinctly changed entity—one that balances permeable and responsive boundaries with achievement-oriented focus intended to meet the demands of the board and its mission.

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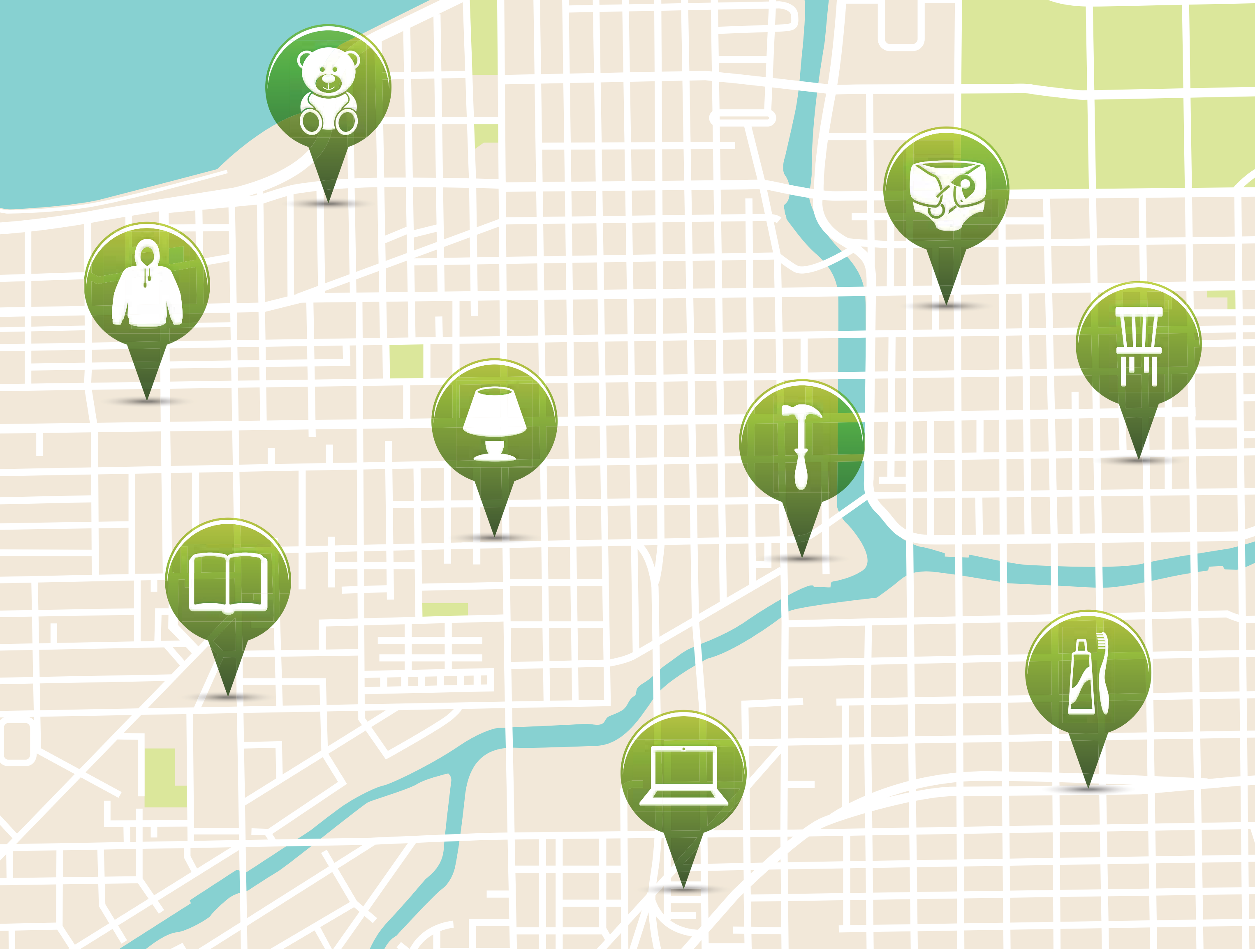


Community-Engagement Governance™: *Systems-Wide Governance in Action*

by Judy Freiwirth, PsyD

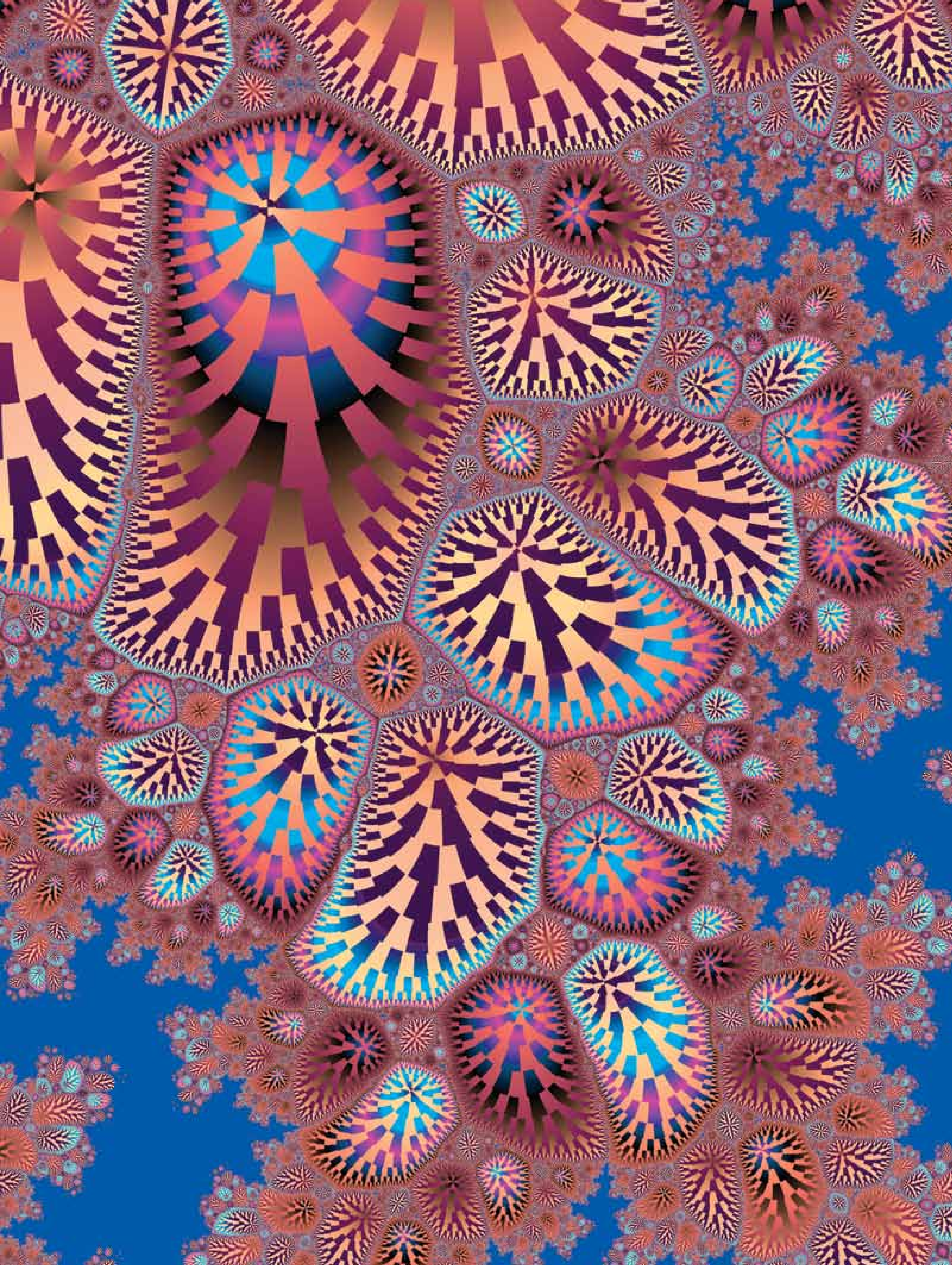
Traditional governance approaches, based on corporate models and outdated, top-down "command and control" paradigms, still dominate the nonprofit sector.

It has become increasingly clear that traditional governance models are inadequate to effectively respond to the challenges faced by many nonprofits and their communities. Yet most nonprofits and capacity builders continue to rely on these models, hoping that more training or improved performance will transform the way their organizations are governed, only to find that the underlying problems remain. In response to the need for new approaches to governance, a national network of practioners and researchers known as the Engagement Governance Project, sponsored by the Alliance for Nonprofit Management, has developed a new governance framework.[1] Since *NPQ*'s last two articles on the subject, in 2006 and 2007, the Engagement Governance Project has continued to develop the framework and has launched a national participatory action research project with pilot organizations from around the country.[2] The research has produced some exciting results.

Judy Freiwirth, PsyD, is Principal of Nonprofit Solutions Associates and Chair of Alliance for Nonprofit Management's Governance Affinity Group/Engagement Governance Project, a national network of capacity builders and researchers focused on developing new governance models and practices.

Why New Governance Approaches Are Needed

Traditional governance approaches, based on corporate models and outdated, top-down "command and control" paradigms, still dominate the nonprofit sector. Within these models are strong, inherent demarcations between board, constituents, stakeholders, and staff, with the executive director often the only link between the various parts of the organization. This type of separation commonly results in the disconnection of the board and, ultimately, the organization from the very communities they serve, and it inhibits effective governance and accountability. Moreover, the pervasive trend toward "professionalism," with boards comprised of "experts" who may or may not be engaged with the organization's mission, has tended to deepen a class divide between boards and their communities. Ultimately, these models prevent nonprofits from being effective—that is, responsive and accountable to the communities they serve.



The Community-Engagement Governance™ Framework's Benefits to Sustainability

NPQ: *Particularly in these times, when time and organizational energy are at a premium, why would an organization choose to invest so much in a new and obviously time-intensive governance structure?*

Judy Freiwirth: Well, let me use an example. One of the groups using the Community-Engagement Governance™ framework deals with homelessness issues, and their view is that having their key stakeholders involved in the governance decisions has helped their credibility with foundations, since many of the foundations they deal with are interested in their ability to exhibit a real grass-roots base. They believe that their success in foundation and individual donor funding is a direct result of engaging their key stakeholders in decision making. Having constituent leaders not only on their board but also included in meaningful governance decision making beyond the board—i.e., transcending tokenism—exhibits a strong vote of confidence toward the community being served. When constituents and key stakeholders are involved in decision making, they can be involved in visits to funders, they can testify with confidence at legislative hearings, and can be the leaders in advocacy efforts. Providing avenues for constituents and stakeholders to involve themselves in decision making means that you have many articulate advocates out there all the time, and that builds organizational reputation and raises its visibility.

NPQ: *More and more people are talking about the value of networks in getting the outcomes their missions speak to. Can you talk about what this form of governance does to facilitate collaborations?*

JF: If their constituents and key stakeholders are now much more involved, they're already collaborating within the organization. The board has opened up the boundaries so the organization is more inclusive. That makes it a much more natural process to expand beyond the borders of the organization to other organizations. And, there are also more people now capable of making these connections. In the traditional organization, it's generally the executive director, and in some cases the board chair, who develops the collaborations. Now, there are many more people with the ability and authority to go out and cultivate those relationships, as opposed to a traditional organization, where no one else has the authority.

NPQ: *I recently read a piece in the* New York Times *that reported on museums using social media to involve their audience more closely, not just in looking but in creating. How do you think this strategy aligns with the possibilities opened up by social media?*

JF: I think there is a natural synergy there that has immense potential. We are promoting an inclusive governance culture that perfectly aligns with the community engagement possibilities of social media. You can reach out to people more often with information and invite them to engage in governance decision making in multiple ways, and this allows for more adaptability in the system. We are only just beginning to see what can be done.

Beth Kanter and Allison Fine describe the normative state of many nonprofits as "fortressed organizations" that "sit behind high walls and drawn shades, holding the outside world at bay to keep secrets in and invaders out."

Beth Kanter and Allison Fine, in their new book *The Networked Nonprofit*, describe the normative state of many nonprofits as "fortressed organizations" that "sit behind high walls and drawn shades, holding the outside world at bay to keep secrets in and invaders out."[3] Unfortunately, this description applies to many nonprofit boards that follow traditional, insular governance models. Boards that adopt these models often become so inwardly focused that they isolate themselves from the communities they ostensibly serve.

Perhaps most important, the nonprofit sector should foster and advance democracy and self-determination. If a nonprofit organization is to be truly accountable to its community and constituencies, democracy must be at its core. Yet, the nonprofit sector has typically tended to replicate structures and processes that actually hinder democracy within organizations. Hierarchical structures in governance not only run counter to democratic values and ideals, they often impede an organization's efforts to achieve its goals and fulfill its mission. If those who are directly affected by an organization's actions—its constituency—are not included in key decision-making processes, they may not be as likely to back the organization with their advocacy voices, volunteer time, or cash. Additionally, a nonprofit without such involvement risks arriving at conclusions or decisions that are incongruent both to its constituents' needs and its own mission.

Beyond the Board as the Sole Locus of Governance

Community-Engagement Governance™ is an expanded approach to governance, built on participatory principles, that moves beyond the board of directors as the sole locus of governance. It is a framework in which responsibility for governance is shared across the organization, including the organization's key stakeholders: its constituents and community, staff, and the board. Community-Engagement Governance™ is based on established principles of participatory democracy, self-determination, genuine partnership, and community-level decision making.

The Community-Engagement Governance™ framework helps organizations and networks to become more responsive to their constituents' and communities' needs and more adaptive to the changing environment. It also provides more person power and credibility with funders. Because no one governance model can fit all organizations, and because many factors—including mission, constituency, stage of organizational development, and adaptability—influence what design will be most effective, the framework can be customized by each organization.[4] The framework was designed as an approach, rather than a model; this means it can be adapted to each organization's unique needs and circumstances. In other words, while the framework is based on a common set of underlying principles, the specific structures and processes it engenders differ across organizations.

Key Principles of the Framework

- **Community impact at the core.** In contrast to traditional governance models, in which the primary focus is the effectiveness of the organization, the framework situates the desired community impact at its core. This reprioritizes results over institution, and also makes the desired impact overwhelmingly the most important focus of nonprofit governance.
- **Governance as a function, rather than a structure; no longer located solely within the confines of the board's structure.** The Engagement Governance Project defines governance as "the provision of guidance and direction to a nonprofit organization, so that it fulfills its vision and reflects its core values while maintaining accountability and fulfilling its responsibilities to the community, its constituents, and the government with which it functions." Legally, there are few requirements regarding who can partner with the board in shared decision making. Thus, nonprofits have leeway regarding which decisions it can choose to share with—or delegate to—constituents and other stakeholders (or share with other nonprofits), and which decisions fall under the board's purview.
- **Governance decision making and power is shared and redistributed among key stakeholders, resulting in higher-quality and better-informed governance decision making and mutual accountability.** The heart of governance is decision making—meaning power, control, authority, and influence. With the framework, decision making—and thus power—is redistributed and shared, creating joint ownership, empowerment, and mutual accountability. Those who have the biggest stake in the mission and are closest to the organization's work—constituents, other stakeholders, and staff—are partners with the board in governance decision making. This redistribution of power makes nonprofits both more resilient and more responsive to their communities.
- **Democracy and self-determination, rather than dependency and disempowerment.** The nonprofit sector should above all foster and advance democracy and self-determination, and this drive should reach deeper than simply

The heart of governance is decision making—meaning power, control, authority, and influence.

advocating for such democratic values *outside* the organization. Yet most nonprofit governance models, even those that are constituent-based or "representational," tend to replicate outdated hierarchical structures and processes. Such hierarchical structures not only run counter to democratic values and ideals, they also often impede an organization's ability to achieve its own mission.

- **No one right model: an underlying contingency approach.** Although the framework utilizes common principles, the specific governance structures and processes employed by a nonprofit will differ according to the organization's needs, size, mission, and stage of development, among other variables. This results in great variability in governance designs across organizations.
- **Governance functions distributed creatively among stakeholders.** Rather than focusing on the commonly used list of governance roles and responsibilities, it is more useful to focus first on governance functions, such as planning, evaluation, advocacy, and fiduciary concerns, and then look creatively at how these can be distributed among stakeholders.
- **Transparency, open systems, and good informational flow between stakeholder groups.** The spread of social media and e-governance throughout the nonprofit sector is already affecting the levels of transparency within organizations. Ongoing communication and continual information flow among stakeholder groups are critical for engaging stakeholders in shared governance. Social media and e-governance have proven to be extraordinarily useful tools for creating increased transparency and facilitating large-group decision making.

Nine diverse organizations are currently piloting the Community-Engagement Governance™ Framework.

How It Works

As depicted in the diagram at right, the framework allows for different kinds of shared governance to be shared among three organizational layers nonprofits serve: (1) the primary stakeholders (i.e., constituents and those that directly benefit from the organization's mission); (2) the organizational board, staff, and volunteers; and (3) the secondary stakeholders (i.e. funders, community leaders, legislators, collaborating nonprofits and partners, and networks). The organization determines, along a continuum, *what* types of governance decisions are situated in what layer of an organization, *who* should be involved in the decision as mutual participants, and *how* the decisions are made. Four of the key governance functions (planning, evaluation, advocacy, and fiduciary care) involve different layers of the organizational system (see Figure 1, opposite page). Policy changes, for example, might first be discussed within groups representing the interests of one layer, and then by the organization as a whole; or, in very large organizations, within a cross-sectional group made up of representatives from each sector. Team structures that possess decision-making authority are often used as vehicles to engage stakeholders as well as "whole system" methodologies for major decisions, where all layers of stakeholders are brought together for shared decision making. And key strategic directions are usually decided on by all layers, including active constituents, other key stakeholders, and the board and staff.

We believe certain competencies are necessary for an effective shared-governance system. As shown outside the concentric circles in the diagram, there are five critical governance competencies: strategic thinking; mutual accountability; shared facilitated leadership; cultural competency; and organizational learning. These competencies should be intertwined with all areas of governance work and organizational components. In this way, they will contribute to the organization's flexibility, adaptability, and responsiveness to environmental changes.

The design/coordinating function of the process is performed by a design or coordinating team, or, in some cases, by the board itself. In many instances, the board continues to hold the "fiduciary care" role—ensuring financial management and resource development functions—while in others, parts of this function are shared by various stakeholders.

“Community-Engagement Governance™ in Action”: Action Research Findings

Nine diverse organizations are currently piloting the Community-Engagement Governance™ Framework and adapting it to their constituencies, missions, stages of development, strategic directions, and external factors. These nine organizations have a wide range of missions, annual budgets, developmental stages, constituencies and types of communities served, adaptive capacities, and staff sizes. They include national, statewide, and community-based organizations, coalitions, and networks. Their missions include immigrant rights and services, homelessness prevention, affordable housing advocacy and services, national policy education, reducing disparities in health access, obesity prevention, youth development, community organizing, and leadership development.

One pilot is being conducted by a network/partnership of more than 100 nonprofit organizations and state agencies. Using the Community-Engagement Governance™ Framework, this network has developed a statewide shared governance structure with the purpose of fighting obesity and chronic disease in the state. Another pilot is being conducted by a “reinvented” organization that had been dormant for five years. The organization, which focuses on youth development through mentoring with seniors, is now using the framework to make itself more responsive to the community and more effective in implementing its mission.

The consulting/research team has been using action research methodology—a systematic cyclical method of “planning, taking action, observing, evaluating, and critical reflecting prior to continued planning”—to document findings for continual learning.[5] Each pilot organization is either currently working or has worked with a lead consultant from the Community-Engagement Governance™ team. With the participating organizations, the consulting/research team is documenting the process by conducting a series of semi-structured interviews and surveys with a cross section of primary and secondary stakeholders. Together, we are learning about the implications of different variations of the approach; the benefits and challenges for the organizations, networks, and communities; the success factors; and how to improve the framework.

Figure 1: **Community-Engagement Governance™ Framework**

LEGEND

Desired community impact = primary purpose of governance

Concentric circles = stakeholder groups engaged in shared governance
The circles represent the different layers of engagement in governance, with the primary stakeholders (the constituency/community) serving as active participants in meaningful decision making.

Dotted lines between circles = open communication flow and transparency

Elliptical circles = governance functions
The diagram identifies four governance functions: planning, advocacy, evaluation, and fiduciary care. The circular arrows represent the engagement continuum. Within each governance function, the extent to which each stakeholder group (constituents, staff, board, other stakeholders) is engaged in shared decision making may vary; leadership responsibilities within these functions may also vary among the stakeholder groups, depending upon the organization.

The four governance functions are the following:
- Planning functions range from whole-system strategic direction setting and coordinated planning to input on trends and priorities;
- Advocacy functions range from joint decisions about policy and distributed advocacy activities to participation in needs assessment;
- Evaluation functions range from shared participation in design and implementation, and lending resources and expertise, to feedback on quality; and
- Fiduciary care activities range from stewardship and resource development to defining resource needs.

Labels outside of circles = governance competencies
Competencies intertwined with all areas of effective governance

What Are Structures and Decision-Making Methodologies for Effective System-Wide Governance?

Uniquely, they have developed an integrated, ongoing constituent leadership development program that builds governance skills.

The consultants have assisted the pilot organizations with different governance designs (structures and processes). Each organization determines which decisions will be shared by which stakeholder groups, and how such decisions will be made and coordinated. Some pilot organizations have created structures that include cross-representational decision-making teams and task forces focused on specific governance functions, such as strategic direction setting, planning, advocacy, and fiduciary oversight. Most of the pilots have also used large-group decision-making methodologies, such as World Café, Future Search, and Open Space Technology.[6] Pilot organizations have used community forums, town hall structures, and other large-group democratic meeting formats, too. For example, one pilot organization convenes a members assembly several times a year to decide on its strategy; this assembly includes active members, key community leaders, and the board and staff.

Another pilot organization convenes large-group "visioning sessions," which set the strategic and advocacy direction for the year. These sessions involve a large group of constituents, the board, staff, member organizations, and other collaborating organizations. Other pilot organizations have used e-governance and social media, not only to facilitate shared leadership through transparent information, but also to facilitate ongoing strategic-level discussions, and, most important, to make decisions as a large group. In addition, pilot organizations have used "open system," team decision-making structures.

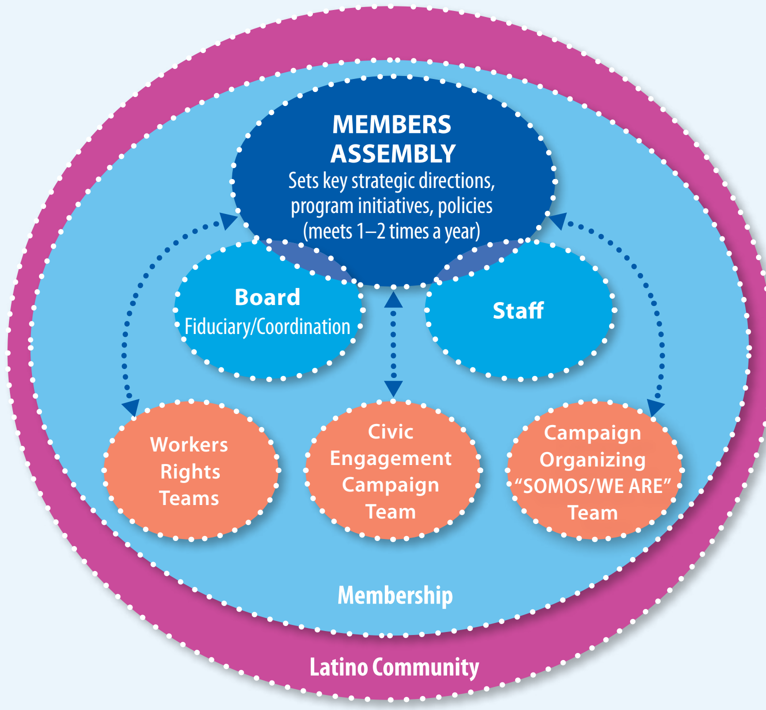
A Few Examples

Centro Presente, a prominent immigrant rights organization in Massachusetts, shares governance functions—such as decisions regarding strategic planning/setting, strategic directions, executive-director hiring, campaign planning, advocacy and organizing, and leadership development—with their members (who come from their broader, Latino, community). The board continues to hold fiduciary and legal responsibilities but shares most other key decisions with the membership. Member assemblies are convened several times a year, and are the highest decision-making structures for the organization. At the assemblies, a large group of active members from the community, board, and staff jointly make the larger strategic-direction decisions for the organization. They also delegate governance responsibility through a team structure. These teams, which assume much of the governance decision making focused on program directions and campaign organization, comprise the board, staff, and active members.

Homes for Families, a statewide organization that serves the homeless, holds a "whole-system" yearly visioning session that involves constituents, board, staff, members, and partner organizations. During the session, the strategic directions and new initiatives for the organization are decided on together. Based on these decisions, the board (half constituents, half other primary stakeholders) and teams (also comprised of constituents and primary and secondary stakeholders) coordinate a range of governance decisions. Uniquely, they have developed an integrated, ongoing constituent leadership development program that builds governance skills—especially advocacy skills, which are significant for their mission. Constituents who "graduate" from the training assume leadership positions within an advocacy leadership team, which then designs and implements their advocacy/organizing strategy. Constituents and other stakeholders also comprise the public policy committee, which makes governance decisions regarding public policy strategy between visioning sessions. Some constituent leaders are also board members, and contribute to other governance decisions. In addition, to address other governance decisions, the organization currently plans to develop new cross-sectional teams comprising representatives from each organizational layer.

Shaping New Jersey, a statewide network of more than 100 nonprofit and government organizations, is using this framework for a coordinated planning and implementation process to reduce New Jersey's obesity levels. Using the Community-Engagement Governance™ Framework principles of shared governance and power, network members have designed a structure and process in which the partner organizations make governance decisions regarding the planning and implementation of state-level environmental and policy strategies. An executive/sustainability committee representing fifteen to twenty partner organizations serves as both a design and coordination team. The team facilitates meaningful partner engagement in joint advocacy, communication, and collaborative plan implementation. While full partnership meetings occur twice a year, most of the decision making occurs within a variety of work teams comprised of partner organizations empowered to make decisions ranging from setting advocacy priorities to designing strategies for increasing access to healthful foods. They also employ e-governance, using polling to make decisions and a web portal to make documents and reports transparent to the full partnership.

Figure 2: **Centro Presente Governance Design**



Key Findings/Benefits of Using the Framework

Although the action research continues, several significant preliminary findings illustrate the benefits of the framework's approach:

1. Increased ability to respond to community needs and changes in environment; increased accountability to the community.

All the pilot organizations that have implemented a significant portion of their new governance model report that through the process of involving their stakeholders in governance decisions, they have been able to respond more quickly to changes in their environment, be more responsive to community needs, and to mobilize more quickly in response. For example, Centro Presente felt that by redistributing power in their organization so that it was shared between the board and their active membership (community members who are directly affected by immigration policy changes), they could mobilize much more quickly in response to immigration policy changes. Similarly, other pilot organizations report that they have been more proactive, adaptable, and nimble in their decision making. With stakeholders having a significant role in decision making, the pilot organizations believe their accountability to the community has also increased.

In the past, Shaping New Jersey had attempted to develop a coordinated plan of action, but they were unable to create enough ownership of the plan to lead to its successful implementation. Now, through the use of the Community-Engagement Governance™ Framework, they have created a process and structure of shared governance, resulting in a highly collaborative, coordinated ("owned") plan. The group rates a sense of shared ownership and accountability to the larger community as a critical factor in achieving successful outcomes. They also report that this sense of ownership and a new, high level of participation in decision making from the more than 100 partners have resulted in a coordinated action plan that responds to the alarming rate of obesity in their state.

The team facilitates meaningful partner engagement in joint advocacy, communication, and collaborative plan implementation.

Figure 3: **Homes for Families Governance Design**

Pilot organizations report that implementing a shared decision-making structure—one that includes stakeholders—leads to increased investment and ownership of those decisions.

2. Improved quality and efficiency of governance decision making: increased strategic thinking, creativity, and problem-solving ability.

Pilot organizations that have implemented the framework state that the quality of their governance decision making has improved as a result of their shared governance model. They cite increased creativity along with new thinking and innovative ideas, all resulting from the involvement of key stakeholders in their decision making. Others point to the ability to be more strategic in discussions; with more community involvement, they are better able to solve complex problems. For example, one pilot organization cites its ability to design a compelling and effective strategy in its lobbying efforts with legislators. Subsequent discussions and strategic decisions made with their primary stakeholders—currently and formerly homeless individuals—led to a much more effective and creative organizing and lobbying strategy. This, in turn, led to increased government funding for more innovative and responsive services. Another pilot organization spoke of its increased ability to quickly align its program direction with changing community needs.

One frequently asked question about the framework is whether involving stakeholders in the decision-making processes leads to more cumbersome, time-consuming processes. The answer appears to be no. In fact, the pilot organizations report that, compared with their previous models, they are now able to make *more* efficient decisions by using a shared governance structure. By including key stakeholders in the decision-making process, the information, knowledge, skills, experience, and connection to the mission are "in the room and more accessible to the decision-making process," thereby allowing organizations to make effective decisions more quickly.

3. Increased shared ownership of the organization's mission and strategic directions.

Pilot organizations report that implementing a shared decision-making structure—one that includes stakeholders—leads to increased investment and ownership of those decisions. Others report that the quality of those decisions has dramatically improved. Still others cite an increase in morale among both the board and staff.

4. An increase in new and more distributed leadership.

As part of their efforts to include community members and constituents in shared governance decision making, some pilot organizations report that they have developed leadership-development initiatives to assist constituents in acquiring leadership skills. In the past, these initiatives tended to include leadership-development workshops, but now constituents are more likely to be engaged in "learning by doing," often sharing leadership of work teams, task forces, and other decision-making structures.

5. Improved ability to engage in deep collaboration with other nonprofits.

Pilot organizations report that by removing the boundaries around the board and engaging stakeholders in decision making, they can develop new, deeper collaborations. In some cases, this has resulted in "networked governance"—joint governance decisions across numerous organizations.

6. Increased visibility within the broader community.

Several groups report that their increased ability to respond to changes and needs in the community has led to more ongoing and increased visibility within their communities. In turn, this increased visibility has led to greater support from secondary stakeholders, and, ultimately, has helped to build their membership and network of supporters.

7. Increased fundraising capacity and sustainability.

Several pilot organizations report that their increased visibility—through the process of engaging their community in governance decision making—has strengthened their fundraising. As they shifted to a grass-roots fundraising strategy that engaged community members, they eventually built more diverse community ownership of the organization, as well as more sustained funding.

8. Increased transparency and community ownership and more effective large-group decision making through the use of social media and web portals.

Several pilot organizations have used social media and web portals, including tools for large-group decision making, on a regular basis. They have found that these tools increase the group's transparency, facilitate inclusive decision making, and build mutual accountability.

9. Boards that are more engaged, passionate, and transparent about their organization's strategic direction and programs.

Pilot organizations report that as a result of their new governance model, their boards have become much more engaged in their work and more passionate about their organization's strategic direction and programs. As boards worked more closely with stakeholders, especially constituents and key community leaders, they developed a more meaningful relationship with the community and a deeper understanding of the community's needs. The amount of transparency among the board, staff, and other stakeholders also increased. Those organizations that used social media and e-governance modalities also reported a significant increase in transparency and, ultimately, accountability to their communities.

Figure 4: **Shaping New Jersey Governance Design**

LEGEND

Governance decision making at all levels of partnership

Work Groups are empowered to make most of the governance decisions. Determine yearly policy and advocacy priorities and design new programming related to plan priorities.

Executive & Sustainability Committee makes governance decisions at full partnership meetings, including monitoring and cross–work group coordination. Integrates key strategic direction and advocacy efforts. Comprised of every work group leader and other state leaders.

Full Partnership Meetings are comprised of over 100 organizations. Meet several times a year to build consensus. Decide on the next year's plan (designed by work groups and integrated by E & S committee and staff).

Office of Nutrition and Fitness is the fiscal agent and part of the New Jersey Department of Health and Senior Services. Decision-making authority includes staffing, strategy evaluation, and communications with partner organizations and public. Shared decision making with work groups regarding allocation of sub-grants.

Research also reveals that for many organizations, the identity of their constituents, community, and primary stakeholders is often unclear.

Other Key Learnings and Challenges with Sharing Power

The action research also reveals that for many organizations, the identity of their constituents, community, and primary stakeholders is often unclear. Establishing a shared understanding of who their stakeholders are seems to be a key success factor. Also, an organizational champion with authority (usually the executive director or board chair) is ultimately needed to help lead the process. Depending on their new governance structure, some pilot organizations have successfully included their staff in governance decision making, especially when the staff represented the organization's constituency. The success of staff involvement depends on the organizations culture and mission. Another success factor is the creation of a cross-sectional design or coordinating teams to help design the new governance model for the organization.

Although this governance framework demonstrates promising benefits, the level of change needed can be difficult for some organizations. Initially, boards need to be willing to try new, innovative frameworks and practices, a challenge for many boards. Many organizations are reluctant to engage in the uncertainty and ambiguity that often accompany transformation. Moreover, many boards will need to dramatically shift their perceptions of constituents—from a "charity"/deficit perspective to one of constituents as invaluable assets for the organizations success. Sharing power—both the concept and its implications—is perhaps the biggest hurdle for any board.

Promising Advancement for Nonprofit Governance

Although we continue to learn from our experience and research, the Community-Engagement Governance™ Framework demonstrates promising benefits for nonprofits and their communities. We continue to look forward to feedback from *NPQ*'s readership, and seek additional organizations that would like to join this learning community and help advance the governance field. We hope this new framework will not only advance the movement toward more effective governance models and practices but also assist nonprofits in transforming their governance into one that is more inclusive, democratic, and, ultimately, more focused on impacting the communities they serve.

Acknowledgments

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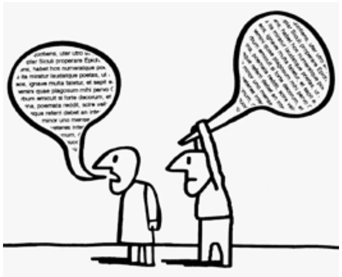

Dr. Conflict

by Mark Light

Dear Dr. Conflict,

The nonprofit I helped found has experienced quite a bit of growth over the last few years, and our opportunities abound. This is a good thing, right? But as we have developed, the breadth of the work has expanded and the leadership role has been divided in two—as is common in our field of work—into a kind of artistic director and a business director.

I am taking the role of artistic director, and another, younger staff person has the other role, with my support. She is the kind of brave soul who will wade into the stormiest waters with a sense of purpose, but she has never been in a position of leadership, and her judgment needs coaching at times. Not a serious issue, but it's there. I am very willing to help her make that transition.

So where's the rub?

She and I do fight. We always have, for the ten years we have both been here. These are generally quick flare-ups that blow over, with apologies all around, but there is always a period during which we are both fuming and hurt. The thing is, before now I was always able to pull rank to say this is the way something needs to go. But I cannot do that anymore, so I have lost my leverage.

We have had a few interactions this past week where things needed to be done quickly, and we were right in the middle of the situation, disagreeing with each other in front of others about how something needed to be handled.

*In private, I yelled at her, "I'm done—you just be Little Miss Executive Director!" (Or so she tells me. I remember nothing.) And she accused me of disallowing her opinion and said she was done, too, and did not need to take my s***.*

The thing is, I was once—a long time ago—a codirector, and I know how hard it is. Now I am older and feel exhausted by even the thought of more conflict. But I know that I am probably likely to have lots of it here.

What's a baby boomer who recognizes her own mortality to do?

Miss Founder, Artistic Director

Dear Dr. Conflict,

I've recently had the amazing opportunity to colead, with the founder, an organization I've been part of for ten years. Age has never been an issue with us, and we have worked very well together over the years, which is one of the main reasons this coleadership model has arisen. (My position now directly reports to the board.) Sure, we've had our fights, but we've always been able to move on.

But with her status as a founder and the fact that she's some years older than me, you can see how this could be dangerous territory, and I'm afraid that in my zeal to get started I have stepped on some toes. This week, for example, we had several meetings with stakeholders, and we began to cover topic areas that my coleader and I had not previously discussed. We had a disagreement about how to approach some work, which we realized only when we had already gotten into the discussion.

Not knowing what to do, and not reading my coleader's clues to table the discussion until she and I had a chance to talk, I continued to make my point. Only after I was done did I realize that I had offended my coleader. And I realized the extent of my coleader's unhappiness after a rather blustery verbal fight the following day, which ended in tears.

My question is, given our complex relationship and history, and given the challenge of coleadership, what is the right way to handle this and the many other potentially contentious decisions we have before us if this coleadership model is to work?

Little Miss, Business Director

Dear Miss Founder and Little Miss,

Dr. Conflict almost addressed you as equals, but when he read the letters side-by-side he could see that there is some confusion in this regard. Notice that Miss Founder describes the relationship as "kind of an artistic director and a business director," whereas Little Miss calls it a "coleadership model," where each of you is a direct report to the board. Miss Founder says that the "younger staff person has the other role with my support" and "needs coaching"; Little Miss calls herself a coleader and refers to her counterpart as a founder and with obvious respect bordering on reverence.

To be fair, the coleadership model is the structural choice at many regional theaters and dance companies, but it is no walk in the park. And Dr. Conflict knows this from personal experience—he served as executive director at the Louisville Ballet for seven years in partnership with the artistic director.

So how do you make the relationship work? Dr. Conflict would like to remind you that for any organization to achieve results, two things must happen from the get-go: first, the work must be clearly divided into definable tasks; second, the work must be coordinated.[1]

With regard to clear delegation—the division of labor as it were—you two seem pretty darn confused. Is Little Miss a coleader, as she describes herself eight times in her letter, or is she the "other role with my support" that Miss Founder talks about?

If you're going to use the coleadership approach, start by clarifying the domains that are within your respective purviews, divide the labor, sharpen the duties. Typically you'd see Little Miss covering administration, marketing, and development. Miss Founder would be responsible for the programming. Being clear about duties is the number-one easiest way to improve any agency's effectiveness.[2] So be clear about it.

Finally, make sure that your titles reflect a true arts coleadership model: Miss Founder is called artistic director and Little Miss is either the managing director or the executive director (if she's particularly seasoned or the agency is larger in scale). Business director is a lower-level title that is subordinate to the artistic director.

Having divided your labor clearly, you're ready to deal with the matter of coordinating your work. The way to do this is to sit down together and reach an understanding of the rules of engagement, your code of conduct, the guidelines of behavior. Is it okay to have silent clues followed by verbal brawling? How do you want to deal with dissent? How do you want to resolve conflict?

Dr. Conflict does not mean to suggest that what you're doing now is inappropriate. You are both pretty doggone good at managing conflict, in his humble opinion: You're getting things out on the table, working through them, and you've even contacted Dr. Conflict for advice. You two have game, no doubt about it. If you're looking for Dr. Conflict to wag his finger at you, he won't. Better that you be mixing it up than bottling it in.

Here's why: coworkers almost always have clear supervisors—call them what you will, be it coaches or bosses—who can mediate intractable disputes. You have a board (herd of cats is the oft-used metaphor, but Dr. Conflict prefers herd of turtles). Granted, you may have a wonderful board chair or other person who can help out, but you work for the board in general. And herds of turtles are slow moving, to put it mildly. Moreover, if there's one thing Dr. Conflict has learned the hard way it's that your board, its members, and the stakeholders do not want to mediate your conflicts any more than in-laws want to do the same for married couples. If you want therapy, see a therapist.

Many readers may have been hoping that Dr. Conflict was going to take Miss Founder to the woodshed simply for being a founder who is having some trouble letting go. But those readers are going to be disappointed. Dr. Conflict likes the progress that Miss Founder is making, and he respects the care that Little Miss is taking in the process. These are two really thoughtful people who want the best for the organization and each other. And they seem to be succeeding but perhaps are being a bit too hard on themselves for the inevitable clashes between their complementary but not identical personalities.

If you don't want conflict, crush it with power or drink a lot of Jack Daniel's. But if you want to engage the strengths of coleaders—or for that matter of coworkers, board members, and volunteers, all of whom bring different skills and personalities to the party—conflict is a given. Without it, you will clearly be in trouble or working with a bunch of flatterers.

Got success? Get conflict.

Endnotes

1. Dr. Conflict's thinking on this topic is informed by Henry Mintzberg, who writes, "Every organized human activity—from the making of pots to the placing of a man on the moon—gives rise to [these] two fundamental and opposing requirements." (Henry Mintzberg, *Structure in Fives: Designing Effective Organizations*. Englewood Cliffs, NJ: Prentice-Hall, 1983, 2.)

2. This observation comes from a study by Dr. Conflict that found unclear duties to be the single most powerful explanation for poorly performing governance. (Mark Light, *Results Now for Nonprofits: Purpose, Strategy, Operations, and Governance*. Hoboken, NJ: John Wiley & Sons, 2011.)

Dr. Conflict is the pen name of Mark Light. In addition to his work with First Light Group (www.firstlightgroup.com), Light teaches at the Mandel Center for Nonprofit Organizations at Case Western Reserve University. Along with his stimulating home life, he gets regular doses of conflict at the Dayton Mediation Center, where he is a mediator.

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Tweet Freely: Your Social Media Policy and You

by Aaron Lester

If you've ever blogged, tweeted, updated your status on Facebook, or sent an e-mail, you know what it's like to have "click regret." Click regret is when you write something—from a 140-character tweet to a pithy e-mail response—and click "send," "update," or "publish," only to then realize that what you wrote was not what you meant at all. Or worse yet, you just broadcasted particularly personal—or even embarrassing—information to a huge or unintended audience.

That's exactly what happened to Gloria Huang, a social media specialist at the national headquarters of the American Red Cross, in Washington, D.C. "I was shocked and horrified," Huang said of her recent click regret moment involving the popular social media service Twitter. "Your first instinct is to run and hide, but you can't. It's public. It's out there."

In February, Huang spent a Tuesday evening like many of her age and profession, periodically checking in on Facebook, Twitter, and other social media accounts. Just before going to bed that night, Huang sent the following tweet:

There was nothing particularly outrageous about the tweet, except that instead of sending it from her personal account (@riaglo), Huang mistakenly used her employer's Twitter account (@RedCross). It has since become known in the Twitterverse as, the "rogue beer tweet." Huang went to sleep that night blissfully unaware of the mix-up.

Wendy Harman, director of social media for the American Red Cross, might not have slept as well as Huang that night. She began receiving calls soon after the errant tweet went live. But to her credit, Harman didn't panic. Instead she responded with one of the more elegant and humorous tweets one might read on Twitter.

After learning of her mistake, Huang also attempted to contain any damage done by the errant tweet—this time, using her personal Twitter account:

Harman and Huang's approach was successful. According to Huang, the organization saw a slight bump in donations in the days that followed the incident. The Dogfish Head beer company used their blog and Twitter account to spark a buzz and send would-be donors to the Red Cross. And HootSuite, the social media tool that Huang used to broadcast her errant tweet, also got in on the act—the company sent beverage cozies to both Dogfish and Huang, and donated $100 to the Red Cross.

It's always nice when a story has a happy ending, but in this case the Red Cross may have set the gold standard for social media click regret damage control. It's true that for a group used to jumping into real disaster zones, the Rogue Beer Tweet of 2011 was small potatoes. Yet the incident does raise real concerns for nonprofits everywhere that have become increasingly dependent on social media to create relationships, promote advocacy, spread mission, and even fundraise.

While the Red Cross's social media mishap was relatively benign, other, more serious Twitter foul-ups making news lately show how dangerously powerful the medium can be. An Indiana deputy district attorney was fired recently for advocating on his personal Twitter account the use of "live ammunition" on the protesters in Wisconsin, who were demonstrating against Governor Scott Walker's plan to curtail collective bargaining rights.

The Indiana case shows how social media has blurred the line between employees' personal and professional lives in recent years. Organizations are responding by establishing social media policies and approaches that deal with their employees' 24-hour online presence. Whether tweeting from a personal account or keeping a personal blog, or engaging in social media through organizational accounts, employees should realize that they are speaking for the organization they work for—for good or bad. Despite our best attempts to remain anonymous on the web, it is becoming harder and harder to do so. "When you work for us, you are an ambassador for the Red Cross, whether you like it or not and whether we like it or not," said Harman. (Harman added that she is thrilled with the social engagement of her far-flung staff.)

There have been scores of other firings and legal sanctions in the recent past, not all in the public or nonprofit spheres. In April 2010, Mike Bacsik, a former producer at KTCK-AM, in San Antonio, Texas, was fired for a racist tweet. In July 2010, Journalist Octavia Nasr was fired by CNN for tweeting what appeared to be pro-Hezbollah comments. Chad Ochocinco, of the NFL's Cincinnati Bengals, was fined for breaking the league's rules on social media in August 2010. And back in 2009, ex-rocker Courtney Love was sued in the first known case of Twitter libel.

Risks like these—breaking confidentiality agreements, releasing unauthorized photographs, creating hostile work environments via sexual harassment or discrimination, or breaking other laws—are all possible outcomes in a world where social media is king.

Nonprofits can and do lawfully discharge employees for such offenses. In fact, federal and state laws require employers to take action to prevent or eliminate harassment both in the workplace and on social media sites. As with all types of workplace behavior, an employer may be liable for the employee's online actions, according to the website SocialWorkplace.com.

Why We Need Social Media Policies

In this social media landscape, according to experts and those in the trenches, you'd better have a plan—both to limit/contain embarrassing social media mishaps and to guard against the less-likely but potentially more damaging offenses.

Emily Culbertson, a web and social media strategist based in Chicago who works with nonprofits and foundations, believes that social media policies are essential. According to Culbertson, organizations should have a policy that articulates "common expectations" around the use of social media. "A social media policy should not say 'Here's what you can and can't do online.' But there are ways to relate and learn online that don't cross that bright line," she explains.

Culbertson is not alone in her views. The conversation has shifted over the last few years from whether or not to even have a policy to how best to create a living set of guidelines and principles based on organizational values.

Beth Kanter, coauthor of the 2010 book *The Networked Nonprofit*, says, "A social media policy should be one that supports and strengthens the organization's social media strategy, not a set of commandments that start with 'Thou shall not do X.' It should be encouraging, but also provide guidance."

Holly Ross, executive director of the Nonprofit Technology Network (NTEN), based in Portland, Oregon, says there is no way to completely eliminate the errant tweet or the unfortunate Facebook update, but in anticipation of such incidents every organization should have a social media policy. Ross, who admitted to once mistakenly tweeting about needing a haircut using NTEN's Twitter account instead of her own, says social media policies should be "married to the organization's culture and mission. It should reflect who the organization is."

It's clear from the rogue beer tweet that the Red Cross is relatively comfortable with its social media presence—even when the unexpected happens. Huang said that their approach at the Red Cross has been to create not necessarily rules so much as a set of guidelines. "It's important not to restrict people but to let them find their own voices."

The Red Cross, which employs 35,000 people working in nearly 700 locally supported chapters around the country, helps employees find their voice by continually educating them about the attitudes and culture surrounding social media. "We try very hard to empower our people to have their own personalities on social media," Huang says. Not every Red Cross employee uses social media, but the challenge of embracing the tools—along with the inherent lack of control over them—requires that the organization present a confident voice to its employees.

Red Cross CEO Gail McGovern did just that. Soon after the rogue beer tweet, McGovern sent Huang a personal e-mail to make sure she was doing all right and felt good about the organization's response. McGovern realized that the trade-off of having an engaged and responsive staff tuned into social media might entail the occasional online hiccup.

Social media policies aren't just a challenge for established giants like the Red Cross. Younger, smaller nonprofits also grapple with these issues. Being cheap, fast, and loud, social media can be a boon for smaller groups with smaller budgets. At the Public Conversations Project in Watertown, Massachusetts, the communications and social media team rely on a social media strategy instead of a codified set of policies. According to Susan Countryman, director of communications and development at the Public Conversations Project, "Social media should be integrated into an organization's overall strategy, mission, and values, so you already have standards built in."

The Public Conversations Project's goal is to bring deeply divided groups together in dialogue and facilitate a mediation process between polarized groups. With twelve full-time staff, the group feels it is nimble enough for social media to remain an organic extension of their core values. "We're small enough that we can remain collaborative," said Roger Baumann, the Public Conversations Project's social media coordinator. Countryman added, "The gist of what we do as an organization is thoughtful communication, so at this point it's less of a concern for us."

Both Countryman and Bauman agree that the most important aspect of their social media plan is that it humanizes the organization. "Relationship building is the core of development and communications," said Countryman, adding that there's no better way to do that than by using social media effectively.

For Mobilize.org, a "Millennial-led" nonprofit based in Washington, D.C., the use of social media is a natural fit for the group. Not only has everyone at the organization grown up with some form of social media always at their fingertips, but with only seven full-time staff and no advertising budget, tools like Facebook and Twitter are the best way to engage their audience. "We understood that this is the primary way our generation is communicating," said Ayofemi Kirby, director of communications. "It's a business imperative for us to get out there and be part of the conversation."

But even this group, run by and for Millennials, has felt the need for a social media policy. "We make it clear to every staff member and every intern that there are certain expectations around social media that they have to follow," Kirby said. It's nice to use the free social media tools, she added, "but we want to use a unified, organizational voice."

Like most people interviewed for this piece, Kirby stresses that a social media policy should not be restrictive. In fact, the group mandates that every staff member and intern be active on at least one personal social media platform. "We don't try to limit or control the use of social media," she said. "There is always resentment if you try to control."

What Social Media Policies Should Feel Like

The fear and distrust that once clouded upper management's discussions of social media policy have given way to a more nuanced and collaborative approach that embraces the sometimes out-of-control—but always engaging and responsive—nature of these tools.

As Kanter, named one of the most influential women in technology by *Fast Company* magazine in 2009, describes it: "Social media policy needs to be a living document. It isn't a bunch of boilerplate written by a lawyer that sits in a drawer. Training and education must accompany the policy—and of course there must be a culture of learning, not blame. I think the recent example of how the Red Cross handled their social media mistake is something that we should all strive for."

The Red Cross rogue beer tweet may live on as a pivotal event in the ever-changing social media landscape. With its adroit response, the Red Cross acknowledged that we are all human and that we all make mistakes. In fact becoming more human is a goal all organizations should aspire to.

But what about those fireable offenses? What happens when an employee crosses that bright line? For their part, the Red Cross has developed two distinct documents. One document encourages and guides employees on how best to manage social media accounts. The other lays out clearly what is not acceptable social media behavior.

But the Red Cross has taken a light-handed approach, says Harman. One document reads in part, "Your communications should be transparent, ethical, and accurate." It then refers employees to communication policies already in place that are governed by the organization's fundamental principles and core values, as well as its official code of conduct.

The most powerful thing about social media is that it allows more and more people to directly participate in "the conversation." At the same time, the most dangerous thing about social media is that it allows more and more people to directly participate in "the conversation." But there's no putting this genie back in the bottle. After all, you can't very well have your tweet, blog post, Facebook update, or video "go viral" without giving up some control over the message.

Huang, the now infamous beer tweeter, said of her experience, "Your little corner of the Internet can quickly spread to be all over the Internet." Once we are all comfortable with—and embrace—that assumption, the better and more effective we will become at using these tools.

For more information about all things social media, check out Beth Kanter's blog at bethkanter.org, or visit socialmediagovernance.com for access to a database of dozens of different organizations' social media policies.

Aaron Lester is the online editor for *NPQ*'s website.

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The Nonprofit Difference

by Woods Bowman

This article was adapted by the author from his book Finance Fundamentals for Nonprofits: Building Capacity and Sustainability. *Copyright © 2011 by Woods Bowman. Reprinted with permission by John Wiley & Sons, Inc. Available August 2011 at bookstores and online booksellers, including www.wiley.com.*

What are we to make of for-profit charities like Google.org and nonprofit corporations like the furniture purveyor IKEA and the New York Stock Exchange (before 2006)? These peculiar examples suggest that nonprofits and for-profits may have more in common than is commonly assumed, but their rarity also suggests fundamental differences.

The first part of this article explores the structural differences between nonprofits and for-profits, where the question is: What can one do that the other cannot? The second part explores operational differences, especially as they relate to financial decisions. The question then becomes: How should nonprofit finance differ from for-profit finance?

Structure

There is just one structural difference between nonprofits and for-profits: nonprofits do not have investor-owners. But the implications of this single difference are far-reaching.

The most direct and important consequence is on fiduciary responsibilities. Every organization is a fiduciary for some group. A *fiduciary* is an entity "who obligates himself or herself to act on behalf of another . . . and assumes a duty to act in good faith and with care, candor, and loyalty in fulfilling the obligation."[1] Fiduciary duties can be legal or moral.

For-profits have a *legal* fiduciary duty to their stockholders. The fiduciary duties of nonprofits tend to have more of a *moral* basis. A membership association has a clear duty to its members. Other types of nonprofits have a duty to groups whose members are identified only by common characteristics, such as age, poverty, or sickness.

Some nonprofits even owe duties to future generations. Examples are nonprofits that finance medical research, preserve historic sites, or preserve our cultural heritage (art museums, symphonies, etc.). These nonprofits tend to own portfolios of investments and manage them so as to produce a perpetual source of income for current operations—that is, endowments.

There are several advantages to being a nonprofit: attractiveness to donors and members, protected management, and endowment ownership.

Attractiveness to Donors and Members. Individuals are more likely to donate to a nonprofit organization than a for-profit one *regardless* of tax-exempt status and deductibility of donations. Owners can be expected to take a portion of the organization's profits for themselves, but nonprofits keep it all to advance their mission. In addition, most membership associations are organized as nonprofits rather than as for-profits because nonprofits allow members more control.

Protected Management. If a for-profit publicly traded corporation performs poorly, a group of investors may buy it. Then, using their newly acquired power to influence policy, the investors can replace the management team. But there is no way for disaffected individuals to "fire" the board of a nonprofit and take control, except in the case of membership associations with elected leaders. Only state attorneys general may sue to remove the management of a nonprofit, something which rarely occurs. This advantage has an important implication—it permits endowment ownership.

Endowment Ownership. The purpose of an endowment is to subsidize goods and services below their cost of production indefinitely. A for-profit firm faced with a product that costs more to produce than it earns would drop the product, not endow it. If it attempted to endow the product, a group of investors would surely emerge to take control of the organization and its endowment. Nonprofits, on the other hand, have protected management, enabling them to own their endowments.

Besides the intrinsic advantages arising from the absence of investor-owners within the nonprofit model, public policy also favors nonprofits in the following ways:

Tax advantages. Nonprofits are exempt from federal and state income taxes, and charitable organizations are eligible to receive donations that are tax deductible to the donors.

Bankruptcy. A nonprofit's creditors cannot force it to involuntarily liquidate, and, when nonprofits choose to reorganize under Chapter 11, they remain debtors in possession.

Financial Transparency. The U.S. Supreme Court has made it clear in a series of decisions that state and local laws cannot compel nonprofits to disclose their fundraising or administrative costs to prospective donors.

Federal law requires publicly traded for-profit companies to have annual meetings that are open to their stockholders, as well as to have annual audits, but it makes no comparable demands on even the largest nonprofits. The most recent federal law on corporate accountability (the Sarbanes-Oxley Act) exempts nonprofits from all but two provisions: whistleblower protection and documents retention.[2]

An informational return filed annually with the IRS (Form 990) is the only information that federal law requires tax-exempt nonprofits to make available to the public, but no one verifies the self-reported information. According to research and news accounts, a significant number of Form 990 returns contain material omissions and misrepresentations.[3]

These policies notwithstanding, there are some disadvantages to being a nonprofit, the biggest being a shortage of cheap capital for expansion. Although nonprofits receive gifts of capital, these are not free. Fundraising costs may be substantial. In addition, the pool of major donors is limited for nonprofits, whereas the pool of capital available to for-profits is virtually unlimited and truly global. When a for-profit has an IPO (Initial Public Offering), its stock sells out in a day. And while the investment banker is well compensated, the amount of money raised relative to issuance expenses is enough to make any nonprofit envious.

A second disadvantage is more ambiguous. Because management is protected, as explained above, nonprofits provide space for amateurs to learn on the job and make mistakes. One of my favorite quotes, by Amanda Parry, is, "[Nonprofits are] like weeds, they often can grow under conditions others can't."[4] However, this charming advantage has a dark side: if a board is completely derelict in its duties, there is no way for outsiders to stop it from being run into the ground, short of intervention by a state attorney general.

Operation

Although nonprofits are not in business to make money, they are, nevertheless, in business: they hire people, they produce goods and services, and they have bills to pay. This means that nonprofits should function mostly in the same manner as for-profit businesses, but with some key differences.

Nonprofits should be businesslike, but not necessarily run "like a business." This is not a contradiction. To run an organization "like a business" is to mimic for-profit businesses, including their goals. An online search of definitions for "businesslike" turns up the following qualities: *methodical*, *systematic*, *purposeful*, *earnest*, *practical*, *unemotional*, *careful*, *diligent*, *enterprising*, *industrious*, *hard-working*, *thorough*, among others. For-profit businesses do not have a monopoly on these admirable characteristics.

The call for nonprofits to be more businesslike is hardly new. During the eighteenth century, so-called "joint stock philanthropies" spearheaded a reform movement. They did not have stockholders in a legal sense; they earned the name by being managed like commercial enterprises, with a chief executive and a board of directors.

Like businesses that sold stock to the public instead of relying on a few partners to bankroll a project, joint stock philanthropies solicited the general public rather than relying on the generosity of a single individual or family. Almost three hundred years later, modern charities still follow this model.

Without investor-owners, nonprofits may generate income from sources other than the selling of goods and services from which for-profits benefit, such as gifts, grants, dues, and endowments. If a nonprofit has no such sources of *alternative income*, it may develop them, giving it strategic options unavailable to a for-profit firm.

Financial models used by for-profit managers must be modified before applying them to nonprofits, because alternative income reverses financial logic. In for-profit firms, production creates revenue through sales of goods and services, but in nonprofits the amount of alternative income determines the amount of goods and services that an organization is capable of producing.

Nonprofit financial management has six chief concerns—*procedures*, *liquidity*, *resilience*, *sustainability*, *growth*, and *values-centered strategy*.

There are certain business tools and concepts applicable to these concerns, but they must be redefined before they are useful to nonprofits. For the following discussion, I used a large national database of ordinary nonprofits spanning five years to determine the fraction of nonprofits adhering to various standard management practices.[5] "Ordinary," in this context, refers to nonprofits that are neither membership associations nor grant makers, and which are not endowed.

1. Procedures

The most important aspect of any organization's finances is the control environment. Nonprofits need to pay attention to ethics and proper procedures for handling money in order to prevent theft (internal controls). The procedures are very similar for both for-profits and nonprofits, but there are two differences worth noting: the incidence of financial crime, and the presence of CEOs on boards.

Financial crimes are more common in the nonprofit sector than in business or government.[6] This is probably true because many nonprofits have untrained persons responsible for handling money. Anecdotal evidence suggests that the nonprofit work environment places a high value on the virtue of trust, and perpetrators are typically persons far above suspicion: they seem dedicated, loyal, and they never take a day off. Nonprofits need to start taking special care in handling money, whereas careful money handling is built into the DNA of for-profits.

As for CEOs on boards, it is common for the CEO of a for-profit corporation to sit on his or her own board, but in the business world a board represents the interests of stockholders—and CEOs are usually stockholders. It is far less common for nonprofit CEOs to sit on their boards, because nonprofit boards represent the interests of the people they have a duty to serve. The interests of nonprofit CEOs are often ambiguous, and must be intuited. In the nonprofit setting, dialogue between manager and board is a useful discovery tool that is enhanced by maintaining separate and distinct roles.

A board's chief responsibility is to hire a CEO, set goals, evaluate the CEO's performance, and fire him or her if necessary. The board is also responsible for verifying the enforcement of applicable laws, like the whistleblower protections and document retention requirements of the Sarbanes-Oxley Act.[7] Boards tend to be clubby, so these oversight functions may be compromised when the CEO sits on his or her own board, even where the CEO is not on an oversight committee and abstains from voting on oversight matters.

BoardSource and the Independent Sector provide this good general advice: "Nonprofits must start by protecting themselves. They must eliminate careless and irresponsible accounting practices and benefit from an internal audit that brings to light weak spots and installs processes that are not vulnerable to fraud and abuse. Written policies that are vigorously enforced by executive staff and the board send a message that misconduct is not tolerated. These policies should cover any unethical behavior within the organization—including sexual harassment."[8]

2. Liquidity

The first operating imperative is to pay bills as they come due. A financial manager's biggest nightmare is running out of cash. Nearly all ordinary nonprofits understand this intuitively. Almost 90 percent have positive liquidity and a majority has a comfortable amount, defined as the equivalent of one month of nonprofit working capital or more.

According to an Urban Institute study undertaken by Elizabeth Boris and colleagues, over half of human service nonprofits reported that late payments by governments were a problem, making it necessary to adjust conventional definitions of liquidity so as to take into account reliance on government contracts and local conditions.[9]

Nonprofits and for-profits measure liquidity by the extent to which cash and near-cash assets (current assets) exceed liabilities coming due within one year (current liabilities)—an amount generally known as working capital. Business finance texts include marketable securities in their definition of near-cash assets, whereas nonprofits have reasons for holding marketable securities that do not apply to for-profits (see discussion on operating reserve, under *Resilience*, below).

As a result, nonprofits should exclude marketable securities from working capital. Furthermore, for-profits do not have assets with donor restrictions or pledges, all of which get reported as restrictive on financial statements. Nonprofits should exclude these from their calculations of working capital.

3. Resilience

When maintaining annual surpluses and adequate liquidity becomes routine, the next task is to build an adequate operating reserve to provide a margin for error and a cushion in case of sudden economic adversity.

For-profits generally do not have operating reserves. When economic adversity strikes, they cut costs by laying off workers and/or cutting services. Nonprofits experiencing economic adversity, on the other hand, try to avoid laying off workers and cutting services. Nonprofits need an operating reserve.

To build a reserve, a series of extraordinary annual surpluses is necessary. However, once an organization obtains an adequate reserve, its surpluses can return to normal, except when it has to replenish the reserve following a deficit year.

The question is, how large should a reserve be? The Nonprofit Operating Reserves Initiative Workgroup (NORI), an ad hoc group sponsored by the National Center for Charitable Statistics, the Center on Nonprofits and Philanthropy at the Urban Institute, and United Way Worldwide, has endorsed maintaining an operating reserve equivalent to three months of spending on operations.[10]

Ordinary nonprofits intuitively understand the utility of having a reserve. The proportion having positive reserves is nearly as large as the proportion with positive liquidity, and approximately half maintain their reserve at the NORI-recommended level.

But every organization should evaluate the NORI recommendation in light of its own particular circumstances. It should evaluate the likelihood that it will need sudden access to cash on a short-term basis, and calculate how much it is likely to need. An arts organization may need more (if it has an off-season, say), while a research organization may need less (if, for instance, its sole source of funds is an endowment).

The assets identified as being available in an emergency do not need to be as liquid as cash or cash equivalents, but they do need to be convertible into cash within the span of a few months at the latest.

4. Sustainability

A nonprofit's annual surpluses must be large enough to sustain financial capacity indefinitely, and to make additional investments for growth. I call this the sustainability principle. The nonprofit rule for long-run sustainability is that return on assets (ROA) must be at least as large as the long-run rate of inflation. This is a critical difference between nonprofit and for-profit businesses.

For-profit businesses tend to focus on return on investment (ROI) instead of ROA. However, ROI favors riskier, debt-financed financial activity, thereby increasing bankruptcy risk.[11]

Shareholders of a for-profit business that increases its borrowing can manage the additional risk individually by buying or selling its stock—depending on the shareholders' appetite for risk. Nonprofits have no stockholders, so the people they serve bear all of the increased risk from borrowing, and they have neither a voice in selecting managers nor the tools to manage unwanted risks.

When a for-profit firm considers undertaking a new project, it can focus on return and ignore risk without violating its fiduciary responsibility. By contrast, nonprofits have to be especially careful to evaluate the organization's risk-exposure in any new venture. Its fiduciary responsibility requires no less.

The single most important formula that is not commonly found in nonprofit finance texts is one that emphasizes perpetual stewardship. Given that the long-term rate of inflation is 3.4 percent, the minimum annual budget surplus needed to maintain assets at their replacement cost is: Annual Surplus = 3.4 percent × Total Assets ÷ Annual Spending. This is a necessary condition for delivering service at the same volume and quality indefinitely.

Applying this formula to a large national database shows that ordinary nonprofits tend to focus on the short-term at the expense of the long-term. Although half or more have adequate liquidity and operating reserves, less than 40 percent are able to preserve their assets over the long run.

This finding is consistent with anecdotal observations of nonprofits struggling to serve their clientele and being loath to turn anyone away. However, this short-term compassion has a long-term downside for the health of the organization. Failure to maintain assets at their replacement cost necessitates periodic capital campaigns to renew the existing capital stock.

5. Growth

Once an organization is sustainable, it has a base on which to grow. Managing growth is harder for nonprofits than for for-profits, because nonprofits have access to many types of revenue whereas for-profits just have "earned income," meaning income from selling goods and services.

Having more revenue options is both good and bad. More options means access to more dollars, but having more options also multiplies the number of strategic decisions to make regarding which sources of revenue to pursue. A diversified revenue portfolio provides some protection from the downside risk of any one of them drying up, but each source of revenue presents different management issues, which expands the skill set that nonprofit managers need.

Alternative income (gifts, grants, dues, and investment income from endowments) allows nonprofit clients to receive more service at lower prices than the market would charge. Unfortunately, it also renders management more difficult and nonprofit finance less intuitive.

Nonprofits cannot sell stock to raise capital, so they must maintain large operating surpluses or stage capital campaigns, which have long lead times and are expensive. For many nonprofits, this restricts their growth prospects.

Each type of income is appropriate to a different provider/recipient combination. The key is having sources of income consistent with the nature of benefits conferred on, or of interest to, the providers of resources. In some cases, this may lead to reliance on a single source; in other cases, it may require a multiplicity of revenue sources.

Approximately 18 percent of ordinary service providers use a funding model almost entirely dependent on philanthropy, while 30 percent virtually ignore it, relying primarily on earned income. One-half uses a model that mixes both philanthropy and earned income. Only about 3 percent have neither kind of income, relying almost entirely on government support.

6. Values

Nonprofits *are* different. Their "business" is promoting values, and there is evidence that they do in fact act differently from profit-seeking firms. This is the case even with those nonprofit industries that depend greatly on commercial income.

To some observers, nonprofit hospitals are "large and highly commercial" enterprises that "do not look, feel, or act very much like the mental images that most of us have of nonprofit organizations."[12] However, in 114 comparative hospital studies, nonprofits performed better in terms of economic performance (21 studies), quality of care (14 studies), and accessibility for unprofitable patients (28 studies).[13] Only 11 of these studies found that proprietary hospitals performed better under the same criteria. The rest were inconclusive.

Furthermore, in 68 empirical studies of nursing homes, nonprofit nursing homes unambiguously performed better in terms of quality and accessibility—26 studies compared with 6 studies; the rest were inconclusive. For-profit homes had better economic performance—19 studies compared with 5 studies; the rest were inconclusive.[14]

Nonprofit organizations must become more sophisticated about "defining, producing, and documenting the unique and value-oriented outcomes that only mission-driven work can deliver."[15] The fiduciary responsibility of nonprofits is to serve people in the best possible way—and this gives nonprofits a competitive edge over for-profit rivals.

An organization's values are integral to its long-range strategy for delivering service, which in turn determines the amount of long-term financial capacity needed. Values must not change, but the environment does, which may in turn change how values are expressed. Updating the kinds of services provided by an organization, as well as the service delivery model it uses, should be done periodically by the board, in conjunction with the management team.

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Returning to the questions that introduced this article, what *are* we to make of the New York Stock Exchange operating as a nonprofit for nearly 200 years, for-profit charities like Google.org, and for-profit companies operating as nonprofits, like IKEA?

The New York Stock Exchange was formed to trade stocks, but it also served a regulatory function, sanctioning members who did not follow the rules. Until recently, it was competitive with other exchanges around the world. Initially, the advantages of being an exclusive, member-controlled nonprofit outweighed the disadvantages of limited capital, but when major changes in its environment required vast new sums of capital in order to adapt, the advantage shifted toward being for-profit.

Google attempted to overcome the nonprofit capital constraint by using its ability to raise capital to finance an ancillary, but distinct, social mission. Its goal was nothing less than "re-inventing" philanthropy, but it has yet to find a new workable model.[16] To the outside observer, Dot Org (as company insiders call the philanthropic division) appears to operate more like a venture capital firm with a social agenda. This is a novel and useful paradigm, even if it has not inspired other corporations to follow suit.

IKEA has enjoyed a near-monopoly on the do-it-yourself furniture market, so it has not needed external sources of capital to grow. The nonprofit arrangement has served its founder well by allowing him to remain firmly in control for decades. The definitive study of IKEA has yet to be written, but a probable consequence of self-financing is slower growth, which IKEA has accepted as the trade-off for tight control over all aspects of its operations.

These stories illustrate the trade-off between control and capital that all organizations must confront, causing us to wonder which financing rules and techniques are transferable from for-profits to nonprofits. The answer is complicated. Most business rules and techniques work well for all nonprofit organizations. Others need considerable modification, because nonprofits are different from for-profits in structure and operation. Nonprofit managers should examine the rules they follow and the techniques they use, and then—as traffic signs say at dangerous intersections—proceed with caution.

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An Interview with Michael O'Neill

by Jeanne Bell

Jeanne Bell: *Professor O'Neill, you are one of the pioneers in the establishment of nonprofit management programs in academia, so I was hoping that you might share with the readers of* Nonprofit Quarterly *your thoughts about the state of that field.*

Michael O'Neill: According to Rosanne Mirabella of Seton Hall University, there are about 180 colleges and universities in the United States that offer a master's degree that includes at least a serious concentration in nonprofit management work. When, in 1983, we started the master's degree program at the University of San Francisco—the first in the country—I never would have imagined that rate of growth. There are also nonprofit management programs on the undergraduate and doctoral levels, as well as university-based certificate programs, but just on the master's level alone, going from 0 to 180 since 1983 is amazing. As to research, there has been great growth in both quantity and quality, as indicated by the number of articles in scholarly journals and other publications; the number of books from academic, professional, and general publishers; and papers not only at dedicated conferences like ARNOVA [Association for Research on Nonprofit Organizations and Voluntary Action] and ISTR [International Society for Third-Sector Research] but also at mainline conferences like those of the American Sociological Association, the American Political Science Association, and the American Historical Association.

Those are dramatic indicators of the growth in quantity and quality of research. On a personal level, I can say that the articles, books, and papers that I see these days are, on the whole, significantly better than the ones I saw in the mid-1980s. There are other indicators of the growth of the field, including the number of faculty positions that have been approved in the last twenty-five years. Faculty lines are the coin of the realm in academia. When deans and provosts allocate faculty lines to a discipline or field, that's highly significant, because it means that those institutions are committing long-term support and resources.

JB: *Why do you think that such rapid growth has occurred?*

O'Neill: In 2005 I wrote an article for *Nonprofit Management and Leadership*, in which I discussed why the movement had taken place at this time and why it had grown. By way of analogy, I looked at the beginnings of business management education and government management education. Business education started in the 1880s at the University of Pennsylvania's Wharton School, and public administration programs started in the 1920s at Syracuse University's Maxwell School and the University of Southern California. These programs arose after great growth in the business and government sectors. What happened in the nonprofit field is, I think, very analogous. The last half of the twentieth century saw tremendous growth in the nonprofit sector, as measured by number of organizations, number of employees, employment rate relative to overall employment, revenue and expenses, assets—all these grew at an amazing rate. That nonprofit sector growth produced a climate of opportunity to which universities responded, with a lot of help from their friends.

Specifically, in the 1980s and 1990s a number of people around the country recognized that there was the potential and need for nonprofit management education programs. Nonprofit training agencies like CompassPoint helped pave the way. Some university professors and administrators—academic entrepreneurs—started programs. Several foundations funded this development, most notably the W. K. Kellogg Foundation. National professional associations serving the nonprofit and public sectors, like Independent Sector, provided support.

The other important ingredient was the students. No matter how good the basic idea, if people out there hadn't been willing to take the risk and put their bodies, money, and time on the line. . . if they hadn't believed in the idea right from the beginning, nothing would have happened. The development of the field was due to all those factors: the growth of the sector creating a climate of opportunity and the people who capitalized on that opportunity, including academic entrepreneurs, funders, student-consumers, and other supporters. It all worked together to create an academic presence that supports the sector.

JB: *Obviously you can't know all of the 180 programs intimately, but when you scan the field of graduate education, are there tiers of excellence? Has the field matured to a level where there's a way that we talk about the great programs and the decent programs?*

O'Neill: I'm skeptical about comparative evaluations like those in *U.S. News and World Report*. When *U.S. News* started listing "the best programs in nonprofit management education," the lists always included Yale. But Yale didn't even have a program. It had a first-rate research center, but no nonprofit management education program. One of the things that happens in these comparative evaluations is that deans of business or management schools are asked, "What are the best programs in finance, marketing, strategy?"—about which they typically know something. Then they're asked, "What are the best programs in nonprofit management?" and the dean remembers vaguely that Yale is doing something in that area, and of course Yale is a fine university, so the dean puts down "Yale." There's no national ranking of nonprofit management programs that I would give you five bucks for.

Certainly there are degree programs that people point to as "lighthouse" programs. USF [University of San Francisco] has had a role like that, as has Case Western Reserve, Indiana, the New School, and others. There are also many longstanding public administration programs that now have a concentration in nonprofit management, beginning with the University of Missouri at Kansas City, one of the pioneers. Arizona State's program has grown a lot. North Park University in Chicago now has a school of business and nonprofit management; to my knowledge, this is the only university in the country where a school includes the name "nonprofit."

JB: *Has the student profile changed at all over the years?*

O'Neill: My impression is that students tend to be younger now (maybe I'm just getting older!). In some programs, there are higher percentages of people of color than formerly. Most of the students in the master's level programs are people who are already committed to working in the nonprofit sector, and most of them already have positions in nonprofit organizations. Partly, that's a function of their age and work experience. For a long time, the typical entering MBA student was twenty-three to twenty-five years old—just out of college and without any clear longtime career focus. Because the USF program began within a college focused exclusively on adult working students, our median entering age has been in the early to mid-thirties, and those are folks who have typically made commitments to a nonprofit career. But some other programs around the country have younger students, more in their twenties than in their thirties or forties.

JB: *We consistently find that in organizations with a budget of under $10 million, two-thirds of the executive directors are women. Is that gender split reflected in nonprofit management degree programs?*

O'Neill: Absolutely. We've never had a cohort group that was 50 percent or more male—not even close. It's always been two-thirds to three-fourths female, and my impression is that the situation nationally is pretty much the same.

JB: *Is there a connection between academic research and quality in the practicalities of management?*

O'Neill: Any good graduate professional program—law, medicine, education, architecture, accounting—will combine and balance theory and research, on the one hand, and practice, on the other. Getting too theoretical and too research oriented, not paying enough attention to practical applications, is a mistake; and getting too nuts-and-boltsy, too immersed in practical applications, and not paying enough attention to research and theory is also a mistake. The history of professional education contains many examples of both errors. I think every theory should have some potential connection with practice, and every major practitioner issue should generate some questions about theory and research.

That said, my personal experience over forty-plus years in various professional fields is that social science research rarely produces clear, definitive answers about practical questions. For example, it's hard to think of anything more "practical" than the nature of leadership. There have been literally thousands of empirical studies about leadership, and the bottom line is that we don't know very much about what leadership is, how it works, how to develop it, or what works and what doesn't. David Petraeus is a powerful, effective leader and has properly been identified as such, but that wasn't done on the basis of social science research on leadership, although the military has done a lot of that.

Such research has great value, in more ways than we can explore here, but it generally doesn't result in simple "Do this" or "Don't do that" lessons. After forty years of practicing, observing, and reading, writing, and teaching about leadership and management, I don't expect theory and research to generate many clear, simple directives. I'm just thankful for any connection between theory and practice.

I'm also convinced that there are other ways of knowing that are just as important, just as powerful—like elementary school teachers' knowledge that small classes are better, which has never been demonstrated by empirical research.

JB: *What do you think has been the impact on the nonprofit sector of the growth of graduate-level education and research?*

O'Neill: I can't answer that question in any rigorous, scientific sense. My guess is that it has improved the quality of practice, but that's only a guess. What I can say on the basis of hard evidence is that the consumers of this type of education generally feel that it has made a real difference in their work, knowledge, self-confidence, skills, and so forth—this on the basis of surveys of alums that have been done at USF and other places, and a few published studies.

JB: *I'm going to sort of look forward now. What do you see happening in the field? What are the trends that you and your colleagues are talking about? What excites you? What worries you about the field, if anything?*

O'Neill: Let me separate my answer into theory and research on the one hand and nonprofit education on the other. For theory and research, I see continued and steady growth—not explosive, as has been the case since the Filer Commission report in the mid-1970s, but significant. I say this because nonprofit and philanthropic studies have been accepted within the academy. Scholars and university administrators are realizing that nonprofits and philanthropy are worth studying in disciplines like history, sociology, psychology, political science, economics, and management, and in interdisciplinary fields like urban studies, women's studies, and ethnic studies. In class, the other day, we were talking about what's going on in the Middle East and Northern Africa. One thing that's happened over the last few decades is that scholars, diplomats, aid workers, and even presidents of nations are more likely to talk about "civil society" organizations as related to the progress of democracy, the strength of the middle class, and the stability of governments. People didn't talk that way fifty years ago.

I'm very confident that we will continue to see a growth of scholarship and theory relative to nonprofits and philanthropy.

With regard to education, all recent indicators lead me to believe that the field will continue to grow, although not at the meteoric rate of the last twenty-five years. This will mean not only growth in the number of programs and students but also in the multiplicity of connections between nonprofit management programs and management education in business, public administration, social work, education, arts and culture, religion, and so forth. There has always been a close connection between nonprofit and public administration programs. Consistently, about half the nonprofit management programs in the country have been concentrations within MPA or MPP degrees. I think there will be more connections in the future between nonprofit education and business education. For example, our dean here at USF talks about the "three-legged stool" of a school of management that serves the business sector, the government sector, and the nonprofit sector.

Trends include the globalization of nonprofit management education—more emphasis on what's happening internationally—and the interpenetration of business, government, and nonprofit effort. While there's a lot of talk about "blurring of the sectors," the three sectors have been commingled in many ways for a long time; "commercialization" may or may not be increasing in nonprofits; and "social enterprise" may be a passing fad or something more substantial. But what is quite clear is that the nonprofit sector is now a major player in people's lives and in the national and world economies, and that therefore there will inevitably be many important connections between nonprofits, government, and business, and nonprofit education and research must respond to that interconnectivity creatively and insightfully.

JB: *I think people get confused between needing management training specific to a sector and the application of appropriate concepts that may work in all three sectors.*

O'Neill: There are common elements in all management programs, but there are also elements that are primarily or exclusively specific to a particular sector or field. For example, fundraising is very important to the nonprofit sector but not to the business or government sectors.

What is quite clear is that the nonprofit sector is now a major player in people's lives and in the national and world economies, and that therefore there will inevitably be many important connections between nonprofits, government, and business, and nonprofit education and research must respond to that interconnectivity creatively and insightfully.

If somebody wanted to work in the nonprofit or government sectors for the next ten to twenty years, I'm not sure an MBA would be the best degree. For such a person, an MNA or MPA degree would probably make more sense—not only for the curriculum but also the expertise of the instructors, the connections with other students and alums, and the "socialization" that goes on in every professional education program. All those things make a real difference.

JB: *Do you think that MNA programs have taken their place securely beside the graduate management programs for business and government?*

O'Neill: Well, you know, there's a pecking order in academia: economists look down on sociologists, physicists look down on biologists, and so forth. Many years ago I stopped taking stuff like that seriously—when, as a doctoral student at Harvard, I realized to my astonishment that some arts and sciences faculty looked down not only on Education, Public Health, and Divinity but even the Harvard Business School, the Harvard Law School, and the Harvard Medical School. Any new field in academia is disrespected for a while. When Wharton started, some faculty at the University of Pennsylvania were shocked and said that a university shouldn't have anything to do with business or moneymaking. When Harvard started its business school, one faculty member said there was nothing a young man needed to know about managing a business that he couldn't learn from a good philosophy course. Recent and very important new fields like women's studies have been sneered at by some within the academy. This is just par for the course. The real question, the important question, is whether a new discipline or field has serious content and important applicability. I think that with respect to nonprofit management and philanthropic studies, the answer is already clear, and it's an unequivocal "Yes."

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Truth or Consequences: The Organizational Importance of *Honesty*

by Erline Belton

"We do not err because truth is difficult to see. It is visible at a glance. We err because this is more comfortable."

—***Alexander Solzhenitsyn,*** *Nobel Prize Winner, Soviet Writer and U.S. Citizen*

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We have all experienced the public lie that goes unchallenged. It may be baldly untrue but somehow accepted as the basis for action with life and death consequences. Some of our experience of public lies may be based on differences in values or perceptions, but sometimes what is said just simply violates the facts. This is disheartening and drives people out of public participation.

The same may be said of organizations. A nonprofit may, on the surface, be making every effort to promote teamwork and "the higher good," but if its people continue to perceive a culture that supports a different and less reliable set of operating norms and assumptions than what is written or espoused, they will not bring themselves wholly to our efforts.

Here are some typical reasons for telling lies:

- to avoid pain or unpleasant consequences;
- to promote self-interest and a particular point of view;
- to protect the leaders or the organization;
- to perpetuate myths that hold the organization or a point of view together.

Regardless of why they are told, untruths and lies can cause people to disengage—and they can also diminish the spirit people bring into the workplace. This leads to a sometimes massive loss of applied human intellectual and physical capital assets. A disinvestment of human spirit results in what I refer to as a Gross National People Divestiture (GNPD). The GNPD index in any organization or society can be directly related to the prevalence and magnitude of untruths told and allowed to stand. GNPD occurs when your organization's tolerance of untruth creates a climate of cynical disbelief engendering a lack of trust in information and relationships. This automatically creates management problems that are sometimes difficult to put your finger on but are often very powerfully present nonetheless.

Our challenge is to buck the culture and engage people in building a climate of truth telling that will lead to a newly revived work ethic and heightened individual and collective energy. In order to do this effectively, we must understand the conditions that support the emergence of truth, and understand and eliminate those that routinely undermine its presence in our organizations.

Staying Safe: Are You Avoiding Pain, But Inviting Extinction?

According to psychologist Abraham Maslow, our strongest mutual instinct is to be safe from harm and to protect our sense of well-being. It is this instinct that guides us to avoid risk (or what we perceive to be risk), and to respond cautiously to changes in our environment, relying heavily on familiar patterns of behavior in an effort to promote and sustain a sense of equilibrium. As coworkers or managers, this instinct often propels us to play it safe and go along with the program. Ironically, in a quickly changing environment this is obviously counterproductive.

Thus, too often, we opt for the illusion of stability in order to promote a sense of psychological well-being. This sense is acquired in exchange for at least a fragment of the whole truth; and since we all know "the truth" is relative anyway, we hardly notice the cost. It is true that we all seek solid ground when in doubt. But does that solid ground need to be sameness? Solid ground might be, for instance, a place to stand for something we can believe in and whose integrity we can rely on when all else appears undependable and unpredictable.

Over time illusions dissolve and evaporate. When they do, those who have used them for grounding are left less safe, less secure than ever. And those who have allowed even the smallest of illusions to inform our management decisions, have placed entire organizations, teams, and ourselves at risk.

Because of the diversity of perspectives and information available in any group, a collective organizational "truth" has the potential to be stronger and more accurate than any one individual's truth. But it is only when we have the combination of individual as well as collective seeking of truth, that organizational potential is realized. This requires an open atmosphere where people can depend upon one another to engage honestly, respectfully, and with spirit intact. It requires the testing of personal assumptions among people and that requires a level of trust.

More often than not, organizational potential is not realized. Why? Team meetings, team coordination, and team feedback all involve a diversity of people and personalities that have at least one thing in common: they don't want to get hurt; they don't want unpleasant things to happen; they want to feel safe; and they want to contribute. We, as fallible individuals create the environment, and environmental conditions can support either truth or lies.

Conditions That Support Untruths

Groupthink: The tendency to just go along with the crowd, avoid drawing criticism to ourselves, and assume that everyone agrees, is so subtle and unconscious that we are generally unaware of it. As a result, we often all wind up somewhere nobody really wanted to be. For instance, imagine the scenario of an organization trying to decide on whether to apply for a major contract. Most staff members are in favor of going forward while a few are privately concerned that the organization does not have the capacity to handle the work or the money. The push toward acquiring the contract is so strong that the isolated few remain silent for fear of being characterized as pessimists or naysayers. The organization lands the contract and finds itself in terrible straits trying to handle the management challenge. One variation on this is situations in which everyone knows something but there is an undercurrent of pressure not to state it aloud. Colluding in lies can be crippling. In one organization I know, the staff was asked about the biggest lie inhabiting the organization. After much hemming and hawing, one man finally blurted out, "The lie is that we provide good services that the community wants. We don't and we treat any client who complains like a troublemaker." He went on to provide examples. Everyone else around the table nodded agreement immediately. Consider the enormous cost of having kept this silent for years! This was a key organization, serving an isolated immigrant community. Unfortunately, the dialogue group did not include the executive director or board members, who later did not allow the conversation to progress further. This was seven years ago, and to this day, funders see the organization as "chronically in trouble."

Imaginary conflicts: People often choose their words and edit their facts to protect themselves from anticipated reactions. One person's imaginary conflicts can warp the way information is exchanged. In a team, the distortion is amplified by the processes of repetition and groupthink. Eventually, the distorted facts may culminate in a "self-fulfilling prophecy," where our worst fears materialize precisely because we acted in fear. Think about the executive director that everyone soft-pedals around for fear of hitting one of her sacred organizational cows. Rather than gently prodding for potential change or aiming for a more open debate about organizational myths, staff members assume that some topics are "off limits" and live in silence with the uncomfortable consequences. Of course, this only fulfills the idea of the executive director as a leader entrenched in her ways, and prevents her from getting accurate feedback—and so it goes.

Hidden agendas: When individuals have their own interests at heart, or believe that something is true but fail to disclose this fact, seemingly straightforward discussions have a way of going wrong. Unexpected disunity and conflict can undermine team spirit and group confidence, preventing the group from working efficiently and effectively. Self-interest isn't so bad in itself, but when kept underground it acts like dark matter pulling everything in its direction—down. The most distressing of these situations occur when individuals see themselves as self-righteous warriors using any means necessary in their "struggle for justice."

The Spectrum of Everyday Lies

Exaggerating or underplaying the truth: This is often done for one's own benefit, for that of the team, or for a teammate. These lies usually reflect (or exceed) desired expected outcomes.

Shading the truth: This is usually done to make a point or to protect yourself, your team, or your teammate. Again, such a lie is used to make the impression that things are more like you want or expect them to be than they actually are. These lies are often used in a noble effort to protect others from the truth.

Beating around the bush or throwing up a smoke screen: This is a delay tactic used to enlarge the insulation or cushion of safety between you and somebody who makes you uncomfortable. This category includes situations in which you withhold an opinion or fail to tell a person where he or she really stands with you for fear of creating complications or undesired reactions. It also includes instances when you fail to say no directly, when no is what you mean.

Pretending certainty or expertise: There is a lot of pressure in the workplace to provide answers now, to know the facts, the status, the scoop. These lies are often passed off as bravado, but they create unfounded expectations and dependencies in others, thus setting them up for unpleasant surprises.

Not letting others know your true position: Especially in times of ambiguity or controversy, there is a temptation to cover yourself by either making your stand unclear, or stating it in such a way that it sounds as if you are in agreement with others when, in fact, you are not. This is a common feature of groupthink and often leads to outcomes nobody really wanted but everybody assumed they did!

Consciously withholding relevant information: This is often used as a kind of power play to leverage the value and impact of information that you have. By not fully disclosing your knowledge, you are in fact manipulating people for your own purposes (whatever they may be).

Perceptions of powerlessness: Especially in teams with strong leaders, people may feel they have no legitimate voice and are vulnerable (by proximity) to the "powers that be." Opting to assume that others know best, some people often let others make choices and decisions for them, and withhold information that might influence the discussion. Once this happens, these people have made themselves powerless to do anything but accept the consequences.

Perceptions of invulnerability: Belonging to a successful team can be exhilarating—so exhilarating that maxims such as "success sows the seeds of its own failure" seem irrelevant and only applicable to somebody else. There is a strong sense of being "in the know" and having a unique advantage over others who are outside the circle of your team. This can lead to carelessness, letting perceptions, communications, and facts slide by without diligent examination and discussion.

Misplaced loyalty or dysfunctional rescuing: Relationships that have longevity often interfere with the ability to be objective about performance, and ultimately one's competence to do the job. Loyalty to these relationships can cause individuals to look the other way and avoid listening to obvious data that suggests that either the person is in the wrong position or it is time to move on. Silence on the issues of lack of performance is a major untruth. If unacknowledged it creates disharmony and reduces leadership's credibility. Once acknowledged, and once actions have been taken, an environmental unfreezing occurs that revitalizes human spirit and performance.

Failing to give due credit: A common means of self-promotion in a group setting, this denies or diminishes the value of others' input and contributions. It disempowers people and leads to the inappropriate use of human resources.

Deluding yourself—self-deception: This is perhaps the most common source of everyday lies. You have both conscious and unconscious internal mechanisms that operate to protect you from cold hard facts in the misguided belief that what you don't know won't hurt you. These self-deceptions set you up for hard falls, and introduce faulty information into whatever team dynamic you are part of.

Conditions That Support Truth Telling

Individual examination/accountability: Individual organizations and teams can "build better truths." Since untruths can be intentional, the truth must be intentional. Collective truth for a team is the result of individual encouragement through consent that is informed, uncompelled, and mutual. The leader has a critical and essential role as role model and must understand that his or her behavior is under more scrutiny and will be given more weight than that of the others. If the leader fails at this, the organizational setting will also fail.

Visible commitment to truth telling: Relentlessly stating that truth telling has value is only the first step. Explaining thoughts, acknowledging the power of our words, and being accountable to one another for our actions will demonstrate that concept. In spite of fear about telling the truth, relationships can be consistently strengthened with truth as the foundation.

Collective truths and collective responsibility: All team members need to collaborate in a dialogue that sets the foundation for an agreed-upon definition and description of "reality."

This vision of reality is not complete until each member gives explicit consent and can accept the idea that the view of reality presented, even with qualifications, is one that they can sign on to. Once there is ownership and a feeling of collective responsibility, a future can be created. This kind of dialogue requires personal risk, courage, and time.

The whole truth: Access to reliable, solid, and truthful information is the one commodity every person, regardless of role or position, needs in order to succeed. As people who live or work together, we require information that is communicated openly and freely. Information based on the "whole truth" informs decisions, actions, behavior, and dialogue to support an outcome. Organizations that support truth telling understand that there are four critical components to the whole truth, and to laying the foundation for achieving outcomes that have meaningful results and credibility: information must be complete, timely, accurate, and true.

Information flow: Information creates its leaders' legacies and the values they stand for. Consider an organization's values and beliefs in the context of its history and current reality. All available facts and information (including personal stories, feelings, and visible and invisible reactions) are on the table in an accurate and accessible way; all information is understood and shared.

Free choice, sustained environmental spirit, safety: In organizations that value truth telling, each individual is free to evaluate and decide based solely on the merit of available truthful facts; there isn't even a hint of social, political, or economic coercion. The environment must show evidence that it is "safe" to tell the truth. There must be visible examples of situations where the truth was told, acknowledged, and acted on—and the consequences were not punitive. This does not mean that the truth may not bring a fallout; that could very well happen. People will leave organizations in which they don't fit, and that is positive for the organization and the individuals involved.

Laying a Solid Foundation

Running an organization based on truth requires—and demands—the taking of personal risks and time. The perception that time is limited, or the fear that the truth will hurt us, or hurt someone or something we care about, are perhaps the greatest obstacles to organizational truth telling.

Busy men and women are always looking for shortcuts and abbreviations to help speed things along. But truth lies at the very foundation of a successful organization, and you can't lay a solid foundation when you cut corners; doing so places the whole structure in danger of eventual collapse. But if your culture now includes a tolerance for and comfort with lying (as it is described in the above "spectrum"), you have to be explicit about changing your culture and about what the "whole truth" must include. And then you must patiently and persistently inch your way toward it, in practice. Organizational healing and reconciliation are the natural first steps toward restoring a culture where truth telling is a value. It is through the process of making the change as an organization-wide effort that we reclaim the vital human spirit necessary for renewing our organizations, communities, and country. Truth telling leads to freedom; freedom requires that we challenge the way things are in organizations if we truly want our organizations to accomplish what is in our collective hearts.

Let's Talk!

Let's move this topic forward! Any ideas or arguments you'd like to share with the author and editors? Send us an e-mail, referring to this article at: feedback@npqmag.org.

Erline Belton is the CEO of the Lyceum Group in Boston. She has been identified by clients as an organization healer, and feels honored to be of service as she practices organization development from her heart and head.

To comment on this article, write to us at feedback@npqmag.org. Order reprints from http://store.nonprofitquarterly.org, using code 180113.

The Take-Away

by the editors

The Nonprofit Ethicist

by Woods Bowman

When a board member discovers that one of the two arts boards he sits on is waiting for the financially weaker one to fall so that it can reap the spoils, it becomes an ethical conundrum. To which organization does the trustee owe her "duty of loyalty"? The Ethicist advises exploration of a merger in order to turn the quandary into a positive outcome for all.

New Boards for a New World

by Ruth McCambridge

NPQ did a survey asking readers what changes—if any—they had been noticing in their organizations' boards. While the overall picture was inconsistent, there were recurring themes—one of which, points out McCambridge, may be a valuable gift to nonprofit governance worth recognizing and codifying as we transition out of the current crisis.

Beyond Financial Oversight: Expanding the Board's Role in the Pursuit of Sustainability

by Jeanne Bell, MNA

Jeanne Bell, a well-known financial analyst of nonprofits, says that while boards have been focusing on financial oversight as their fiduciary responsibility, many have been ignoring their more valuable strategic role in helping to (re) design organizations that are both highly impactful and financially viable.


Beyond Financial Oversight: Expanding the Board's Role in the Pursuit of Sustainability

Here We Go Again: The Cyclical Nature of Board Behavior

by Julia Classen

This article states that after the founding period, boards tend to cycle through periods of attentiveness and inattentiveness. If organizations understand that board behavior is dynamic, not static, and cyclical in nature, they—and their boards—will be able to become active participants in the process of moving through each cycle while inching toward greater effectiveness. Armed with an understanding of the three cycles advanced by Miriam wood almost two decades ago, the bigger picture can emerge, and boards that feel bogged down by recurring problems can learn how to address conflict and crisis from a more philosophical—and practical—point of view.


Here We Go Again: The Cyclical Nature of Board Behavior

Adding a Few More Pieces to the Puzzle: Exploring the Practical Implications of Recent Research on Boards

by David O. Renz, PhD

The volume of recent published studies on boards and governance is staggering, yet organizations continue to rely on so-called "normative" information, much of which has no research base as a foundation for their understanding of how boards work best. Here, David Renz, one of the country's premier researchers on nonprofit governance, discusses five streams of research that can be put to practical use in your organization: board variation, capacity, effectiveness, design and roles, and the governance of real consequence that happens outside of boards at a more macro level.


Adding a Few More Pieces to the Puzzle: Exploring the Practical Implications of Recent Research on Boards

Governance under Fire: A Dustup in Fresno

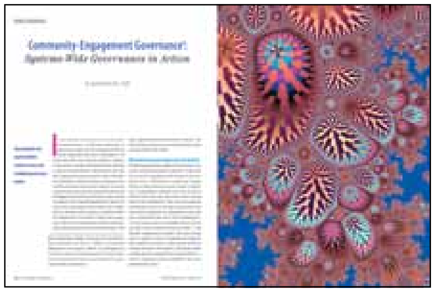
by the editors

A California regional center discovers an unexpected end-of-year surplus, and it decides to give its 300 hard-working employees a "one time salary adjustment" totaling approximately half a million dollars. When the press and community at large vilify the organization for the move, it seems unfair. But the moral of the story turns out to be that a historic lack of transparency in a field leads to lost trust: other regional centers serving the exact same constituents had recently been found to have been less than transparent, and even corrupt—and the community had simply had enough.

The Inclusive Nonprofit Boardroom: Leveraging the Transformative Potential of Diversity

by Patricia Bradshaw, PhD, and Christopher Fredette, PhD

When boards now talk about diversity, it is difficult to know what they really mean to do. Recent study shows that simply adding diverse bodies to the mix can breed tokenism and alienation, and this leads to less productive behavior overall. This article looks beyond the simple diversity aspiration to a higher plane. New research shows that a combination of functional and social inclusion creates what Patricia Bradshaw and Christopher Fredette have come to call "transformational inclusion," a model that empowers members using functional processes to integrate—rather than assimilate—diverse members.



Community-Engagement Governance™: Systems-Wide Governance in Action

by Judy Freiwirth, PsyD

Many nonprofits look at the board as the only locus of governance, but this article proposes a more complete vision of the function that engages many bodies in and around the organization in the direction and implementation of its work. Increased expectations about stakeholder engagement in decision making make this an intriguing and potentially exponentially more powerful model than the traditional board. The article contains a number of case studies and excellent descriptions not only of what it takes to expand your governance structure but also of what the benefits of those changes can be.

Dr. Conflict

by Mark Light

In an ideal (nonprofit) world, coleadership allows colleagues to share the burden of directing an organization. But the reality of different and even clashing personalities can create stormy situations. Dr. Conflict explains how clarifying roles and coming up with explicit guidelines of behavior can make for smoother sailing. But, he warns, do not expect conflict to disappear. In fact, conflict may be a necessary—and even desirable—part of the job.

Tweet Freely: Your Social Media Policy and You

by Aaron Lester

Now that social media pervades almost every aspect of the workplace, organizations must develop policy guidelines that take into account the challenging necessity of embracing the tools of social media while maintaining control of the message. As it turns out, organizations seem prepared to accept the occasional embarrassing "hiccup" for the greater good of healthy online social engagement.

The Nonprofit Difference

by Woods Bowman

While for-profits and nonprofits have fundamental differences, they also have more in common than we might think. This is borne out by the tendency of the nonprofit sector to adopt for-profit business models. Bowman analyzes the differences between the two, and asks, "What can one do that the other cannot, and how should they differ?" His conclusion is that most for-profit business models work well for nonprofits, with the caveat that many must be modified to take into account the two business types' underlying structural and operational differences.

An Interview with Michael O'Neill

by Jeanne Bell, MNA

After forty years living, eating, and breathing nonprofit management, a professor at the School of Business and Professional Studies at the University of San Francisco shares his perspective on the birth of the field and the reasons behind its meteoric rise.

Truth or Consequences: The Organizational Importance of Honesty

by Erline Belton

Organizational untruths are pervasive and corrosive, explains Belton. Truth telling is an essential practice that helps people thrive in their organizations while leading to increased individual and collective energy.

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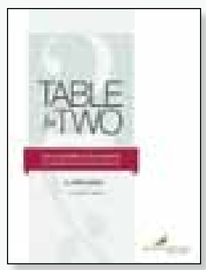
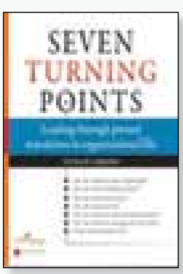
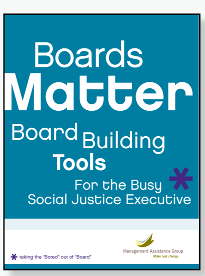


Table for Two explores the conditions under which a founder stays on under new executive leadership after stepping down as CEO for the overall success of the nonprofit.

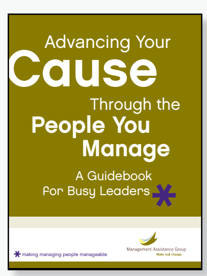


Seven Turning Points helps nonprofits recognize and understand critical junctures when they must reassess the way they operate and make fundamental changes in order to move to a new level of effectiveness.

Strategic Planning That Makes a Difference shows how to make strategic planning more accessible, viable, productive—and far more valuable.



Boards Matter: Board Building Tools provides clear, easy-to-use tools and articles designed to help busy social justice leaders develop an engaged board.



Advancing Your Cause Through the People You Manage provides nonprofit managers who never thought they'd be supervisors the tools they need to manage for impact.