

Building and Managing a Better Board



GOVERNANCE

An In-Depth Workbook for Board Members and Executive Directors
of Nonprofit Community Development Organizations

Launched in 1982 by Jim and Patty Rouse, The Enterprise Foundation is a national, nonprofit housing and community development organization dedicated to bringing lasting improvements to distressed communities.

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About This Manual

How can you build and manage a better, more effective board?

All nonprofit organizations are governed by a board of directors. Better, more effective boards are built from sharing a commitment to the organization's mission, and from board members understanding and fulfilling their roles and responsibilities to achieve the mission.

Building and Managing a Better Boards designed to help board members of nonprofit community development organizations gain a common and thorough understanding of the roles and responsibilities of their board. It also can help boards evaluate when they need to revisit how they function as the needs of their organization change. The information in this manual can help you start or improve the governance of your organization. It includes information, examples and group exercises on topics such as:

- Mission, vision, activities and values statements
- Stages of board development
- Board roles and tasks
- Recruitment of new board members
- Board officers and committees
- Legal duties and risk
- Meeting management

This manual is one of the books within the *Governance* series of The Enterprise Foundation's Community Development Library™. The series provides detailed information on:

- The basics of board operations
- Board leadership skills
- Evaluation of the organization
- Evaluation of the executive director

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Getting Started

A board of directors that functions well is the cornerstone of a successful nonprofit organization. Boards function well when there is an understanding shared among the directors of the mission of the organization and the roles and responsibilities of the board.

This manual will help boards gain those shared understandings. It is designed for new and old boards, with experienced or inexperienced directors. Many boards can improve their performance. This manual provides descriptions and exercises suitable for boards at *any* stage of development.

By codifying the mission, vision, activities and values of the organization, the board sets forth what the organization is, what is important to it and how it will perform its work.

Make this a group effort. By discussing and working through the manual together as a board, you will gain a common understanding about the duties and obligations of board members. You will also build consensus about how your board should operate.

Work through this guide in the order it's laid out and you will build a strong foundation for your board step by step. But what if you tackle an exercise out of order? You should still be successful as long as you work systematically and gain consensus on each issue before moving on to the next one.

Using the worksheets, delineate your own policies. Instructions are provided for the board chair, executive director or other facilitator to use in preparing for and moderating the sessions built around each worksheet. You may need more than one work session for policy development, especially if you are a new board. This is okay; it's important that you take the time to discuss important issues and build unity among the directors.

For some boards, completing this manual will be hard work, but you will reap important rewards. You will not be able to count them all, however, because some will come in the form of trouble you *will not* have. So commit the time to build a solid foundation for your nonprofit. Once you have gotten off to a good start, you can concentrate on your mission and get on with the business of improving life in your community.

NONPROFIT BOARD BASICS

Board basics are the fundamental cornerstones of strong, effective nonprofit organizations. They provide the structure and define the roles and responsibilities of the board for governing and progressing the organization. Start-up, growing and mature organizations share the critical, basic elements of:

- Committing to a specific mission, vision, activities and set of values
- Establishing and accepting board responsibilities
- Providing financial oversight
- Understanding legal obligations and minimizing risks

By codifying the mission, vision, activities and values of the organization, the board sets forth what the organization is, what is important to it and how it will perform its work. Except for its fiduciary responsibilities, which are essentially set by law and by the government, the board defines the roles of its officers and directors. Sound governance and financial oversight are critical to a nonprofit organization, and it's the responsibility of the board to establish guidelines and control measures and ensure they are followed. Understanding the legal issues — from finances to personnel to personal liability — is mandatory.

THE BOARD'S PURPOSE AND FIDUCIARY RESPONSIBILITY

The board of a nonprofit organization is considered to be its “owner,” providing governance, leadership, oversight and, to some extent, protection of the organization primarily in two ways:

1. *By doing what it takes to achieve the organization's mission* Each board member is required to do what is necessary to make the work of the organization successful. Depending on the board's stage of development, this could include:
 - Doing the work of the organization
 - Managing those who do the work
 - Setting policies and overseeing the operations
2. *By ensuring that all resources are used only to achieve the mission* Board members are responsible individually and as a group for the prudent and reasonable use of an organization's resources.

Safeguarding the organization's assets from misuse is the board's *fiduciary responsibility*. In the simplest terms, fiduciary responsibility is “being responsible for those resources that do not belong to you.” To fulfill fiduciary responsibility, each board member, and the board as a whole, must exercise at least its duties of care and loyalty — the cautious use of resources and avoidance of personal gain. The sections in this manual on Financial Oversight and Legal Duties and Risk provide more detailed guidance on this responsibility.

The board chiefly fulfills its fiduciary responsibility through financial oversight. It is legally responsible for ensuring the organization is financially healthy and responsible financial management practices are implemented. This is one of the few areas where a board has few choices about how to operate.

Fiduciary responsibility also extends to some outsiders, such as donors, and to the federal government. When an organization agrees with its donors to accept and spend money in a certain way, the board is obligated to honor the donor's intentions. Likewise, when the organization promises the Internal Revenue Service that it will function as a nonprofit organization and will conduct certain activities to achieve and maintain tax-exempt status, it is obligated to the federal government to organize and operate in that manner.

Fiduciary duty also includes ensuring that the organization is current with all federal, state and local corporate and tax filings and the fees that may be associated with them. For example, just because an organization receives federal tax-exempt status does not mean that it is exempt from paying federal withholding taxes. These taxes must be paid.

In addition, if an organization fails to file the appropriate federal, state or local informational or tax returns or other corporate documents, the organization may be monetarily penalized. Finally, failure to file the appropriate state or local tax-exemption registrations (such as for state tax-exempt status, for real estate tax exemption, etc.) may result in the organization having to pay these taxes until the organization achieves the appropriate status. The board should consult with a local attorney or accountant to develop a list of required filings, fees and taxes.

Before your board can take on these important responsibilities, however, it must establish its foundation, which is built on the organization's mission. Fulfilling this mission is the first and foremost objective of a board. So, before you can decide how your board should operate, you need to answer the question, “Why do we exist?”

Mission, Vision, Activities and Values

The board of a nonprofit sets the standards, objectives, goals and philosophies of the organization. It answers the question of why another organization should be created when there are others doing similar work.

By codifying the mission, vision, activities and values of the organization, the board sets forth what the organization is, what is important to it and how it will perform its work. Scripting these statements is the first work of the board.

If your organization needs to write its mission statement because it is a new organization or because you need to rethink the mission, then give yourself enough time to explore everyone's ideas, thoughts, contributions and even word choices, as the results will define your nonprofit for years to come.

Once you have agreed on the concepts of your mission, vision, activities and values, you must then state each of them concisely in one or two sentences. This will not be easy; the adage "I would have written it shorter, but I did not have time" applies here. Remember, these statements can be used in organizational documents, such as your articles of incorporation and applications for tax-exempt status, and will appear on most of your printed communications pieces, such as your annual report, marketing sheet, pamphlets and brochures.

Your organization will benefit from the work you put into developing well-thought-out and well-written statements. By committing to them, you can decide how you *want* to fulfill your mission rather than attempting the dozens of ways you could try. Believing in and acting on these statements will also help you avoid drifting into projects that are irrelevant to your mission.

Here are some examples of missions, visions, activities and values. Study how the sentences are organized and the choice of words, including the active verbs.

MISSION

Your organization's mission is a one- or two-sentence statement that answers the question, "How will the organization's beneficiaries (clients or customers) be changed because of our work?" Here are two examples:

- The Enterprise Foundation's mission is to see that all low-income people in America have the opportunity for fit and affordable housing and to move up and out of poverty into the mainstream of American life.
- Business Opportunities for Leadership Development, Inc. (BOLD) exists to prepare inner-city youth for leadership in their communities, in business and in local politics.

Start by brainstorming why you, as individuals, banded together. What is the common goal that brought you together?

VISION

Your vision is a one-sentence statement that answers the questions, "If the mission is successfully met, how will the community be changed or affected? What kind of community will exist?" Here is a sample statement:

- Safe Place, Inc., envisions a community where every child grows up in a safe, nurturing environment.

ACTIVITIES

The activities statement describes the business or general activities you will use to achieve the organization's mission. It is generally one sentence. Here is an example:

- Incubators, Inc., helps low-income residents pursue *their entrepreneurial goal* by providing start-up capital, training, and office space and support.

VALUES

A statement of values describes an organization's underlying beliefs that shape and give reason for the mission, vision and activities. Here are three examples:

- Genesis Service Corporation believes that people with mental and physical disabilities should receive housing and human services without discrimination.
- New Hope Housing Starts believes the market does not naturally ensure quality, affordable housing for every citizen.
- Welcome Home, Inc., believes every child needs a safe place to call home.

Mission, Vision, Activities and Values Board Exercise

This three-step exercise will help a board develop and write its mission, vision, activities and values statements, benefiting from the input of each board member. The exercise is appropriate for boards that are creating their first statements as well as boards considering rewriting their statements.

Although this discussion can be intense and time-consuming, it is critical that the board “own” the process, because the answers define the organization and, therefore, its board. This approach will keep the process of writing these statements manageable.

Four worksheets are provided. The first worksheet should be used by board members who are writing their mission, vision, activities and value statements for the first time. The second worksheet is for directors who are re-examining their organization’s statements. The third and fourth worksheets are for both types of boards.

First, each director should complete either the first or second form without input from other people or written materials. Set a deadline for completing this form and reconvening for step two.

Second, group the board in clusters of three or four. Each person uses the Consensus Report worksheet to present his or her statements, sharing the thoughts and reasons behind the statements. Following a give-and-take discussion, the group agrees on the *essential element* of its mission, vision, activities and values statements. Write them down.

Third, with the entire board present, discuss each of the suggested statements and come to agreement as a board on the essential elements of each one. Record them on the Final Statements worksheet. It may be helpful to have a current dictionary and thesaurus at the meeting.

Here are some helpful tips:

- Discuss only the *key element* of each statement during the work session; for now, disregard the specific language within each statement.
- Create an *ad hoc* committee to finalize the actual language of each statement. Give directors a chance to offer input to this committee before its work is completed.
- Mail the proposed statements to the directors in advance of the meeting scheduled to vote on them.
- Negotiate and adopt your mission, vision, activities and values statements. This also applies to a board revisiting its statements. If they change, assign someone (usually staff) to update the organization’s printed material, such as stationery, business cards and brochures.
- Record newly adopted statements in your minutes.

The immediate benefit of the exercise is achieving a unity of understanding among your directors about why the organization exists and, therefore, why they volunteer their time as board members. This understanding lays the foundation for other decisions the board must make.

Board Exercise Worksheets

STEP 1 (OPTION A): CREATE MISSION, VISION, ACTIVITIES AND VALUES STATEMENTS

Use these worksheets if you are developing your mission, vision, activities and values statements for the first time for your organizations.

Mission, Vision, Activities and Values

1. What is the **mission** of your organization? What benefits will you bring to the people you serve?

What do you think your mission statement should be?

What is your thinking behind your mission statement?

2. What is the **vision** of your organization? How will the work of your nonprofit improve the community?

What do you think your vision statement should be?

What is your thinking behind your vision statement?

3. What are the main **activities** of your organization? What specifically are some of the businesses or activities your nonprofit will use to reach its mission?

What do think your activities statement should be?

What is your thinking behind your activities statement?

4. What do you think are your organization's chief **values**? What is the underlying belief of your nonprofit?

What do you think your values statement should be?

What is your thinking behind your values statement?

STEP 1 (OPTION B): REVISE MISSION, VISION, ACTIVITIES AND VALUES STATEMENT

Use these worksheets to revise your existing mission, vision, activities and values statements.

For Existing Mission, Vision, Activities and Values

1. What is your current **mission** statement?

If your existing statement does not capture the goals and aspirations of today's organization, brainstorm some statements you believe might be more appropriate.

a.

b.

c.

2. What is your organization's **vision**?

If this statement no longer speaks to all your organization wants to achieve, what vision statement do you believe is more appropriate? How do you see it changing to position your nonprofit for future work? What are some variations?

a.

b.

c.

3. What are your organization's main **activities**? How have they changed since the original statement was written?

Brainstorm activities statements you think fit your organization's current activities and those you envision taking on in the future.

a.

b.

c.

4. What are your organization's chief **values**?

Because your values statement gives reason and purpose to your mission, vision and activities, is your present statement still accurate, or has it changed as your organization has achieved its successes? Brainstorm a few values statements you believe may be more appropriate.

a.

b.

c.

STEP 3: FINALIZE YOUR STATEMENTS

Use this form to record your new statements.

Mission, Vision, Activities and Values

1. What is your **mission** statement?

2. What is your **vision** statement?

3. What is your **activities** statement?

4. What is your **values** statement?

Stages of Development: Why Your Board Is Different

Having defined your organization's mission, vision, activities and values, the board is unified in its understanding about why the organization exists. But how will it carry out its mission, vision and activities and remain true to the organization's values? While there's not a right answer to this, there are a lot of possibilities — possibilities that expand and contract as your organization matures.

It's a given: The responsibilities of board members are similar from one nonprofit to another. However, with the exception of financial oversight, execution of these responsibilities differs with each nonprofit, setting each apart.

Primarily, purpose distinguishes one nonprofit from another. But it's also an organization's stage of development, its maturation. Just like people, boards and organizations go through stages of development. And like people, their needs change over their lifetimes.

Some board development experts have only two functional categories for boards: correct and incorrect. In reality, there's no one model that works perfectly for every nonprofit board at every stage of development. Yet boards do operate effectively whether they are newly created or old hands. Their commonality is based on a set of principles of board development stipulating that your board must adjust to meet and support the organization's needs as they change. This is part of its duty of care.

DIFFERENT NEEDS, DIFFERENT BOARDS

Your organization will have different needs at different times in its life, and the board must adjust to meet them. Nonprofit boards typically go through four stages of development, and understanding them will help you understand your organization's changing needs. Because there are few ironclad rules about how nonprofit boards *must* behave, view these stages as models, not prescriptions, to help you decide what works best for your organization.

Different board development experts use various terms to describe these stages, and we have come up with our own. They are:

- The **Coveralls Stage** = foundation building
- The **Shirtsleeve Stage** = working board
- The **Blue Suit Stage** = managerial
- The **Black Tie Stage** = governing

Like people, boards often exhibit the traits of more than one stage at any one time. This is natural and not necessarily to be avoided. However, understanding the typical stages of development can help you decide whether or not your board is healthy, no matter what stage it's in.

This matrix gives a quick visual comparison of the characteristics of the four stages.

Stages of Board Development

	Coveralls	Shirtsleeve	Blue Suit	Black Tie
Important Director Attributes	Lots of time, willingness to work	Willingness to work, planning skills	Planning skills	Policy skills
Board's Focus	Organization's structure and operations	Operations	Governance	Governance
Board's Planning	Day to day	Day to day	Long range	Strategic
Board Composition	Founders	Founders and recruits	Founders and recruits	Recruits and maybe founders
Committee Structure	Works as a whole, possibly with working committees	Work as a whole with one or two committees	Working committees	Oversight and policy-making committees
Board's Fund-Raising Activity	Events	Events, grant seeking	Grant seeking, individual solicitations (Staff does events.)	Individual and institutional solicitations (Staff does events and grant seeking.)
Staff's Role	No staff	Focus on operations	Focus on operations, assist board in defining roles	Focus on operations, serve on the board

CHARACTERISTICS OF THE COVERALLS STAGE

This is the building block or foundational stage. It occurs either during the nonprofit's start-up or when there is a significant change in the organization's operation requiring the board to lay a new foundation. As the name implies, the Coveralls stage requires a lot of work, time and energy on the part of the directors. Here are some typical characteristics of a board in this stage:

- In the case of a start-up operation, the initial board is busy *creating a viable organization*. It is usually composed of founding board members who volunteer to establish the mission of the organization, file the incorporation documents, develop and adopt bylaws, file for tax-exempt status, set up bank accounts and information management systems, and take care of other start-up activities.
- Doing the work of the organization is the board's focus during the *day-to-day operations* stage. Typically, the organization has no paid employees, so if anything is going to happen (providing service, filing forms or seeking money), the board has to make it happen.
- If the board is engaged in formal *planning*, this activity usually lasts for a few months at most. With its very survival at stake, the organization's immediate needs consume most of the board's attention.
- Most Coveralls board members are *founders* and most likely are residents of the community. They are usually willing to "be" the organization, doing everything from licking stamps to managing the finances. In this stage, the founding directors typically press their friends and associates into service to add to the board's skills or simply to have enough bodies to do the work.

- If there are *committees* they are organized to carry out much of the work of the board. Otherwise, the board usually functions as a committee of the whole, making decisions together about every aspect of the operation.
- This board often *raises money* through small events, personal requests or small grants from local foundations.

CHARACTERISTICS OF THE SHIRTSLEEVE STAGE

At this stage, the board is often exhausted, especially since its members usually hold full-time jobs and volunteer as directors. But because the organization is not yet fully staffed, directors still roll up their sleeves and do the work. Here are some of the characteristics of the board at this stage:

- The board *hires an executive director* to do the work the directors do not want to do or have time to do. It still wants day-to-day involvement and focuses on short-term needs rather than long-term planning. The executive director may serve on the board. The board should have established clear policies and guidelines for overseeing and evaluating the executive director.
- The board's *composition* usually has not changed much from its earlier stage. However, if there are vacancies, the board may put together a nominating committee to fill them.
- The board probably expects the *executive director or other key staff to do fund raising*, mostly from grants. The board should establish clear lines of authority and clear reporting and communication requirements for the staff to carry out these tasks.

CHARACTERISTICS OF THE BLUE SUIT STAGE

By this stage, the directors are ready to hand off the day-to-day work. The board's "let's roll up our sleeves and get to work" attitude gives way to the desire to manage the work and leave implementation to the staff. Here is what is typical of this stage:

- *Directors supervise the day-to-day operations* but do not perform the actual work. They want to give up the hectic pace but not control of the operation. The division of responsibilities between directors and staff must be clear and respected. Tension arises when directors give day-to-day responsibility to the staff and then take back control at unexpected times.
- The board *recruits professional staff* to administer and implement the programs.
- The directors are on the cusp of a major change in their roles and responsibilities. The budget is growing, and the *staff needs the board to think about the future and help raise money*. However, the board often is not ready to do this. There are no committees charged with planning for the future, and the directors have not yet exchanged their "doer" hats for their "overseer" hats.

This situation often leads to conflict between the board and staff, particularly between founding directors and management staff. The trouble is that management and the board clash in their expectations about who should play what role: "It's the board's job to raise money!" "That's why we hired an executive director!" Recognize that this can easily happen and work to keep the roles and responsibilities clear. Let each person do his or her job.

CHARACTERISTICS OF THE BLACK TIE STAGE

This is the stage at which the board has begun to govern, having fully released the daily work and operations to the staff. Directors are no longer involved in the daily decisions that go into maintaining the business. Rather, they have traded their short-range spectacles for long-distance binoculars and have begun to think and plan more broadly and strategically. Here are some characteristics of this stage:

- The board has *clarified* board and staff roles and responsibilities.
- The board has *hired competent management* and provided the resources to hire staff to operate the organization's programs.
- The board continues to *provide the governance* — the policy-making, strategic planning and evaluation needs of the organization.
- Board and staff usually *share fund-raising responsibilities* and understand their respective roles and responsibilities.

THE BLACK TIE STAGE — THE FINAL STEP?

The Black Tie stage is not necessarily the last stage an organization will reach. Over the life of the organization, the board slips from stage to stage, often bridging stages. A board could move into any of the four stages under certain circumstances. For example, the departure of an executive director or the board chair, especially the founding chair, can have a big effect on everyone. Or the changing needs of the organization's customers or environmental changes may require a radical change in the way the board does business. When such circumstances occur, board members are forced to change hats once more. Changing circumstances require a responsive board, and an effective board has the insight to see the need for change and the flexibility to make adjustments.

WHAT THIS MEANS FOR YOUR BOARD

You can use the stages of development as a barometer to help you decide whether your board should change the way it functions. By recognizing where your board is in the four stages, you will have a better idea about what is going on. Before rushing into any changes, learn specifically what your organization needs and then decide how you as a board will respond to those needs. Remember that you want to make change only where it serves the best interests of your organization.

To look at your organization, use the following worksheets as the basis for a discussion about where your board is now in its development and where the board wants to go. This will give you a good foundation for the exercises that follow.

Stages of Development Exercise

WORK SESSION INSTRUCTIONS

1. As an individual exercise, have directors write their answers to the questions on the two questionnaires that follow.
2. Gather as a group and discuss the answers.
3. Reach consensus on the characteristics you want to see now and in the future and record them.

PROCESS

Some boards will want to assign the questions as homework and then work through the individual answers to reach consensus. Others will choose to work through them together from the outset. Each approach has pros and cons.

The former will take longer, but you will have more thoughtful results. With the latter, you will not have the benefit of individual contemplation but gain the benefit of brainstorming.

Regardless of which process you select, do not make this exercise a part of a regular board meeting if you want thoughtful answers and discussion.

The following worksheets are guidelines to facilitate your discussions. They are only guidelines. Make them work for you. Look at the following forms and instructions and decide how you can accomplish the goals of:

- Getting thoughtful participation from each of your directors
- Engaging the board in a meaningful discussion
- Reaching consensus on how your board should function

WORKSHEET 1: CURRENT STATUS

Use this worksheet to help determine the strengths and weaknesses of your board in meeting current demands.

Stages of Development Questionnaire — Present Needs

1. What characteristics of the **Coveralls stage** does your board display? List them according to their appropriateness or inappropriateness for your organization's *present* needs.

Appropriate	Inappropriate

2. What characteristics of the **Shirtsleeve stage** does your board display? List them according to their appropriateness or inappropriateness for your organization's *present* needs.

Appropriate	Inappropriate

3. What characteristics of the **Blue Suit stage** does your board display? List them according to their appropriateness or inappropriateness for your organization's *present* needs.

Appropriate	Inappropriate

4. What characteristics of the **Black Tie stage** does your board display? List them according to their appropriateness or inappropriateness for your organization's *present* needs.

Appropriate	Inappropriate

WORKSHEET 2: FUTURE STATUS

Use this worksheet to determine what characteristics your board will need to be effective in the future.

Stages of Development Questionnaire — Future Needs

1. What characteristics of the **Coveralls stage** will you need over the next three years?
Do you have those characteristics now?

Characteristics we will need	Do we have them?

2. What characteristics of the **Shirtsleeve stage** will you need over the next three years?
Do you have those characteristics now?

Characteristics we will need	Do we have them?

3. What characteristics of the **Blue Suit stage** will you need over the next three years?
Do you have those characteristics now?

Characteristics we will need	Do we have them?

4. What characteristics of the **Black Tie stage** will you need over the next three years?
Do you have those characteristics now?

Characteristics we will need	Do we have them?

BOARD DISCUSSION

When everyone has completed the present- and future-needs questionnaires, it's time for honest discussion about the way in which the board functions today and how it needs to change to meet future needs and responsibilities. You can discuss both forms, present and future, at the same meeting, or you can separate them into two meetings. Just tell all participants in advance so they can be prepared.

Here is one way to conduct the discussion.

Have the board chair, executive director or an outside consultant facilitate the discussion. Use a flip chart or something similar to record responses so everyone can see them (and so you will have a record).

Begin the exercise with a goal: to reach consensus on the appropriate role for your board now or over the next three years. As the directors state the answers they have recorded for one or both of the questionnaires, the facilitator records the responses on a flip chart.

Use the responses to generate discussion about which roles the directors want to keep, take on and give up either now or in the near future. The context for this, of course, is not convenience for the board, but to meet the organization's needs. Using both of the following worksheets, record the items that receive the group's consensus. Make specific plans to revisit implementation if the board wants significant change.

As with the previous exercise, you can discuss where you are now and where you want to go either at the same meeting or separately. You need not tackle both topics in the same session.

Be aware that the future-oriented exercise will also help you decide what kinds of people you will need to attract to your board and whether you should restructure any part of your operation. You might integrate this exercise into your long-term planning process.

At a minimum your discussion should yield consensus about the kind of board you need to be right now. Through that discussion, you should begin to clarify your identity. Now, as part of building a better board, you need to refine that identity even further. The next section will help you do this by exploring the reasons your nonprofit organization exists. An organization's mission gives a board its foundation and defines its very character.



WORKSHEET 3: CURRENT STATUS

Use this worksheet to record board responses regarding current needs.

Stages of Development Consensus Report — Where are you now?

1. What characteristics of the **Coveralls stage** are appropriate to your organization's *present* needs? Record those characteristics your board exhibits today and those you plan to develop.

These exist	We need these

2. What characteristics of the **Shirtsleeve stage** are appropriate to your organization's *present* needs? Record those characteristics your board exhibits now and those you plan to develop.

These exist	We need these

3. What characteristics of the **Blue Suit stage** are appropriate to your organization's *present* needs? Record those characteristics your board exhibits now and those you plan to develop.

These exist	We need these

4. What characteristics of the **Black Tie stage** are appropriate to your organization's *present* needs? Record those characteristics your board exhibits now and those you plan to develop.

These exist	We need these

WORKSHEET 4: FUTURE STATUS

Use this worksheet to record board responses regarding future needs.

Stages of Development Consensus Report — Where do you want to go?

1. What characteristics of the **Coveralls stage** will you need over the next three years?

These exist	We need these

2. What characteristics of the **Shirtsleeve stage** will you need over the next three years?

These exist	We need these

3. What characteristics of the **Blue Suit stage** will you need over the next three years?

These exist	We need these

4. What characteristics of the **Black Tie stage** will you need over the next three years?

These exist	We need these

Board Roles

Within each stage of development, the board as a whole wears a variety of hats, as policy maker, manager, planner, evaluator, fund raiser and volunteer. As you study the following roles, it is critical that you see each role from the perspective of the entire board, *not* an individual board member.

Each of these primary roles plays a part in all four stages of development. Just what the role entails and its importance depends on the organization's maturation. For example, a volunteer is critical to a newly created board, but plays a minor role in an organization in the Black Tie stage.

Regardless of the stage, each role falls into one of the four broad categories that comprise a board's work: governance, administrative, programs and services, and fund raising.

Use the stages of development model as a guide to discuss the roles of your board in its current stage of development, determining if the roles are appropriate. Check your assumptions against the board roles model to understand a role's importance at any particular stage.

To ensure this is an effective exercise, the board should agree on common definitions for these roles. Assuming everyone has the same concept of what a role should be opens the door to miscommunication and misunderstanding, which wastes valuable time. Use the following board definitions to get started. Remember, there are no hard and fast definitions; just script the best ones for your organization and ensure everyone understands and agrees to them.

Board Roles

	Coveralls	Shirtsleeve	Blue Suit	Black Tie
Policy Maker	X	XX	XXX	XXXX
Manager	X	XX	n/a	n/a
Planner	XX	XX	XXX	XXXX
Evaluator	X	X	XXX	XXXX
Fund Raiser	X	X	XXX	XXXX
Volunteer	XXXX	XX	n/a	n/a

The number of Xs indicates the relative importance of each role: more Xs = greater importance.
n/a = not applicable

BOARD ROLES MATRIX DEFINITIONS

A board acting as:

- **Policy Maker** makes the rules for how the organization will be managed, including financial and resource management, personnel policies, service standards and governance issues.
- **Manager** decides how the organization will operate daily or throughout the year.
- **Planner** defines the organization's mission and activities, understands the environment in which the organization operates, establishes short- and long-term service and financial goals, and adopts organizational budgets.
- **Evaluator** decides whether the organization's services are accomplishing the mission and finds a remedy if they are not.
- **Fund Raiser** finds the resources, both financial and nonfinancial, that the organization needs to carry out its mission effectively.
- **Volunteer** carries out administrative or program functions when there is no staff to do the work.

WHAT DOES THIS MEAN FOR YOUR BOARD?

Using the board roles matrix, explore the following observations in your discussion about the roles your board should play.

Policy Maker

As you can see, the board serves as policy maker at every stage of development. This is because the nonprofit board is the “owner” of the corporation and is always responsible for its care and well being.

Manager

In this model, there is some management in the first stage, more in the second and none in the last two. In the first stage, the board is *doing* more than managing. In the second stage, the board has hired an agent, such as an executive director, which means that, while directors are still doing, they are probably doing less and managing more.

Planner

The board is planning at every stage, but its planning role increases as the directors can release the day-to-day work to staff.

Evaluator

The board is constantly required to evaluate the effectiveness of the operation, but there is less to evaluate in the early stages. As staff take on more of the administrative and program work, the board steps more fully into the role of evaluator. The board is likely to be more objective now that it is not doing the work.

Fund Raiser

Because the care and feeding of the organization is always a board responsibility, directors are always involved in raising funds. However, they concentrate more fully on fund raising as the staff takes on more and more program implementation and management.

Volunteer

Do not confuse this with volunteer board membership. Volunteering in this sense is directors doing the work of the organization. As you can see, they step out of that role as soon as resources are available to hire staff to replace them.

DETERMINE YOUR ROLES

In this board exercise, you will discuss the various roles your board is playing and determine if they should change. Remember, the object is to agree on the roles that are appropriate for *your board* at its current stage of development, not the individual board members. Consider repeating this exercise every year, perhaps at an annual retreat, to ensure the board is always giving the organization what it needs.

Board Roles Exercise

This exercise works like the preceding exercises. The directors may form small groups to complete the following forms and then assign an *ad hoc* committee to negotiate the final descriptions of the board's roles. The committee would bring the results before the full board for adoption. A second process is to have the board work through the exercise as a group at one sitting.

The chart below will help you review the organization's needs. In the first column, under each category, write three activities or tasks you think the organization needs. In the second column, next to the tasks you wrote in, write who (board, management, staff) you think does or can take care of these needs.

NEEDS AND RESPONSIBILITIES

Organizational Needs	Who
Provide service	
1.	1.
2.	2.
3.	3.
Manage those who provide service	
1.	1.
2.	2.
3.	3.
Do the administrative work	
1.	1.
2.	2.
3.	3.
Raise money and provide public relations	
1.	1.
2.	2.
3.	3.
Govern the organization (policy, planning, evaluation)	
1.	1.
2.	2.
3.	3.

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After each board member has completed this chart, either work in a group to discuss what everyone has said or assign an *ad hoc* committee to compile the answers. Review all the answers and decide how important each need is, compared to the others. Reach consensus and go on to the next section.

STATUS CHECK

These two charts can help you think about the roles your board plays. In the first chart, check the column that most accurately represents the level of involvement of your board in each role. In the second chart, mark the level of involvement you would like the board to have in the future.

Board Role Today

	Active	Limited	None
Policy Maker			
Manager			
Planner			
Evaluator			
Fund Raiser			
Volunteer			

Future Board Role

	Active	Limited	None
Policy Maker			
Manager			
Planner			
Evaluator			
Fund Raiser			
Volunteer			

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Board Tasks

Tasks assumed by the board are determined by the roles it has identified for itself in the preceding exercises. Tasks can include exploring the needs of potential clients and how to meet those needs, raising money and playing the devil's advocate during meetings. However, none is more important than the board's financial oversight, and that is not optional.

Here are guidelines for ensuring your organization has appropriate oversight, even if your board is not loaded with accountants and bankers. Nonetheless, this section should convince you that the board needs one or more directors who do understand money matters.

FINANCIAL OVERSIGHT

The board is legally responsible for ensuring the organization is financially healthy, with appropriate financial management practices in place. This is one of a very few areas in which a board has few choices about how it operates. What can the board do to operate responsibly?

Regularly review current financial statements. This review should be at least quarterly, but monthly is better. The board can either delegate the detailed financial review to its finance committee or review the statements as a committee of the whole. Working through a finance committee often makes sense with a larger board.

Ask questions. Board members should feel free to ask about anything they do not understand or are concerned about. They should hold a workshop on how to read and understand financial statements. A useful guide is *Understanding Financial Statements*, one of the manuals in the Community Development Library's *Money Management* series.

Develop and implement a financial policy.

The board should adopt written accounting and financial management policies and procedures, even if they are prepared by staff or paid experts. The board must understand how money flows into and out of the organization. It must have safeguards in place to both prevent misuse of funds and quickly detect it should it happen.

Hold staff accountable. The executive director and the financial staff are responsible for carrying out the policies and decisions of the board. They are also responsible for explaining how the financial statements reflect the organization's operations.

Conduct a financial audit annually. Audits are critical for informing the board and stakeholders of the organization's financial position and health. Plus, if you receive federal, state or local government funds, these agencies may insist on more intensive audits of your financial statements and your operation. Smaller nonprofits may prefer compilations or other less rigorous accounting reports to more costly audits.

Use budgets and financial projections as planning tools. Budgets and financial projections are the financial components of program and organizational plans. This kind of financial statement is your best calculation of what will happen in the future — a prediction. To increase the accuracy and effectiveness of your budget, and to monitor progress in achieving the organization's plan, compare your actual experience in a given period to its budget.

QUESTIONS OF DEBT

One area in which an organization can get into trouble is taking on too much debt and not being able to repay it. Most debt is not free. It costs interest to borrow money and may involve fees. Using financial projections can help a board think about the organization's future income, expenses and cash flow when the debt must be repaid.

When it reviews financial projections, the board should make certain all costs are considered. Here are some questions the board can ask when it thinks about taking on debt:

- How much debt do we already have?
- Will we have enough cash on hand to pay the interest, fees and debt principal when they come due, as well as normal operating costs?
- What will we do if we do not have the cash available to meet our obligations?
- Do we have assets we can sell to generate the cash?
- Does the debt come with restrictions (also called loan covenants)? Can we comply with them?

Loan repayment can be structured in many different ways. Know what your options and opportunities are before you agree to a loan. The board should also consult an attorney to review loan documents and to explain any unclear provisions or obligations.

FUNDING

Another part of your fiduciary responsibility is understanding where the money comes from to pay for staff and the expenses that support programs. You need to know the sources of income, the length of time the organization has relied on this income, the reliability of these sources, any fluctuations in the amount, what is necessary to maintaining the source and long-term plans for gaining additional support.

LONG-RANGE AND STRATEGIC PLANNING

Boards in the Coveralls or Shirtsleeve stage of development generally find long-range planning works best for them. This planning process focuses primarily on the organization's strengths and weaknesses. It produces a description of what the organization must look like and the work it must do to achieve the organization's mission.

Boards in the Blue Suit or Black Tie stage of development find strategic planning is more appropriate for their nonprofits. This planning process generates decisions based on the organization's internal strengths and weaknesses as well as external opportunities and challenges. Opportunities and challenges describe conditions and market trends that could affect the organization's ability to meet its mission. An organization must have at least three years of history before writing a strategic plan that makes sense.

Here is an illustration of the differences between the types and purposes of plans. You will see why long-range planning works best for nonprofit boards in the Coveralls and Shirtsleeve stages and that a strategic plan is more complete than a long-range plan.

For more information about strategic planning, please refer to *Effective Strategic Planning*, one of the manuals in the *Planning* series of the Community Development Library.

Stage of Development	Purpose of Planning	Method of Planning
Coveralls	To legitimize leader's ideas To help raise funds	Long-range plan
Shirtsleeve	To share leadership	Long-range plan
Blue Suit	To resolve growth, directional issues and internal challenges	Strategic plan
Black Tie	To measure success	Strategic plan

RESOURCE DEVELOPMENT

Resources, the cash and noncash goods or services your nonprofit needs to do its work, are critical. Often the biggest challenge a nonprofit faces, resource development is how your organization secures the resources it needs to implement plans.

Resources can come from three sources: institutions, individuals, and earned and unearned revenue activity.

- **Institutions** include the government, businesses, foundations, civic and service organizations, religious organizations (such as churches) and federated funding sources (such as United Ways). Institutions like to support an organization in its start-up stages as well as specific projects. They often do not give for more than three years.
- **Individuals** give in three ways. They donate their skills, knowledge and expertise as volunteers; their goods and money personally through mail campaigns and by attending events; and, when they die, through bequests. Individuals support both projects and missions and may donate to the organization throughout their lifetime.
- **Earned income activities** are businesses or other endeavors for which a nonprofit can charge fees for the services or products it offers. **Unearned income** is generated by endowments, which are pools of money set aside to earn money for the nonprofit (such as interest).

Both institutions and individuals give money, goods, time or skills if their interests, needs or wants are satisfied by the nonprofit. These can be financial, such as a tax deduction, or emotional, such as showing gratitude for the care a relative received.

Raising resources is most successful when it is done through personal relationships. This means understanding and matching the interests, needs or wants of an institution or individual with your organization's mission, project or campaign. Such attachments are most often the reason why a business gives.

Having board members who have connections with people who have money or can get money is one of the most effective ways to raise resources. Having lots of hands to sell raffle tickets, make phone calls or address letters is another way. The former may result in more money quicker, but the latter works and may be the only available option if you do not have other resources.

Resource development starts with planning. Your organization must understand its own needs — what does it want to do, what type of people and non-people resources will it need. You must do your homework and know what resources are available in the community and how to secure them. For example, if government money is available, you need someone who can write a request.

The same is probably true for foundations. To reach businesses, the nonprofit needs business people who believe in the nonprofit's work to make requests. Whether it's an institution or an individual, each source will require the nonprofit to have something that interests it. You need to determine what this interest may be and find the best way to ask. All of this begins with making a plan. *The Fund-Raising Process* and *Organizing Your Office and Staff for Your Fund-Raising Efforts*, both part of the *Fund-Raising* series, can be helpful resources.

GOVERNING OR MANAGING

At some point in the life of the board (probably around the Shirtsleeve or Blue Suit stage of development), the board will hear from the executive director that it is no longer the board's role to manage. This will most likely mean that the executive director believes the board is interfering with daily operations.

What are the differences, if any, between governing and managing? What are the implications for the executive director if the board chooses to manage or to govern? Understanding the differences between managing and governing begins with a review of the board's responsibilities, particularly within the context of stages of development.

During its Coveralls stage of development, a board does not have the time or energy to focus on anything but doing the work of the organization. This is usually because the organization has no money and cannot afford a staff. So any work that is done is done by board members. During the Coveralls stage, governance and managing are synonymous.

It is during the Shirtsleeve stage that staff often enter the scene. Up until this stage, the board is focused on administrative details, not management details, because there are not that many management activities that require focus. However, once staff are hired for the nonglamorous administrative and clean-up work, the need for management begins.

In the Blue Suit stage, the need for managing grows significantly, but it is no longer the position of the board to provide this level of management. The organization will have grown during the Shirtsleeve stage to the point that board members must turn their attention to the larger picture of fund raising, policy making and governing, not managing.

MOVING BEYOND MANAGING

In its initial stage, the board has few risks and results but total control over what it does. This is simply because it has few, if any, resources with which to do anything. As it matures, the board finds that institutions and individuals are more willing to give money or volunteer to help the organization do more of what it has demonstrated it can do.

When an organization can afford staff, it means it has become its own entity, which opens new opportunities and challenges for the board. It also means the role of the board must change. Because of their obligation, the duties of care and loyalty, the board of directors now has at least three areas of concern:

- **Results** — Most people join a board because they have a strong desire to see positive changes in their community. They want to see results, and one way to help ensure good results is by serving on the board.
- **Control** — As board members, they have control over the resources that have been collected to produce results. Control is important because that creates results. However, too much control can stymie the initiative of those being controlled (generally the staff). Too little control can mean staff will do what they want and not what the board wants. Control, and the perception of control, is a delicate balance.
- **Exposure and Risk** — These two factors, wanting to see results and having control of people and money, expose board members to legal risk. They, individually and as a whole, can be held legally responsible (liable) for what happens within the nonprofit. Good policies, management and questions help reduce this risk.

MANAGING THROUGH AN AGENT

As resources grow, the board recognizes that it cannot be the only one doing the work, so it hires help such as an agent or an executive director.

The executive director is paid and can carry out many day-to-day and other functions previously performed by the board. But the more responsibility the board gives to this position, the less control it has. Having less control means the board has to have more trust, although it will also have more risk. Although personal assets and the organization's assets can be lost over finance and human resource issues, risk can be minimized through good policies, procedures and questions.

To build trust and reduce risk, the board can ask:

- About the financial commitments the executive director has such as accrued vacation time (a receivable) or unpaid taxes of the organization
- How operations are being run
- How well programs are doing
- About recent successes and failures

This means the board stays involved, knows what is happening throughout the organization and governs rather than manages.

GENERAL TASKS OF THE BOARD

Tasks given to individual board members are determined by the role the board decides is best for the organization. (Remember, the role applies to the board as a whole, not the individual directors.) Tasks describe how a board and its members carry out their role.

To uphold their duty of care and loyalty obligations, board members must choose their tasks very carefully unless, of course, they have lots of free time. On average, each board member's real-time contribution is between 50 and 60 hours a year (four to six hours a month, including board and committee meetings, meeting preparation; pre- or post-meeting discussions and any volunteer or fund-raising activities).

Here are examples of the tasks board members are often asked to do. A board as a group can decide which tasks make the most sense or best match the organization's needs. Identifying tasks is easiest when thinking about the roles you have chosen.

Depending on the roles you have agreed on, you might be responsible for:

- Learning about the needs and wants of those you serve
- Collecting information by attending meetings and doing research
- Understanding how the organization provides services
- Discussing with other board members and staff what affects the good of the corporation
- Asking questions, particularly during board meetings
- Seeking financial support
- Networking to make vital connections for the organization
- Giving money, knowledge, expertise and time

Board Composition

As a board develops its roles and tasks within its particular stage of development, it will be able to identify the types of people and sets of skills it needs. A board's composition will vary according to its stage simply because some skills, knowledge and experience are more important during some stages than others. This section will help you talk about the types of people who might be the best candidates for your organization.

At the very least, the type of person who can best serve your organization as a board member should meet both of the following criteria.

FIRST CRITERION: BE FILLED WITH COMMITMENT AND PASSION

First, as a board member, you must understand and be committed to the organization's mission. You must have a passion for it, because, otherwise, contributing the time, thought and effort will become a burden. With commitment and passion, you will enjoy spending your time and your resources to understand what is going on and make the organization work right. If you sign on just because "board member" will look good on your vitae, you will do a disservice to the organization, your community and yourself.

SECOND CRITERION: MEET AN ORGANIZATIONAL NEED

You must meet a need of the organization. Conversely, when the organization's needs change, you must be willing and able to fulfill other needs or step aside and serve in another capacity. Some of the skills, knowledge or experience that prove useful include:

- Knowing the needs of those the organization serves
- Having technical skills such as finance, accounting, insurance, contracting or event planning
- Having wealth or connections to wealth (political connections)

The types of people who often have these skills, knowledge and experience are:

- Staff or volunteers in other nonprofit organizations
- Managers from for-profit organizations
- Ministers
- Professionals, such as event planners, lawyers, accountants and contractors
- Bankers
- People of means (wealthy)
- Community activists

RECRUITING NEW BOARD MEMBERS

The job of building a board that meets the organization's needs is one that never ends. New seats open every year, especially if there is a term-limit clause in the bylaws. So finding and recruiting new board members is vital, continuing work.

As the owners of the organization, this job falls to the board, not the staff. The staff are not the owners.

Because good board members do not grow on trees, a recruitment plan is mandatory. A good plan takes time and some work. Some boards prefer their members to do the recruiting themselves; others use nominating committees. Working from the premise that the board is responsible for finding and recruiting new board members, this section contains a draft of a recruitment plan.

RECRUITMENT PLAN DRAFT

STEP 1

DECIDE ON NEEDS

Delineate exactly what skills, knowledge and experience your nonprofit needs.

STEP 2

FIND PEOPLE

Here is a list of some of the places or sources where you can find the people you think can fill some of the roles you described earlier in this section (composition). Remember three givens when you are recruiting:

- Look for people who will satisfy your needs.
- While not everyone may be a good board member, he or she may be a great committee member or volunteer.
- Not just anyone will do.

You may want to have prospective board members *practice* in your organization before they become board members. Consider establishing a rule that requires prospects to serve on a committee or volunteer.

Have your board or nominating committee make a list of potential board members. This exercise can be either oral or written. Here are three common places to find potential board members.

- **Friends.** Every board member has friends. Some have just the skills your organization is looking for. At a meeting, ask members to name some of their friends and describe the skills, knowledge or experience that would potentially make them right for your organization.
- **Local businesses, civic organizations or religious organizations.** These groups are filled with people who can bring knowledge, skills, experience and even connections to your nonprofit. First, board members should focus on where they do business, practice their faith and volunteer. Next, they should determine who they know there. Remember, the actual person you want for your board may not be the individual your director knows, but that person may know someone else.
- **Others.** Local publications, television, advertising or word of mouth, events you hold or attend *and* your staff and volunteers. The television and local papers are filled with leads. Look for stories about people who have done something for their community, people who receive awards for their knowledge or skills and those being promoted or receiving a raise. Some of these people may be right for your board.

Your organization can use the free event listings or the nonprofit or volunteer section in the local paper to advertise your nonprofit's search for board members. Be sure to specify the type of person or set of skills, knowledge and experience you want. Add the names of the people who respond to your mailing list for future newsletters and even fund-raising requests.

Finally, whenever your organization has an event, have a sign-up sheet available for those who are interested to give you their name and address. At the least, they will become familiar with your organization through your newsletter, and you may uncover a potential board member or donor.

To keep track of these prospects, your board should implement a standing nominating committee — probably your board's first standing committee at this stage (for a complete explanation, see the Board Committees section). This group collects names throughout the year until about three months before it is time to fill vacancies on the board. The committee should categorize the names by skill, knowledge and experience. Always list names with the source (for example, board member, word of mouth or event).

Besides serving you well when you approach potential members, this information will help determine if they are serious candidates. A reason for or rationale of what makes this person a good candidate for the board should also accompany the nomination (for example: “knows about building houses and how to run a business”; “knows everyone in city hall”; “has been an active volunteer and knows how to get volunteers”).

STEP 3

MAKE A PLAN

In step two, your board or committee made a list of people who might make good board members. Now it's time to make a plan to determine if they are appropriate prospects and, if so, how to sign them on to the team.

The plan has three parts. The first part lists the name of the “target” board members (the ones you want), the reason you think they will be important to your organization (rationale) and their contact with the organization (the person who nominated them).

The second part identifies who should contact the prospect and the suggested venue (a dinner, lunch or a general meeting for all of the prospects). It also defines your strategy (how and why) for convincing the prospect to submit his or her name for nomination.

The third part details the schedule for talking to the “target” as well as when nominations are made and board members make final decisions.

You can use the following form to start your recruitment planning.

I. Name & Bio	Rationale	Source of Recruitment
II. Board Contact	Venue	Strategy
III. Contact Date	Nomination Date	Date of Board Vote

Board Officers

The leadership and management of the board is generally shared by three or four people — the officers. The four most common offices in non-profit organizations that comprise the nucleus of your board are described below. The specifics regarding officer positions, the number and type of officers, the manner in which officers are elected or chosen, specific officer duties, how to fill vacancies in officer positions and other matters should be described in your bylaws. Also, state law may dictate the minimum number of officers the organization must have and which positions, if any, cannot be shared by the same person. Officers do not necessarily have to be board members, although in many organizations they generally are.

Note that the titles of chair and president, and vice chair and vice president, are often used interchangeably. However, depending on the size of the board and organization, they may be separate positions.

CHAIR OR PRESIDENT

- Presides at board, executive committee and annual meetings
- Oversees the work of all committees and generally appoints committee chairs
- Supervises and supports the executive director
- Speaks for the organization publicly
- Presides at official functions, such as ground-breaking ceremonies and dedications
- May have fiduciary responsibility to sign checks (if so designated in bylaws or financial policies)
- Signs contracts, loan documents and other legally binding documents

VICE CHAIR OR VICE PRESIDENT

- Assumes the role of the chair or president during absence or disability of chair or president (may become chair or president if absence or disability becomes permanent)
- Chairs the nominating committee (if so designated in bylaws or by policy)

SECRETARY

- Takes, prepares and distributes the minutes of all meetings of the board and executive committee and the annual meeting
- Oversees maintenance of records of meetings, policies and membership (if any), as well as the board list, officer list, committee lists, current bylaws, etc.
- Ensures legal filings with state and local government offices are current
- Reviews policies and bylaws and presents recommendations for amendment
- Attests to contracts, loan documents and other documents
- Serves as custodian of the corporate seal (if any)

TREASURER

- Oversees the fiscal affairs of the organization
- Develops (in consultation with staff) the annual budget and presents it to the board for approval
- Supervises the financial staff
- Monitors the budget
- Ensures financial reports are produced regularly
- Ensures federal, state and local tax filings are current
- Reviews all major financial endeavors for fiscal soundness
- Serves as the internal auditor in smaller organizations
- May chair the finance committee (if so designated in bylaws or by policy)

Board Committees

Committees often serve as the arms and legs of the organization, doing much of the work at the board's direction. There are no hard and fast rules, so you should develop your committee structure to make sense for your organization. For example, many boards use committees to do some of the work, while others work only as a "committee of the whole." The committee structure is generally described in the bylaws. Bylaws and policy should clarify the types of committees, how chairs are appointed, membership and other matters.

Generally, there are two types of board committees: standing committees and *ad hoc* committees. Standing committees are established by the bylaws and function on an ongoing basis. *Ad hoc* committees are created by the board to address particular issues. They are then dissolved. A board may also have advisory committees, composed mostly of nonboard members from the community who can provide expertise or insights on a particular topic.

Some boards name only board members to standing committees, although this is not always the case. Realistically, you may not have enough board members to populate committees, let alone gather all the skills, knowledge and expertise you need. Consider asking people from your neighborhood and other organizations to serve as committee members. These volunteers can be very helpful and active as committee members, especially since they may not feel burdened with all of the fiduciary or meeting responsibilities of a board member. Plus, these volunteers will get to know your organization and may be valuable future candidates for the board.

It is important to remember that the basic task of committees is to *recommend* to the board. Unless specifically stated in the bylaws, in a board resolution or by policy, committees do not have authority to act on behalf of the board. A simple rule to follow: *Committees recommend; the board decides.*

Here is a list of the most commonly established committees. Their descriptions will help you think about how to organize your own groups.

THE EXECUTIVE COMMITTEE

The executive committee is generally composed of the board officers and sometimes the chairs of the standing committees. This committee can be particularly important in the earlier stages of development. Usually the executive committee meets frequently in order to make the board-related day-to-day decisions in between board meetings. Minutes of meetings should be sent to the full board. Interim decisions of the executive committee must be ratified by the full board at later meetings.

Possible roles:

- Plan the agenda for board meetings.
- Coordinate the activities of the other committees.
- Hire, supervise and evaluate the executive director.
- In crisis, manage the organization's affairs (if so empowered).
- Oversee long-range and short-range planning.

THE NOMINATING COMMITTEE

This committee develops the composition of the board and is useful for boards at all stages of development.

Possible roles:

- Monitor the mix and characteristics of the board and identify the need for board members.
- Identify, recruit and prepare the slate of prospective board members and officers.
- Monitor board member performance.
- Train and orient board members.
- Maintain the board manual in consultation with the secretary.

THE FINANCE COMMITTEE

This committee helps the board understand the financial health of the organization. It is particularly important in the board's more mature stages of development.

Possible roles:

- Monitor the keeping of the books, monthly reporting and preparation of financial statements and audits.
- Track the organization's financial condition.
- Develop the annual budget.
- Monitor investments.
- Develop and recommend financial management policies, including asset, debt and risk management.
- Oversee compliance with federal, state and local tax and tax-exempt laws and regulations.
- Oversee buildings and grounds.

THE FUND-RAISING COMMITTEE

In a nonprofit's continuous search for dollars, this committee can be very important. Unfortunately, it can be the most frequent cause of board burn-out as its members are often used as the only fund raisers without participation by the rest of the board. This committee is useful during any stage when focusing on fund raising and should work in consultation with the treasurer.

Possible roles:

- Plan and conduct fund-raising events and capital campaigns.
- Develop the annual fund-raising plan.
- Monitor fund-raising activities.
- Develop and monitor fund-raising policies.
- In consultation with the treasurer, finance committee and accounting and legal advisors, monitor compliance with federal regulations regarding tax-exempt status, fund raising and public support.

THE PROGRAM PLANNING COMMITTEE

Some boards find it useful to have a program planning committee to regularly review the organization's ongoing work, to keep track of the needs and trends of the organization's customers and to help set priorities each year. This committee's purpose changes as the organization develops. In the earliest stages, before an organization has staff, this committee can:

- Develop an annual plan, including assessing program needs in light of mission, financing and trends.
- Monitor viability and effectiveness of programs, projects and activities.
- Develop policies for projects.
- Implement projects.
- Interface with the community to determine constituent and customer needs.

THE PERSONNEL COMMITTEE

As the "owner" of the organization, the board sets the expectations as well as the rules for its employees and then ensures they are met. This includes monitoring compliance with laws set by the local, state and federal governments. Knowing what these laws are and adhering to them is important because, in some instances, the board as a whole and directors individually can be sued for failure to take care of employee needs.

Possible roles:

- Hire and fire personnel.
- Develop and review wage and salary policies.
- Develop, review and recommend changes to personnel policies.
- Serve as the grievance committee.

THE VOLUNTEER COMMITTEE

Volunteers are often the lifeblood of a non-profit, especially when an organization does not have the financial resources for paid staff. Accordingly, the work of the volunteer committee never ends, especially in an organization's early stages.

Possible roles:

- Recruit and train volunteers.
- Supervise volunteers.
- Recognize volunteers.

COMMITTEES CHANGE AS BOARD CHANGES

Not every committee carries the same weight of importance throughout the life of your organization. This chart shows how the need for committees and committee roles may change between the board's stages of development.

Board Structure Options

	Coveralls	Shirtsleeve	Blue Suit	Black Tie
Executive	XXXX	XXX	XXXX	XXXX
Nominating	XXX	XXX	XXXX	XXXX
Finance	n/a	n/a	XXXX	XXXX
Fund Raising	XXXX	XX	XXXX	n/a
Program Planning	XXXX	XXX	n/a	n/a
Personnel	n/a	XXXX	XXXX	n/a
Volunteer	XXXX	XX	XX	n/a

The number of Xs indicates the relative importance of each role: more Xs = greater importance.
n/a = not applicable

Legal Duties and Risk

DUTIES AND STANDARDS

Each board member is a fiduciary of the organization who has the individual responsibility to act in accordance with legal standards for boards. These standards are the duty of care, duty of loyalty and duty of obedience. Fulfilling these duties provides the best protection against legal liability.

Duty of Care. As described earlier, the board as a whole has the responsibility of protecting the assets of the organization. Failure to do so can be considered a breach in the board member's duty of care. The duty of care means that each board member must act in good faith and in the best interests of the organization. "Acting in good faith" includes acting honestly and with reasonableness. "Reasonableness" refers to making decisions in the same manner as an ordinary, prudent person would make under similar circumstances. In making such decisions, the board member may rely on information and reports prepared by outside experts, committees and others as long as it is reasonable to rely on the judgment of those persons.

To avoid liability, board members should stay well informed by attending meetings, reading board materials, participating in discussions and asking questions. Because of the duty of care and the expectation that board members will be active decision makers, board members cannot vote by proxy.

Duty of Loyalty. A board member must place the interests of the organization above all other interests when making board decisions. Failure to do so can be considered a breach of the board member's duty of loyalty. A "conflict of interest" giving rise to a breach of loyalty generally occurs in two ways:

- A board member makes decisions out of self-interest or in the interest of only part of the organization, instead of in the best interest of the whole organization. This type of conflict often occurs when the board member fails to disclose that a business transaction considered by the board will financially or otherwise directly benefit the board member or the board member's family.

Example:

A board member encourages the board to choose a particular management company whose fees are higher than other companies and even above the normal management rates. The board votes to hire the management company. The board member, however, failed to disclose that the board member's wife is part owner of the company. The board member may be liable for the difference between the fee paid and the fee the organization would have paid if the board had chosen a more reasonably priced company.

To deal with this type of conflict of interest, the board should establish a clear conflict of interest policy that sets forth procedures for disclosing financial and other interests by board members and staff, voting by the interested board member on the particular transactions, record keeping of disclosures and votes, and other matters. Boards should consult an attorney or other resource materials for sample policies.

- A board member, for his or her own benefit, takes advantage of an opportunity that the board member learned about by fulfilling his or her duties on the board when the whole organization could have benefited from the opportunity.

Example:

The board asks a board member to investigate properties for redevelopment of affordable housing. The board member finds an appropriate property, but endeavors to purchase it to create his or her own business venture instead of bringing the opportunity to the board. If by taking this opportunity, the board member created a loss for the organization (for example, it had to buy more expensive property elsewhere), the board member may be liable for that loss.

In addition to conflicts of interest, loans by the organization to officers and directors can also be considered a breach of loyalty because the board would be deciding to use the organization's assets to benefit an individual. Some states ban such loans completely. The board should check with a local attorney and include appropriate provisions in the bylaws.

Duty of Obedience. A board member must adhere strictly to the provisions of the organization's governing documents, such as the Articles of Incorporation and bylaws, and to internal policies and procedures. Board members should also be familiar with and act in accordance with federal regulations concerning tax-exempt status, taxes generally and fund raising. As fiduciaries, boards and board members must also honor the stated intentions of their donors or be willing to decline the gift if the intentions cannot be met.

Other. What if the employees of an organization act in such a manner that gives rise to a tort claim (for example, a negligence claim due to a traffic accident, defamation, etc.)? Generally, directors and officers are not personally liable for such claims unless they had knowledge of the action and, either by act or omission, authorized, approved or otherwise participated in the action.

However, based on the duty of care, board members can also be liable if they fail to adequately hire, supervise or discipline their employees. For example, if transporting passengers was an expectation of an employee's job and the board failed to check the employee's driving record when hiring the employee, board members could be liable in a traffic accident claim. Failure to adequately check references may lead to other potential claims.

PROTECTIONS

A complaining party may sue one board member, any board member or all board members. If the complaining party is successful in its claim, the board members may be jointly and severally liable, meaning that a final judgment may be the responsibility of each and all of them. A board as a whole and individual board members, however, can take several steps to ensure that they are protected against legal claims and liability.

First, as outlined earlier, each board member should strive at all times to fulfill his or her *fiduciary duties*.

Second, the *bylaws and policies* of the organization should be drafted to clearly establish authority to act, what may justify removal from the board or an officer position (for example, missing numerous meetings), how conflicts of interest should be handled, whether loans to directors and staff are allowed, and other matters.

Third, the board should receive *periodic training on legal issues and risks*, conducted by a local attorney, the organization's insurance carrier representative or other outside professionals.

Fourth, the board should receive *training in the federal and state laws of immunity*. Under the federal Volunteer Protection Act and many state laws, officers and directors of nonprofit organizations may be immune from legal liability if they act in accordance with fiduciary duty and do not act criminally or with malice, willful misconduct or gross negligence.

Some laws also require, however, that the organization have director and officer liability insurance with coverage limits (see below) in order for the immunity laws to apply. The board should consult with a local attorney on the immunity laws and learn the parameters of their protections. Remember, however, that just because immunity laws may exist, a complaining party may still file an action, hoping the immunity laws will not apply in that particular situation.

Fifth, the organization should be established in such a manner as to provide *indemnification* for its directors and officers. “Indemnification” occurs when the organization agrees to pay legal costs, judgments and other expenses for its directors and officers if those directors and officers are sued in their capacity as directors and officers. Indemnification, however, may not apply when the director or officer has breached his or her duties or has acted in a way that is outside the immunity laws (for example, criminally, with willful misconduct, etc.). Indemnification provisions should be included in the organization’s governing documents so the board’s protections are clear. Again, state law may control or provide guidance on indemnification.

Finally, in addition to other insurance that covers accidents, fire and other casualties, all organizations should carry *director and officer liability insurance* (also known as “D&O insurance”). D&O insurance protects the organization and its directors and officers from losses and expenses incurred through legal claims (and the indemnification process, if applicable).

Protection through D&O insurance usually does not cover fraudulent or dishonest acts or when board members act with malice, gross negligence, willful misconduct or in other ways outside the immunity laws. Nor does D&O insurance generally cover criminal or civil fines or penalties resulting from failure to pay federal income taxes.

The board can also purchase protection for employment practices liability to cover claims of sexual harassment, wrongful termination and discrimination.

In some instances, the federal government may also require fidelity bond coverage for organizations that receive large amounts of grant money. This insurance safeguards the organization’s assets against malfeasance or wrongdoing by the organization’s staff.

Policies and Procedures

Policies and procedures are established by the board, frequently with input from the staff. They guide members in the way they conduct business. Here is a look at some of the areas in which policies and procedures serve the organization.

Board Tenure — A limit to the time a board member can or should spend as a board member. It is also referred to as that individual's term. Some organizations establish term limits to reduce the maximum amount of time any one individual can serve as a board member. This serves two purposes: It prevents burnout and it removes nonproductive board members.

Size of Board — Board size can vary from three to 50 members. Many board chairs and executives report that a board of 10 to 15 individuals is a manageable size that provides adequate representation of skills, knowledge and experience.

Advisory Committee — One way an organization can satisfy its desire to have a larger board for gaining input or for political reasons is to create an advisory committee. An advisory committee meets less regularly than a board and provides input without having the legal and financial responsibilities of a board. Take care in naming this committee and avoid the term "board" because of the legal implications.

Pay Scales — Most nonprofits do not pay their board members. However, members' expenses for travel are often covered. If a board member actually provides a service to the board, the board member may be paid reasonable compensation for services rendered. However, when engaging board members for particular services, clear policies regarding conflicts of interest should be followed.

Committee Members' Relationship to the Board — Committees functioning during the Coveralls and Shirtsleeve stages of development often do the work paid staff would otherwise perform. They report their efforts and results to the board and often are the initiators for what needs to be done. They still must act, however, within their authority and at the direction of the board. Committees of mature-stage boards often tend only to policy, planning and evaluation, working only at the request of the board. It is important to have policies and procedures established and enforced when a board sets up and convenes committees. It helps manage behavior and outcome.

Successful Meetings

Very little can happen legally, and practically, without the board or its members having a meeting and gaining agreement. After all, meetings are how a board accomplishes its business.

Good meetings bring appropriate topics to the attention of the board, ensure a vote and then adjourn. Well-run meetings are a necessity because the people who serve on boards are typically very busy and cannot afford, or tolerate, badly run meetings. Good meetings begin with preparation.

This section offers pointers for managing successful meetings. For more information, see *Leadership Skills for Board Members*, another manual in the *Governance* series of the Community Development Library.

RESPONSIBILITY

The chair is the person responsible for planning and running the meeting. The chair of board meetings is often the board chair or president. A board can also choose to have a different member run each meeting (this is called a rotating chair).

Meetings usually work better if the same person chairs every meeting. However, having different people run meetings also has its advantages. For example, it ensures everyone on the board learns how to chair, serves as a leader and relieves the appointed chair, board chair or president. These are real trade-offs. The board must choose what works best.

BEFORE MEETINGS

The meeting chair (or someone the chair assigns) must prepare an agenda. It should:

- Contain each topic to be discussed.
- Identify the person presenting the topic.
- Limit the time allotted to the presentation.

Agendas and any supporting materials should be sent to board members before the meeting. Therefore, the organizer should talk with the board and committee chairs to learn what topics they intend to present. It is important to allow enough time to collect and send supporting materials to the directors and include the topic on the agenda. Chairs generally have the authority to disallow an item if their directors have not had sufficient time to review the supporting materials.

LOGISTICS

Logistics address the requirements for adequate space, equipment, materials and personal comfort. Here are some guidelines:

- Meeting space should have a comfortable room temperature and comfortable chairs. It should be large enough to seat everyone around a table.
- Use visual aids, such as a flip chart and markers or a black or white board. They help everyone focus on the topic at hand.
- Food and beverages should be present for long meetings or those scheduled at breakfast, lunch or dinnertime.

Free space is generally available if the organization does not have enough room. For example, banks and supermarkets often have community rooms. Other organizations may have space, too. When food and beverages are included, the board must decide who will arrange and pay for it. There are several options: participants bring potluck; or staff orders the food, which is paid for by the organization, by the participants themselves or by a donor who agrees to cover the expense.

OPTIONS FOR THE RULES OF ORDER

There are any number of rules of order. Five common ones are:

- **Robert's Rules** — Parliamentary procedure: majority rule or two-thirds rule and very specific procedures about when and how to vote for action are included.
- **Consensus** — There is no agreement unless all agree.
- **Modified Consensus** — If no agreement can be reached, then a vote is taken. The vote is usually a two-thirds or majority rule.
- **Dictatorship** — An individual or a small group of people (like the executive committee) makes all of the decisions.
- **Rubber Stamp** — As above, the board nominally agrees with the decision of the actual decision maker.

DURING MEETINGS

At the beginning, have each person introduce himself or herself. This is very important when guests are present. Place name signs in front of each board member.

Next, review the agenda. Make sure there is enough time for each item on the agenda and that items are in the order that best facilitates the meeting.

Designate someone to write the minutes during the meeting. The most important information will be what everyone agrees to and what must happen next.

Go over the rules of the meeting. Rules include stating when and how someone can ask questions or initiate a discussion.

At the end of the meeting, make sure the next meeting date is clear. Go over the first draft of the agenda for the next meeting. Here is an example of a meeting agenda.

SAMPLE MEETING AGENDA

Item	Length	Presenter
Introductions	5 minutes	Board chair
Agenda review & accept minutes from previous meeting	5 minutes	Board chair
Financial reports	20 minutes	Treasurer
Committee reports	50 minutes	Committee chairs
Program reports	30 minutes	Staff
Decisions	20 minutes	n/a
Discussion	15 minutes	Board chair

Notes

THE ENTERPRISE FOUNDATION

The Foundation's mission is to see that all low-income people in the United States have access to fit and affordable housing and an opportunity to move out of poverty and into the mainstream of American life. To achieve that mission, we strive to:

- Build a national community revitalization movement.
- Demonstrate what is possible in low-income communities.
- Communicate and advocate what works in community development.

As the nation's leader in community development, Enterprise cultivates, collects and disseminates expertise and resources to help communities across America successfully improve the quality of life for low-income people.

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