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What Does the Nonprofit Board of the Future Look Like?

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Some of the Challenges Currently Facing Nonprofit Boards

Non-Profit Boards of Directors face an increasingly difficult environment. The economic landscape has changed suddenly and dramatically and is unlikely to return to "normal." Technology has revolutionized the way we communicate and interact - challenging and transforming the very notion of "community" itself. Simultaneously, the regulatory environment, public scrutiny and governance expectations surrounding non-profit boards have become significantly more demanding. Noteworthy demographic shifts challenge the *status quo* and traditional networks of power and influence. It is, in short, an environment filled with unexpected dangers and real opportunities. What might the characteristics of "effective" non-profit boards of the future be like? In particular - how might we conceive of future non-profit boards that would genuinely be able to assist their non-profit navigate such challenging waters and, in turn, help them to successfully deliver on their mission?

Board Governance

For the non-profit Board of the Future, business is most definitely not "business as usual." The weak recovery after the recent "Great Recession" has revealed financial, leadership and strategic weaknesses in many non-profit organizations. Long reliant on fund-raising and public grants as their business model, numerous non-profits have discovered to their great dismay that both public and private sector funds are in increasing demand - and diminishing supply. Recent scandals in the public, and non-profit sector have raised awareness that the boards of non-profits should be held accountable for the financial integrity and conduct of their organizations. As more and more women are experienced in

the business world, and as more and more young professionals are seeking participation in non-profits, as the demographics of the country continue to shift, the composition of Boards of the Future will, accordingly, look dramatically different. All of these changes are also reflected in a significant reframing of the core purpose of a board's work - an evolution from a fiduciary oversight body to a much more strategic governing body.

1. Engagement

In recent years, non-profit Boards have become an increasing focus of those interested in non-profit accountability and transparency, including policymakers, the media, and the public. Legislative reforms have been proposed, non-profit associations are calling on their members to review and strengthen non-profit governance practices, and the Internal Revenue Service has released a draft paper on "Good Governance Practices for 501(c)(3) Organizations. Many of these reforms call for more public reporting and "transparency" from the organizations.

However, while performing the fiduciary duties required of Board members is necessary, what is in danger of being lost in all the oversight and accountability is the passion for the mission. Given the scrutiny faced by many non-profits as the result of many financial scandals, both in the public and private sectors (and in some recent cases, government, as well), and the liabilities faced by directors or trustees for breaches of fiduciary duties, it is only natural to focus attention on compliance issues. "But a job predicated on legal accountability is, almost by definition, not a compelling job. To ensure this accountability, Boards focus on norms and standards of minimally acceptable behavior. Trustees are tasked to prevent trouble more than promote success." Problem Boards or Board Problem?, by William P. Ryan, Richard P. Chait, and Barbara E. Taylor, published in Board with Care, Perspectives on Non-Profit Governance, Non-Profit Quarterly, 2005. To truly be engaged and promote success, Board members must:

- **Know** their role and what they can do to help the organization succeed;
- Feel **emotionally connected** to the mission, leaders and institution
- Have the **motivation** to offer their time, talent and resources (often going above and beyond what is expected of them)
- Have the **courage** to "put themselves out there," take risks, and be personally accountable and;
- Have the **will** to transform their ideas and feelings into timely actions or decisions that improve their own - and their organization's - performance;
- Consistently **act** to promote the mission of the organization - and sustain such actions over time.

2. Governance

Fiduciary oversight is necessary, but in and of itself, is insufficient to create an effective Board. It is simply not enough for the Board to oversee the activities of the Executive Director, make sure the organization is in legal compliance, monitor the budget and consider that it has performed well. They must do all of this, of course, but Boards must perfect a fine balancing act: they must take an active role in the mission of the organization, and not too active a role in the day-to-day implementation of that mission.

"Nonprofits that do not have in place a competent governance function are far less likely to acquire or retain the resources, credibility, and expertise they need to be secure, self-sustaining organisations. This may not be evident early on in the life of an organisation, but becomes increasingly important as an organisations matures and develops more complex programmes, relationships, and funding needs." Access, Accountability and Advocacy: The Future of Nonprofit Governance is Now, by Marilyn Wyatt, Director of Global Programmes - Europe and Asia.

Boards of the Future will embrace good governance practices as the foundation of their organizational strength, knowing that from good governance comes great organizations. With good governance, Boards will continue to place appropriate emphasis on fiduciary oversight, but will leave more time for their real challenge: strategically leading and supporting the mission of the organization.

3. Strategic Thinking and Planning

Many Boards spend a great deal of time and effort in developing an organization's strategic plan and then sit back and expect results. Are such plans self-executing? Of course not. But, having done all that hard work, many Boards are satisfied, because "they have a strategic plan." Boards of the future know that simply having a plan is not enough. It is the Board's duty to see that not only is the plan the right plan for the organization, but - working in constructive partnership with staff - that the plan is being effectively executed.

Boards need to help set strategic goals, measure the impact their efforts are having on their communities as well as evaluate and update those goals on a regular basis. This requires a thorough understanding of the organization's mission, its role in the community and how that community is directly benefitting. Boards need to resist the danger of becoming too enmeshed in the minutiae of daily operations. While of course they must have a working knowledge of operations, keeping them apprised of such operational details is the role of the Executive Director and staff. The real value of Boards of the future will be to resist operational and technical discussions and consistently elevate their thinking to engage in a strategic dialogue with staff to propel the organization forward.

4. Strengthening Financial Fundamentals

Many Boards have members who have wonderful intentions and energy, but few financial skills. The Board is entrusted with money from public and private sources - other people's money - given to the organization because the donors have confidence in the Board that it will spend the money wisely in pursuit of the organization's mission. Yet, many members are unable to fully understand a balance sheet. Too many organizations are used to "doing without" for so long that they fail to recognize how bad things really are. Boards of the future must effectively engage with staff to truly understand the financials, ensure accurate and timely information presented in a manner that helps them make thoughtful decisions.
In essence, Boards of the Future will recognize that passion for the mission is not enough. Board members (or a critical subset of the board) must possess adequate financial skills and not be afraid to ask the hard questions of staff regarding financial realities. No Board can properly execute its duties without the full financial picture.

Increasing Accountability and Regulatory Oversight

1. Sarbanes-Oxley

"One of the most important developments to shape thinking about non-profit governance today was the passage of the Sarbanes-Oxley Act, legislation intended to deter fraud in the corporate sector. Developments in the corporate sector not only shape wider expectations about governance that influence non-profits, but as our findings show, Board members that sit on both corporate and non-profit Boards serve as a channel through which corporate practices are brought into the non-profit world." Non-Profit Governance in the United States - Findings on Performance and Accountability from the First National Representative Study, by Francie Ostrower, The Urban Institute, Center Profits and Philanthropy, 2007.

"Even if the Sarbanes-Oxley Act *per se* is never formally extended to non-profits, its provisions have altered expectations and standards about non-profit governance, and the climate in which non-profits operate. Scores of professional associations have issued guidelines to non-profit members about "compliance." A case in point is the recent draft guidelines issued by the Panel on the Nonprofit Sector that was convened by Independent Sector, a coalition of non-profits and foundations, at the request of the Senate Finance Committee. Among other guidelines, the principles call on all non-profits to adopt written conflict of interest, document retention, and whistleblower policies, and, for non-profits that have an audit, to consider establishing an independent audit committee—all provisions of Sarbanes-Oxley. These ongoing elements testify to a growing recognition that non-profits are under greater scrutiny and must demonstrate their public accountability." Non-Profit Governance in the United States.

Six practices required by Sarbanes-Oxley that have resonance for non-profits:

1. Having an external audit;
2. Having an independent audit committee;
3. Rotating audit firms and/or lead partners every five years;
4. Having a written conflict of interest policy;
5. Having formal process for employees to report complaints without retaliation (whistleblower policy); and
6. Having a document destruction and retention policy

Not surprisingly, having corporate members on the Board is closely correlated with whether or not an organization has updated versions of these policies. However, not all corporate practices are appropriate for non-profits. "Having the CEO/executive director as a voting Board member was *negatively* associated with having an outside audit, a conflict of interest policy, a document retention policy, and a whistleblower policy (and was unrelated to adopting other practices). Conflating executive director and Board positions in this way detracts from the Board carrying out its stewardship responsibilities, and that non-profits should think carefully before adopting this corporate practice." Non-Profit Governance in the United States.

2. IRS Form 990

The Form 990 "informational tax return" has traditionally provided the public with financial information about a given organization, and is often the only source of such information. It is also used by government agencies to prevent organizations from abusing their tax-exempt status. In June 2007, the IRS released a new Form 990 that requires significant disclosures on governance and Boards of directors. These new disclosures are required for all non-profit filers for the 2009 tax year, with more significant reporting requirements for non-profits with over $1 million in revenues or $2.5 million in assets. In addition, certain non-profits have more comprehensive reporting requirements, such as hospitals and other health care organizations.

The Form 990 disclosures do not require (but strongly encourage) non-profit Boards to adopt a variety of Board policies regarding governance practices. These suggestions go beyond Sarbanes-Oxley requirements for non-profits to adopt whistleblower and document retention policies. The IRS has also indicated they will use the Form 990 as an enforcement tool, particularly regarding executive compensation. For example, non-profits that adopt specific procedures regarding executive compensation are offered "safe harbor" from excessive compensation rules under section 4958 of the Internal Revenue Code and Treasury Regulation section 53.4958-6. Governance and Related Topics - 501(c)(3) Organizations.

IRC 6104(d) regulations state that an organization must provide copies of its three most recent Forms 990 to anyone who requests them, whether in person, by mail, fax, or e-mail. This means that non-profits and their governance practices are wide open to public scrutiny, in a way they have not been before.

3. Community Accountability

Non-profit Board members have an unenviable balancing act to perform. They must serve a variety of masters: They are accountable to the organization through their fiduciary duties, accountable to their donors and grantors for how they are spending money entrusted to them but most immediately, they are also accountable to the communities they serve. After all, that service is most often their raison d'être.

True community accountability comprises an honest, transparent and engaged relationship with the community the organization serves, soliciting its input into mission plans and in measuring the efficacy of the strategic plan. Honest communication with the community engages that community and garners true support for the organization from within the community. Boards of the future will increasingly treat such communications as an opportunity to have an ongoing dialogue with key stakeholders and more deeply involve them in helping to establish the destiny of the organization.

Blurring of Lines Between For-Profit and Non-Profit Disciplines

1. More "Business-Like" Approach

a. Board Fellows

Many business schools have programs, known as Board Fellows, which pair MBA students with local non-profit organizations. They are a great way to get younger people more involved with non-profit Boards at an earlier stage of their careers. "On average, only six percent of non-profit Boards have members under the age of 35, according to a 2008 Urban Institute study of non-profits with annual expenses between $500,000 and $5 million." MBAs Lend Their Skills to Nonprofit Boards.

These programs come in an age when business schools are placing an increased emphasis on corporate responsibility. They provide students with an invaluable opportunity to put their skills to work in a real world environment, and the business schools require the students to do a project which uses their skills to help the Board operate more effectively, including performing effectiveness audits, examining the donor base and fund-raising efforts and brainstorming creative marketing and social media plans. MBAs Lend Their Skills to Nonprofit Boards.

b. Increasing Professionalism of CEOs and Staff

In recent years, there has been an increasing professionalism of non-profit staff. "Professionalization, measured as whether the non-profit had a paid professional CEO/Executive Director or not, was positively associated with having an audit, rotating the lead partner or accounting firm conducting the audit at least once every five years, and having conflict of interest and document retention policies." Non-Profit Governance in the United States.

Simply adopting more for-profit corporate practices has its drawbacks as well. "Having the CEO/executive director serve as a voting board member was negatively related to board activity level in financial oversight, setting policy, community relations, and trying to influence public policy, and positively related to none." Non-Profit Governance in the United States.

"Having a paid professional executive director was **negatively associated with board activity levels** in f**undraising, monitoring programs, community relations, and monitoring the board's own performance**—but positively associated with financial oversight, evaluating the CEO/Executive Director, and acting as a sounding board for management. These findings indicate that with professionalization, the CEO has assumed more direct organizational responsibilities while the board's role has [often been relegated] to oversight of the CEO." Non-Profit Governance in the United States.

As such, staff professionalism can be a double-edged sword, leading the Board to rely more and more heavily on staff for some core board functions. When staff increasingly bring valuable skills to their positions, and an increased emphasis on performance and financial security, it is understandable that some Boards are tempted to rely more and more heavily on staff "expertise".

Boards of the future must balance this inclination to defer to staff by developing increased abilities to be a full partner with staff. Boards must take advantage of this increased professionalism by using it to greater enhance their strategic and visionary goals. Unless Boards retain their oversight function, and more importantly, their strategic role and responsibilities, they can find themselves inappropriately eclipsed by the staff.

2. New Economic Models

As noted earlier, many non-profits face an increasingly harsh economic reality. Things are just not going to return to the "old normal." It is time to embrace the "new normal." The new normal is a time of decreasing availability of public grants and increasing competition from other non-profits. No organization can rely solely on traditional sources for their operating budgets. Boards must routinely identify and strategically pursue funding that is from sources philosophically aligned with their mission. This means that Boards must engage in rigorous strategic thinking, planning, and enforcing a more open, thoughtful and sustainable economic model. 5 Non-Profit Trends to Watch in 2011, by Nell Edginton and 5 Non-Profit Trends to Watch in 2012, by Nell Edginton.

a. Setting Measurable Indicators of Mission Success

It is no longer enough for a Board to declare that its mission is to benefit the public and therefore it is worthy of receiving other people's hard earned money. Donors want to know how their money is making things better. Increasingly heard are donors asking "what's the ROI on my investment?" Boards, for their organizations' financial sakes, must establish markers to measure the efficacy of their programs, detail ways in which they are making a positive impact on the communities they serve. Boards of the future must ensure that the markers of their accomplishments are actually measuring "success" and that they tell a compelling story. 5 Non-Profit Trends to Watch in 2012

b. Embracing Technology

Many non-profits have long believed that "overhead" is a dirty word. And to a point, they are right, but that is too simplistic. Many non-profits have the culture of "doing without," having fewer people do more with less. At some point, this becomes counterproductive. Some overhead is vital to the mission of the non-profit. If you want fewer people to do more with less, you need to give them the right tools to do it. We are living in an age of vital computer technology and mass communication. Boards must lead the way to breakout IT infrastructure and social media initiatives into the category of investment in the overall success of the organization. 5 Non-Profit Trends to Watch in 2011.

With the social media revolution has come a revolution in community. The ease of mass communication has led to changing notions of community itself, and changes in how work is done. Corporations can capitalize such change, non-profits must meet the challenge of this societal transition. For many of the younger generation, "if it isn't on the internet, it doesn't exist." Non-profits simply must have an internet presence, but one that is not only informative, but engaging. Without that presence, non-profits of the future run the risk of obsolescence.

c. The Organization as Part of a Network

Given the complexity of the problems facing the non-public sector, no one Board has all the skills to face the challenges alone. Instead of a myriad of institutions all operating in isolation from, and often in competition with, each other, the new landscape is likely to resemble a honeycomb with allied entities that share resources. "Reframing Governance," The Nonprofit Quarterly, Winter 2006.

The classic model of Boards comprised of well-intentioned older community leaders, relying on mutual back scratching will be replaced by "dynamic new groups committed to sharing power and knowledge in order to make a contribution to the whole. Innovative mergers and partnerships are likely to become the rule rather than the exception, requiring cross-sector and multifaceted communication skills from their Boards. A focus on individual mission and survival, so urgent over the past few months, will gradually give way to a shared vision of a more coordinated, effective, and sustainable future." The New Future of Governance.

Board Diversity

In a time of changing demographics, many non-profits have concluded that they need to "diversify" the Board. Not only does this mean that Boards should be continually refreshing themselves, instead of simply retaining members for years because of inertia, habit, or comfort, but new members must possess qualities appropriate to the mission of the organization. Board members must not only possess a passion for fulfilling the mission of the organization, they genuinely must be a diverse group, otherwise they risk being a rubber stamp for the organization's staff.

1. Diversity of Thought

Many Boards believe, rightly, that they must diversify their membership to be more inclusive of other constituencies. However, the response is often to simply add more women, or more minority members, as if that will magically provide the solution. "Any Board that is homogenous in an ethnic, gender, or generational sense will be at an enormous disadvantage. The speed of new developments in the philanthropic, communication, and other spheres will demand decision makers who can anticipate and interpret those trends. Viewing grantees, members, or other stakeholders through a single lens risks instant irrelevance. While it has long been recognized that Boards must be more reflective of their various constituencies, there has been very little real progress in this direction." The New Future of Governance.

Boards of the Future will recognize that a deeper analysis of new members is required. Thoughtful nominating committees will seek members who bring valuable skills and passion to the board, regardless of the surface level appearance of diversity. When the Boards look for these people to serve, true diversity will naturally follow.

This type of "diversity" should not be limited to the Board, it should be extended to staff and volunteers as well. By broadening the base constituencies, Boards of the Future can strengthen their organizations and prime them for future challenges.

2. Working *With* the Community

Boards need to begin more completely engaging the communities they serve in the organizations themselves. Instead of working *for* the community, Boards of the Future must think of themselves as working *with* the community. How can Boards help deliver maximum benefit of their programs and donors' dollars without truly understanding the needs of the people they are trying to serve? The answer is easy: Just ask them. The best way to engage the community in the mission of the non-profit is to seek their active participation in the organization itself.

"An organization that is working WITH the community acts as the facilitator of community members, pulling the program out of THEIR individual and collective knowledge and THEIR individual and collective wisdom. The program may be implemented by the organization, but it is created through the participation of the community that will use the program, all aimed at making that program as effective as possible for their population(s)." Board Diversity: A Bigger Issue Than You Think, by Hildy Gottleib.

This immediate interaction with the community can be a fountain of potential board members. They can be wonderful resources of information regarding the community's real needs, and act as ambassadors between the organization and the community. It is a valuable way to form lasting bonds between the organization and the community it serves. "[P]rograms cannot provide the maximum benefit to [the] community without [the] community's direct involvement in those programs. Board Diversity: A Bigger Issue Than You Think.

3. Engage the Younger Generation

One of the easiest ways to stagnate is to be resistant to change. Many Boards have generational homogeneity. They are used to doing things their way. Change is unfamiliar and often Boards are either resistant to new ideas and methods, but, what can be worse, do not consider them because no one brings it up. Boards of the Future know that they cannot get locked into old patterns. There are many young, socially conscious people who yearn to make a difference in their communities. Also, they have the natural instinct to embrace change. Rapid changes in communication, technology and even broader social norms are, ironically, a constant in the lives of young adults. They are not as cautious about trying new ideas, new ways of doing business as are their seniors. This nimbleness of mind is essential to an organization trying to stay current in an ever-changing environment.

The real challenge to involve them in Board membership, because their ways of gathering information and communicating are different. Boards of the Future understand that these younger people are going to want to fully participate in Board membership, not just be token representatives of their generation. This means that the existing Board will need to treat them as peers, which can be a challenge for older members. Bringing a younger generation into Board participation is going to change the dynamics of the Board and that as long as the dynamic is positive, this change is healthy.

Innovation

1. Technological Innovation

Boards of the future must increasingly be open to technological innovation. The kind of mass collaboration made possible by the Internet can easily create new forms of relationships, including Web-based networks, which will, in turn, create new forms of governance. Without access or involvement in these kinds of innovations, Boards, and their organizations along with them, quickly become isolated and then sidelined.

2. Economic Innovation

Given the massive changes in the world economy, the Board of the future will need to accept that things are never going back to the way they were. Of course, this is not a new concept; *things have never gone back* to the way they were once a sea-change has taken place. But for Boards of the current generation, especially for those with older members, more set in their comfortable ways of doing business, "the future is going to require massive changes in how our non-profits operate, resulting in more mergers, dissolutions, and the formation of new types of entities. All will need to be part of a larger whole with greater capacity to resolve our mounting societal problems, regardless of the consequences for individual organizations." The New Future of Governance.

3. Legal Innovation

Lastly, new legal forms of entities have emerged, reflecting many of the issues mentioned above. Low-profit, limited liability corporations, or L3C's, were created to bridge the gap between non-profit and for-profit investing by providing a structure that facilitates investments in socially beneficial, for-profit ventures while simplifying compliance with Internal Revenue Service rules. "An L3C can attract various types of investors, as well as accept foundation funds in the form of program-related investments, mission-related investments, loans and guarantees." Convergence: How Five Trends Will Reshape the Social Sector, by LaPiana Consulting, 2009. To authorize an L3C, legislation must be passed to amend the General Limited Liability Company Act (LLC). Thus far, legislation has been passed in Illinois, Louisiana, Maine, Michigan, North Carolina, Utah, Vermont, and Wyoming. Legislation has also passed in the federal jurisdictions of The Crow Indian Nation of Montana and The Oglala Sioux Tribe. Additionally, legislation has been written in California, Florida, Georgia, Iowa, Minnesota, Nebraska, Ohio, Texas, Washington, and Wisconsin but has not yet been introduced. All of these changes may alter the very role of Boards of the future and will continue to fuel new opportunities - and challenges - yet to be addressed.

Conclusion

Boards of the Future will possess important qualities:

1. They will commit to a more strategic orientation.
2. They will become more technologically savvy and incorporate technology more completely into the organization framework.
3. There will be more younger members who are fully engaged.
4. Membership will be more diverse.
5. They will possess more sophisticated financial skills.
6. They will be held to a higher standard of accountability and responsibility.
7. They will have a more balanced, constructive relationship with their staff.
8. They will be more intimately engaged with the communities they serve.

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Quantum Governance provides corporations, nonprofits, credit unions, associations and governmental entities with strategic, cost-effective governance, ethics and management consulting, facilitation and evaluation. We are home to more strategic governance experience than any other practice in the country. The firm is a unique L3C organization that integrates the best elements of both the for- and non-profit communities into one practice. It is a low-profit, limited-liability service organization dedicated to the public good and one of the very first such legal hybrid organizations in the United States.