NYC Good Governance Blueprint

Best Practices, Resources, and Tools for Nonprofit Executive Directors and Board Members

NYC Service™

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ACKNOWLEDGEMENTS

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INTRODUCTION

Nonprofit organizations are critical to the health of New York City. The executive directors or chief executive officers (CEOs) who lead them and the board members who volunteer their time to serve have special obligations to their organizations, the clients that are served, and the donors who give their financial support.

As board members, individuals act as fiduciaries of those charitable organizations and are responsible for managing them and ensuring the financial health. This document was specifically produced to help board members, as well as executive directors and CEOs, navigate rules, regulations, and structures so they can be productive leaders.

The *NYC Good Governance Blueprint* was developed by the NYC Nonprofit Board Development Coalition, led by NYC Service, a division of the Office of the Mayor. The coalition includes 20 organizations that make it their mission to support nonprofits across New York City.

In creating the *NYC Good Governance Blueprint*, the Coalition's objective was to craft a resource for board and staff leadership which consolidates best practices, tools, and references for governance. The goal of this publication is not to teach you everything you need to know, but to give you the resources to explore topics further.

The *NYC Good Governance Blueprint* will also become available electronically at www.nyc.gov/nonprofits in May 2016. For more information, contact the Mayor's Office of Contract Service (MOCS):

- Email: CBO@cityhall.nyc.gov
- Phone: (212) 788-0001

NOTE: There are sections on New York State and City regulations, as well as descriptions of required insurance, certificates and federal and NYS financial requirements. These are not meant to be taken as legal advice and you should always consult a suitably qualified attorney regarding any specific legal problem or matter.

NOTE: Links to other resources are being provided as a convenience and for informational purposes only. They do not necessarily constitute an endorsement or an approval of the products, services or opinions of the corporation or organization or individual. Please contact the external site for answers to questions regarding its content or permission to use the material.

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SECTION I: GOVERNANCE PRINCIPLES

Summary

Nonprofit board members oversee an organization's policy and activities. They are responsible for assuring that the organization's work is consistent with its mission and that it complies with applicable laws. By carrying out the duties of care, obedience, and loyalty, board members help to ensure that a nonprofit uses accountable practices, develops strategies that will lead to success and sustainability, and operates in fulfillment of mission goals. Board members are also expected to make financial contributions and to utilize their personal networks to bring financial and other resources to enable the organization to achieve its mission.

Fiduciary Duties: Care, Loyalty, Obedience

While the board is not usually involved in the day-to-day activities of the organization, it is responsible for managing the organization and making important decisions, such as adding or removing board members, hiring and firing key officers and employees (more specifically, the executive director), engaging auditors and other professionals, as well as authorizing significant financial transactions and new program initiatives. In carrying out those responsibilities, members of a board of directors are fulfilling their fiduciary duties to the organization and the public it serves.[1]

Nonprofit board members have three fundamental areas of legal and fiduciary responsibility, often referred to as the duty of care, duty of loyalty, and duty of obedience.

Duty of Care

The duty of care requires that a nonprofit board member participate actively in governance and oversight of an organization's activities. This includes attending board and committee meetings, reviewing and understanding the organization's financial documents, helping to frame strategic plans, identifying and managing risks as well as opportunities, and taking prudent steps to advance the organization's mission goals.

Duty of Loyalty

The duty of loyalty requires that a nonprofit board member act in the best interest of the organization at all times. This includes identifying and disclosing potential conflicts of interest before joining the board, and when they arise. When a potential conflict exists, board members must follow conflict of interest management steps as mandated by law and recommended in good governance guidelines. (Note: New York State law requires that all nonprofits have a written Conflict of Interest Policy.)

Duty of Obedience

The duty of obedience requires that a nonprofit board member work to ensure that the organization complies with applicable laws and regulations, acts in accordance with its own policies, and carries out its mission appropriately. Board members should ensure that their organization carries out its purpose and does not engage in unauthorized activities.

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[1] Nonprofits in New York State are regulated by the NYS Charities Bureau. Please refer to the Charities Bureau's publication, *Right From the Start*, for more information on how boards of directors of not-for- profit corporations and trustees of charitable trusts understand and carry out their fiduciary responsibilities to the organizations they serve. http://www.charitiesnys.com/pdfs/Right%20From%20the%20Start%20Final.pdf.

Mission & Values

Mission Statement

A mission statement communicates a nonprofit's purpose, what groups it serves, and how it plans to do so. For a new nonprofit, developing the mission statement is a critical first step in defining what the organization plans to do and what makes it different from other organizations in the same field.[2] An effective mission statement captures the essence of an organization's purpose, and it anchors the organization's not-for-profit status. It is the board's responsibility to ensure that the organization's work is in line with its mission. Board members should approve, periodically review, and monitor the organization's performance against its mission statement.

The mission should be relevant and compelling. A nonprofit's mission statement functions as its call to action. If it is clearly stated and seeks to achieve worthy goals that many other people might share, it will help the organization attract board members, employees, volunteers, beneficiaries, and donors.

Vision Statement

A mission statement may be accompanied by a separate vision statement. The vision statement can set forth the principles and beliefs that underpin the mission statement; it can also articulate a long-term, ultimate goal and reason for existence.

Tax-Exempt Purposes

Charitable organizations are eligible to be tax-exempt under section 501(c)(3) of the Internal Revenue Code if they meet the IRS' definition of a charity.[3] Because they typically enjoy tax-favored treatment, board members have an obligation to ensure that their organization's mission and activities merit this special status. Board members should consider whether an organization's mission and activities remain relevant and continue to serve the public good effectively on an ongoing basis.

Embedding Values in Nonprofit Culture

Board members are responsible for establishing and nurturing a culture of integrity, a passion for the mission, a focus on achieving measurable mission-driven results, and a commitment to ethical values and practices. They do this through personal leadership and appropriate oversight over the nonprofit's staff, volunteers, and activities.

Legal Issues

Note: Information provided in this section is for general educational purposes and is not intended as legal advice. Seek qualified legal counsel to provide guidance on important legal matters.

It is the responsibility of the board to ensure that the nonprofit is registered with the State of New York and complies with all laws. Board members should be aware that special New York State laws apply to fundraising, investment policy, and other areas. Board members are also responsible for ensuring that the nonprofit maintains its nonprofit status by complying with all reporting requirements required by the state and by the federal government.

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[2] For a useful tool to help craft mission and vision statements, refer to *Guide to Creating Mission & Vision Statements* under "Section I Resources" at the end of this section or visit https://topnonprofits.com/vision-mission/.

[3] For more information about IRS 501(c)(3) exemption requirements, visit http://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Exemption-Requirements-Section-501(c)(3)-Organizations.

Registration and Disclosure

NYS Charities Bureau Registration
Charities conducting public solicitations in New York State must register with the Charities Bureau, which is part of the Office of the New York Attorney General. They must also provide regular reports with documentation to the state. Charities are generally exempt from paying taxes, including sales tax. Charities registered with the state must submit an annual return (CHAR500), certifying their continued nonprofit status.

Charities that are required to register with the NYS Charities Bureau must make their financial statements available to the public and people must be able to obtain these statements upon request from the organization. Many organizations just make these documents available on their websites, but they are also available from the NYS Charities Bureau.

IRS Reporting
The IRS is the agency that certifies an organization's nonprofit status. Therefore a charity (often referred to by the section of the tax code that covers them as a 501(c)(3)) must file an annual return with the IRS (990 series form). Failure to do this may result in revocation of the nonprofit's tax exemption by the IRS. Smaller organizations may file simpler returns.

Multi-State Charity Registration
When nonprofits conduct public solicitations resulting in contributions from multiple states, they may be required to register with the relevant state governmental authority in each of those states.

Required Documents

Articles of Incorporation
In New York State, not-for-profit corporations are formed as provided under the state's Not-for-Profit Corporation Law. Incorporation is typically a first step in forming a new nonprofit organization.[4] The articles of incorporation provide basic information about the proposed new organization.

It is generally required that a nonprofit's articles of incorporation or other organizing document state the general purpose(s) of the corporation (Specific Purpose Statement). If your board wishes to alter its specific purpose statement, you will need to amend these articles.

Bylaws
Bylaws are rules in a legal document that spell out how your organization will govern itself. This document explains the process by which board members and officers must be elected, establishes the board size, states how the board will function, and provides other governance details. Board members and executive directors/ CEOs need to be familiar with their nonprofit's bylaws.

The board should review the organization's bylaws regularly to ensure that they are in compliance with, and do not contain anything which might conflict with, New York State or local laws governing nonprofits. They

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[4] For more information on forming a nonprofit and registering with NYS see *Not-for-Profit Incorporation Guide* (http://www.dos.ny.gov/forms/corporations/1511-f-l_instructions.pdf), Foundation Center Q&A on Incorporation (http://grantspace.org/tools/knowledge-base/Nonprofit-Management/Establishment/articles-of-incorporation), and the Lawyer's Alliance of NY's *Getting Organized* manual for purchase (http://www.lany.org/publications.php).

should also be reviewed regularly to ensure they continue to serve their organization's mission and operations effectively. When possible, seek input from qualified legal counsel for this purpose.

Important Laws (New York Not-for-Profit Law)

Employment Law and Personnel Policy
Nonprofits operating in New York City are bound by federal, state, and city laws affecting employment and payroll practices, as well as management policies covering employees and volunteers. Board members should ensure that their nonprofit is operating in accordance with all applicable laws and regulations, and that it has established employment policies and procedures.[5]

NYPMIFA and Investment Policy
Board members should be aware of enacted special laws relating to how nonprofits can invest their funds.[6]

Board's Role in Incurring Contractual Obligations

Nonprofit organizations should determine, and have written policies about, who will have the power to bind the organization contractually and represent it for any legal purposes. Most board members and committee members *should not* expect to have this power; it should be limited to a very small number of people who are officially vested with this authority by the organization's executive director or CEO and its board.

However, the board *should* understand and approve the terms of major contracts that will have a significant impact on the organization. In addition, the contractual process should be protected by established internal control procedures, to guard against misdirection of nonprofit funds. This is an important part of effective governance.

Insurance

Board members should be informed about and regularly review insurance policies carried for the protection of the board, staff, and the nonprofit organization in general. Some forms of insurance are required by law, if a nonprofit is an employer. Other forms are very important for protection of the nonprofit's board, staff, and assets against the potential cost of claims and legal perils. Evaluate policies carefully in terms of cost, deductibles, risk exposures, and coverage, and check on the underwriter's reliability and credentials. Following this paragraph are three typical forms of insurance:

Liability Insurance: General liability insurance protects the nonprofit financially, up to payout maximums, against claims resulting from bodily injury or property damage to others during the course of a nonprofit's business operations or employee actions. If you are planning to have special events, ensure that you can purchase coverage for them. Every nonprofit should have this type of insurance.

D & O Insurance: Directors and Officers Insurance (D&O) is a form of liability insurance that protects a nonprofit's organization directors and officers against certain types of legal claims. Policies may vary in terms of covered events, but in general D&O policies cover the cost of defending against claims that do not involve

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[5] For resources regarding Employment Law and Practices, see "Section I Resources" at the end of this section.
[6] For more information about New York Prudent Management of Institutional Funds Act (NYPMIFA), refer to the Charities Bureau's *A Practical Guide to New York's Prudent Management of Institutional Funds Act* (http://www.charitiesnys.com/nypmifa_new.jsp).

physical harm, up to certain dollar amounts. These might include lawsuits about employment matters, mismanagement, reputational matters, or other comparable harms.

Workers' Compensation and Disability Insurance: According to the NYS Workers' Compensation Board, virtually all employers in New York State must provide workers' compensation insurance for their employees. This covers workplace injury claims and other civil liabilities. New York State employers are also required to provide disability insurance for their employees, covering disability due to an off-the-job injury or illness.

The Board's Role in Setting Necessary Policies

Board's Policy Role

In its role as an oversight body, the nonprofit board sets and confirms policies that govern how the organization will be managed. In cases where a nonprofit employs professional staff, the board is not involved in direct management of the organization. However, when a nonprofit is all-volunteer in nature and has no staff, board members may take on management roles. Board policies in those instances are especially helpful in guiding how volunteer board management roles may be conducted.

NYS Legal Mandates Regarding Nonprofit Policies

The Nonprofit Revitalization Act of 2013 established requirements for nonprofit board policies. All nonprofits soliciting donations in New York State, whether or not they are incorporated or located in the state, are required to have a board-approved Conflict of Interest policy. Whistleblower policies are required for organizations of a certain size.

Conflict of Interest Policy and Related Party Transactions

The Conflict of Interest policy addresses situations where a board member might profit from the organization, for example by providing goods or services or recommending a relative for employment. The policy does not preclude board members from providing services, but ensures that any potential conflicts are disclosed and taken into consideration when decisions are made. The policy should apply to board members and officers as well as key employees who are "related parties" as defined in New York State law. The policy should clearly define what a conflict of interest is, set out procedures for disclosing a potential conflict, require related party recusal from board deliberating and voting when a potential conflict of interest exists, and require documentation of the conflict of interest resolution process. Board members are required to sign advance conflict of interest disclosure statements prior to joining a board and annually after that. [7]

Whistleblower Policy

If a nonprofit has over $1 million in annual income and 20 or more employees, New York State law requires that such an organization have a whistleblower policy and related procedures. The whistleblower policy should establish a process for individuals to report improper conduct and violations of laws and policies in a confidential manner, without fear of retaliation or other adverse employment consequences. Under the policy, at least one individual should be appointed to investigate and administer whistleblower complaints; this responsible individual should report to the board, its audit committee, or other board-level committee. All employees, volunteers, and board members should receive a copy of the whistleblower policy.[8]

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[7] For more information about Conflict of Interest policies under the Nonprofit Revitalization Act of 2013, see the Charities Bureau's guidance document (http://www.charitiesnys.com/pdfs/Charities_Conflict_of_Interest.pdf).

[8] For more information about Whistleblower policies under the Nonprofit Revitalization Act of 2013, see the Charities Bureau's guidance document (http://www.charitiesnys.com/pdfs/Charities_Whistleblower_Guidance.pdf).

Privacy Policy and Cybersecurity
If a nonprofit organization is accepting financial donations or other personally identifiable information about consumers, it should develop, publish, implement, and monitor implementation of its privacy policy.[9] This is especially important if a nonprofit organization collects such sensitive information through its website or other internet-based portals.

A privacy policy is a legal statement that spells out how the nonprofit organization will manage and protect the personal, private information that it collects and functions as a kind of promise to its stakeholders. When your nonprofit makes such a privacy promise, it must keep it. At minimum, a well-crafted privacy policy should do the following:

- State what information is being collected by the nonprofit from website visitors or through other channels, and how that information is being used
- Explain how an individual may contact the nonprofit to review personal information collected and request corrections
- State what security measures are in place to protect the private data
- Provide a way for the individual to notify the nonprofit that he or she does not want their private information to be shared outside of the nonprofit organization
- Allow the individual to opt out of further solicitations or contacts, if desired

It is also increasingly important for nonprofits to use the most secure data handling technologies and procedures possible when storing, transferring, and managing sensitive data. Likewise, nonprofits benefit by establishing and enforcing clear data management policies, and by training all staff and volunteers to follow them closely.

More generally, nonprofits should take care to ensure they are respecting the privacy rights of individuals when posting information or images online, whether on the nonprofit's own website or elsewhere.

Effectiveness Policy
An Effectiveness Policy is a board-approved policy stating that the nonprofit will evaluate its performance against measurable mission goals every two years, with recommendations for future actions to achieve the mission.[10]

Additional Policies
A nonprofit's senior executives and board may wish to establish additional formal policies for protection and management of the organization. Here are some examples:

- **Financial Management Policy**: May set forth basic guidelines for internal control procedures and prudent general management of the nonprofit's finances.
- **Document Management Policy**: Dictates which documents and e-records will be retained, and for how long. For prudent legal reasons, when this policy is in place, it is important for the nonprofit to ensure that it is followed consistently.
- **Fundraising Policy**: May set forth guidelines for the conduct of accurate and transparent solicitations for a specific nonprofit. It may also set up processes for vetting solicitation statements or new appeals

[9] For resources regarding privacy policies and cybersecurity, see "Section I Resources" at the end of this section.
[10] For more information about Effectiveness policy and a sample Charity Effectiveness Policy, see "Section I Resources" at the end of this section.

with an organization's CFO, legal counsel, or auditor to ensure that these statements comply with legal requirements and commonly accepted guidelines for nonprofit performance.

- **Risk Management**: May commit a nonprofit's senior leadership and board to a regular process of evaluating risks to the organization (ranging from lack of infrastructure and continuity risks to legal or cyber perils) and developing plans to address and manage these risks.
- **Social Media**: Specifies who may and may not represent your organization in social media, and establishes guidelines for social media conduct on behalf of your nonprofit. Be cautious when establishing a social media policy to avoid triggering legal concerns. Periodic legal review of this kind of policy is strongly advised.

Guidelines and Ethical Conduct

Nonprofit leaders need to be aware of commonly accepted guidelines for accountable practices, as well as professional guidelines that shape charity operations in important ways. Following these guidelines can help nonprofits operate effectively and achieve recognition as reputable organizations. Some guideline programs offer certification or accreditation features, which signify to potential donors that a charity is meeting high standards.

Board members should become familiar with these guidelines and codes of conduct, which offer valuable insight into effective nonprofit governance and oversight touchpoints and processes. Effective nonprofits will embed recommended practices into their operations and ensure that board and staff members, as well as volunteers, are aware of and use good governance guidelines in their work.[11]

Development/Fundraising

Every board member is expected to make a contribution to the organization and help in the development process. Certain funders, like foundations, look hard at board participation when they are reviewing grant applications. If members of an organization's board are not willing to support it, why should anyone else? On any board, there should be a Development Committee which, with staff, helps organize board members' fundraising. As with every other section of this Blueprint, policies and regulations apply to fundraising,[12] including the following:

- **Compensation**: Under the ethics rules of the Association of Fundraising Professionals (AFP), it is forbidden for any member to be compensated a percentage of what they have raised. According to the AFP, if percentage-based compensation is accepted, the "charitable mission can become secondary to self-gain, donor trust can be unalterably damaged, [and/or] there is incentive for self-dealing to prevail over donors' best interests".[13]

- **Consultants**: In the state of New York, any organization hiring an outside fundraising firm must abide by certain rules. For example, they must have clauses in their contracts to let the nonprofit cancel the contract, and the contract must be filed with the state.[14]

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[11] For more resources on such guidelines and other nonprofit planning tools, see "Section I Resources" at the end of this section.
[12] For more information on disclosure requirement for solicitation of contributions, see the Charities Bureau's notice at http://www.charitiesnys.com/pdfs/disclosure_notice.pdf.
[13] For more information on percentage-based compensation, see AFP position paper at https://afpcalgary.afpnet.org/Ethics/EthicsArticleDetail.cfm?itemnumber=734.
[14] For more information on NYS regulations, visit: http://www.charitiesnys.com/pdfs/statute_booklet.pdf.

- **Raffles**: Gala raffles are covered by NYS Gambling Law, and organizations seeking to have a raffle much register with the state Gaming Commission. This is not difficult or time consuming, so you need not think of canceling your raffle as a result.

- **Cause-Related Marketing**: The NYS Charities Bureau offers guidelines pertaining to cause-related marketing, as well as best practices and tips.[15]

[15] For more information on cause-related marketing visit http://www.charitiesnys.com/cause_marketing.jsp.

SECTION I: RESOURCES

Mission & Vision Statements

- Top Nonprofits, HandsOn Network, and Points of Light. *Guide to Creating Mission & Vision Statements.* http://topnonprofits.com/vision-mission/.

Resources on Employment Law and Practices

- New York City Bar Employment Law Handbook for Non-Lawyers. http://www2.nycbar.org/pdf/report/pro_se_handbook.pdf.

- U.S. Department of Labor: A Summary of the Major Laws of the Department of Labor. http://www.dol.gov/opa/aboutdol/lawsprog.htm.

- Lawyers Alliance: *Employment and Tax Law Considerations Related to Compensating Summer Youth Workers, May 2015*. http://www.lawyersalliance.org/pdfs/news_legal/Youth_Employment_Law_Legal_Alert_May_2015_FINAL.pdf.

- New York State Workers' Compensation Board: Who Is and Is Not Covered by the Workers' Compensation Law? www.wcb.ny.gov/content/main/Employers/Coverage_wc/empWhoCovered.jsp.

- New York State Workers' Compensation Board: Disability Benefits. http://www.wcb.ny.gov/content/main/offthejob/IntroToLaw_DB.jsp.

Privacy Policy and Cybersecurity Resources

- Council of Better Business Bureaus: *Data Privacy for Small Businesses*. http://www.bbb.org/council/for-businesses/toolkits/data-privacy-for-small-businesses/.

- Privacy Rights Clearinghouse: Fact Sheet 28: Online Privacy for Nonprofits. https://www.privacyrights.org/online-privacy-nonprofits.

- Council of Better Business Bureaus: *Data Security Made Simpler*. http://www.bbb.org/council/data-security-made-simpler/.

- BBB Wise Giving Alliance: Standards for Charity Accountability Implementation Guide, See Standard 18. http://give.org/for-charities/How-We-Accredit-Charities/implementation-guide/?id=242224.

Resources on Effectiveness Policy and Other Policies

- Metro NY BBB Foundation: Sample Charity Effectiveness Policy. http://www.bbb.org/new-york-city/charities-donors/charityeffectiveness/charity-effectiveness-policy/.

- BBB Wise Giving Alliance: Standards for Charity Accountability Implementation Guide, See Standard 6.

http://give.org/for-charities/How-We-Accredit-Charities/implementation-guide/?id=242224.

- National Council of Nonprofits: Document Retention Policies for Nonprofits https://www.councilofnonprofits.org/tools-resources/document-retention-policies-nonprofits.

Other Helpful Resources

- Community Resource Exchange: Tools for Nonprofits – Strategic, Program and Operational Planning This website page contains a link to a sample personnel manual as well as other nonprofit planning tools. http://www.crenyc.org/resources_tools.

Examples of Nonprofit Standards

- *Better Business Bureau Standards for Charity Accountability* – the BBB Standards present 20 guidelines for nonprofit practices that demonstrate accountability. The standards cover a variety of practice areas, including governance, effectiveness, finances, solicitations, and informational materials. Publicly soliciting charities that meet all 20 of the BBB Standards upon review are known as BBB Accredited Charities and are noted as such on BBB websites. http://www.give.org/for-charities/How-We-Accredit-Charities/.
- *Independent Sector Principles for Good Governance and Ethical Practice* – Independent Sector is a leadership network for nonprofits, foundations, and corporations committed to advancing the common good. It has published a set of 33 principles for sound practice related to legal compliance and public disclosure, effective governance, financial oversight, and responsible fundraising. https://www.independentsector.org/principles.

Examples of Professional Codes and Guidelines

- *Financial Accounting Standards Board (FASB)* – FASB publishes guideline documents laying out Generally Accepted Accounting Principles (GAAP) as they apply to not-for-profit organizations, as well as other entities. These guidelines are used by not-for-profit accounting professionals and nonprofit managers to determine how not-for-profit financial reporting should take place in audited financial statements, as well as to determine how various types of donations and expenses should be recognized and reported. From time to time, these guideline documents are reviewed and updated by FASB after a public comment period. Nonprofit senior managers and board members should become familiar with GAAP financial reporting concepts. http://www.fasb.org/home.
- *Association of Fundraising (AFP) Professionals Code of Ethical Standards* – AFP members agree to abide by this code of fundraising ethics as a condition of joining this international professional association. http://www.afpnet.org/Ethics/EnforcementDetail.cfm?ItemNumber=3261.

Additional Resources on Good Governance Practices

- *Independent Sector Compendium of Standards* – For further reference, the Independent Sector has published a very extensive list of Standards, Codes and Principles of Nonprofit and Philanthropic Organizations. https://www.independentsector.org/compendium_of_standards.
- *National Council of Nonprofits* - This national association of nonprofit organizations also publishes a web resource on ethics and accountability. https://www.councilofnonprofits.org/tools-resources-categories/ethics-accountability.

SECTION II: STRATEGIC PLANNING AND MANAGEMENT

Summary

Strategic planning is an area where executive nonprofit staff leaders and the board must work closely together. Staff members and board members have important roles to play in developing organizational strategic plans, budgets and performance management plans. The board also has a critical leadership role to play in an organization, throughout its life cycle, ensuring that performance measures are aligned with the organization's strategies and objectives.

Strategic planning should be an ongoing process for a nonprofit organization, which produces a strategic plan for three to five years, implements and monitors it annually, and launches a new strategic planning process the year before the end year of the previous plan.

Strategic Planning and the Board

A strategic plan is the formalized road map that describes how your will execute its chosen strategy to achieve your organization's mission. A plan spells out where an organization is going and how it is going to get there. The strategic planning process involves vision, mission and outside-of-the-box thinking.

A strategic plan is also a management tool that serves to help an organization do a better job, because a plan focuses energy, resource, and time in the same direction. Strategic plans work best when they include concrete, realistic and measurable goals, as well as benchmarks and timelines.

Strategic planning is a critical role and responsibility of the board. In addition to serving as a road map for the organization, the plan is also the strategic summary of policy for the organization.

The role of the board is to lead the strategic plan development, in partnership with the executive director or CEO and staff. The full board should have ownership over approval of the strategic plan, while the executive committee/strategic planning committee and other functional committees lead the development of the strategic plan.

The responsibility of the board is to ensure that the strategic plan presents a coherent mission, vision, and theory of change for the organization, which become the platform for the development of goals and strategies (strategic leadership), as well as generative (strategic thinking/decision making) and fiduciary governance (strategic management).

The board's role in strategic planning and management should combine strategy and fiduciary responsibilities with a generative engagement, along with problem solving and opportunities as strategic thinkers.

Strategic Plan Structure

Four critical pieces of a strategic plan structure include the following:

1) A strategic plan should be centered in the mission (purpose), which connects to the organization's incorporation and its current, as well as future relevance.
2) The vision (promise) of the organization is the future impact the organization will achieve.
3) The theory of change is the statement of how the organization will make a positive difference.
4) The organization's values are the operating principles for how the organization behaves.

The development of the mission and vision must be driven by an internal assessment (performance, capacity, life cycle, issues) and an external assessment (economic/social issues, trends, marketplace, stakeholders). This internal and external assessment encompasses data collection, surveys, as well as interviews, and it engages all board, staff and stakeholders. The assessment should be captured in a SWOT (Strengths, Weakness, Opportunities, and Threats) analysis, which the board should approve and use to create and embrace the mission, vision, theory of change, values, and top three to five issues facing the organization.

The goals/strategies, financial plan, measures of success, management systems, governance/organization, and tracking derive from the mission, vision, theory of change, values and key issues.

Strategic Planning Process

NYC Service recommends individual development of a strategic plan with the board committee. However identifying a host organization that can bring in a network of (at most, five) nonprofit organizations also going through the planning process can create a space for support, accountability, and troubleshooting.

With an established network of nonprofits, the organizations will convene at least five times over a 12 month period. During these meetings, executive directors or CEOs and board members will share the results of the planning process and identify areas of growth.[16]

Performance Management and Results Tracking

Performance management oversight is a critical role and responsibility of the board. The board should determine the critical objectives, budget/financial elements, program data, and strategic plan progress milestones that it will track, recommended by the executive committee/staff leader and individual board committees. Mission impact should be clearly defined and included in the performance management system.

The best tool should be selected for performance and results tracking, including a balanced scorecard and dashboard, as well as traditional performance reports, at the committee level. [17]

Annual Organization Plans and Budgets

While long term strategic planning is vital to the health of an organization, it does not take the place of annual planning. The organization should develop annual objectives and budgets (operating, cash, and capital) to align with the strategic plan.

Ideally, annual organization objectives will be set for the organization as a whole, key organization functions, the board as a whole, and each staff member.

Board committees should reflect the functional areas of annual objectives development, approval, and monitoring in their chart of work, calendar, and management process. The executive committee, working with the staff leader, approves the organization objectives of the whole.

The full board should approve annual organization objectives as well as monitoring plans.

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[16] For a guide to the strategic planning process, refer to Strategic Planning Jumpstart for Nonprofits under "Section II: Resources" at the end of this section.

[17] For a sample dashboard, please refer to "Section II: Resources at the end of this section or visit http://www.blueavocado.org/sites/default/files/Nonprofit%20Dashboard%20article%20from%20Blue%20Avocado.pdf.

Organizational Life Cycles

Nonprofits go through life cycles that are predictable. It is at these points where the balance between leadership and management changes, the focus on mission versus money shifts, and the leadership style differs. Frequently, the people we need leading our organizations at one stage are not appropriate at the next stage of development.

Leading Strategy Development and Decision-Making

Growth

Goal: Build organization to match environment and opportunities

Concentration

- More people or greater efficiency

Horizontal - Wider market in scope and/or geography

Vertical - Expanded distribution system and/or resources

Diversification

- Different programs and services

Concentric - Related to current portfolio

Conglomerate - Unrelated business (income)

- Internal Growth - Own capacity, investment, vertical integration
- External Growth - Mergers, Acquisitions, Consolidation, Joint Ventures, Horizontal Integration

Retrenchment

Goal: Create future to address underperforming programs and/or weak financial performance

Turnaround

- Improving efficiency and program performance within current mission of organization

Divestment

- Portfolio changes within organization

Closure/Liquidation

- Closing the organization

Stability

Goal: Protect or preserve current position after growth or retrenchment

Status Quo

- Quality improvements and results monitoring

Captive

- Strengthening donor and constituent loyalty

Pause

- Focusing on new goals and timelines

Incremental

- Experimenting with new ideas

Managing Organization Life Cycle and Critical Activities

New (0-5 Years)
Mission/Purpose to Exist, Confirming Assumptions, Program Plan, Basic Operating System and Metrics

Emerging (4-7 Years)
Mission Impact, Strategic Planning, Growth, Infrastructure, Measures of Success

Focusing (6-8 Years)
Mission Concentration, Benchmarking/Planning to be Best in Class, Organization Development, Advanced Systems, Sustainability

Breaking Through (7-10 Years)
Mission Strength, Leadership and Team Building, Quality/ Excellence Standards, Endowing the Future

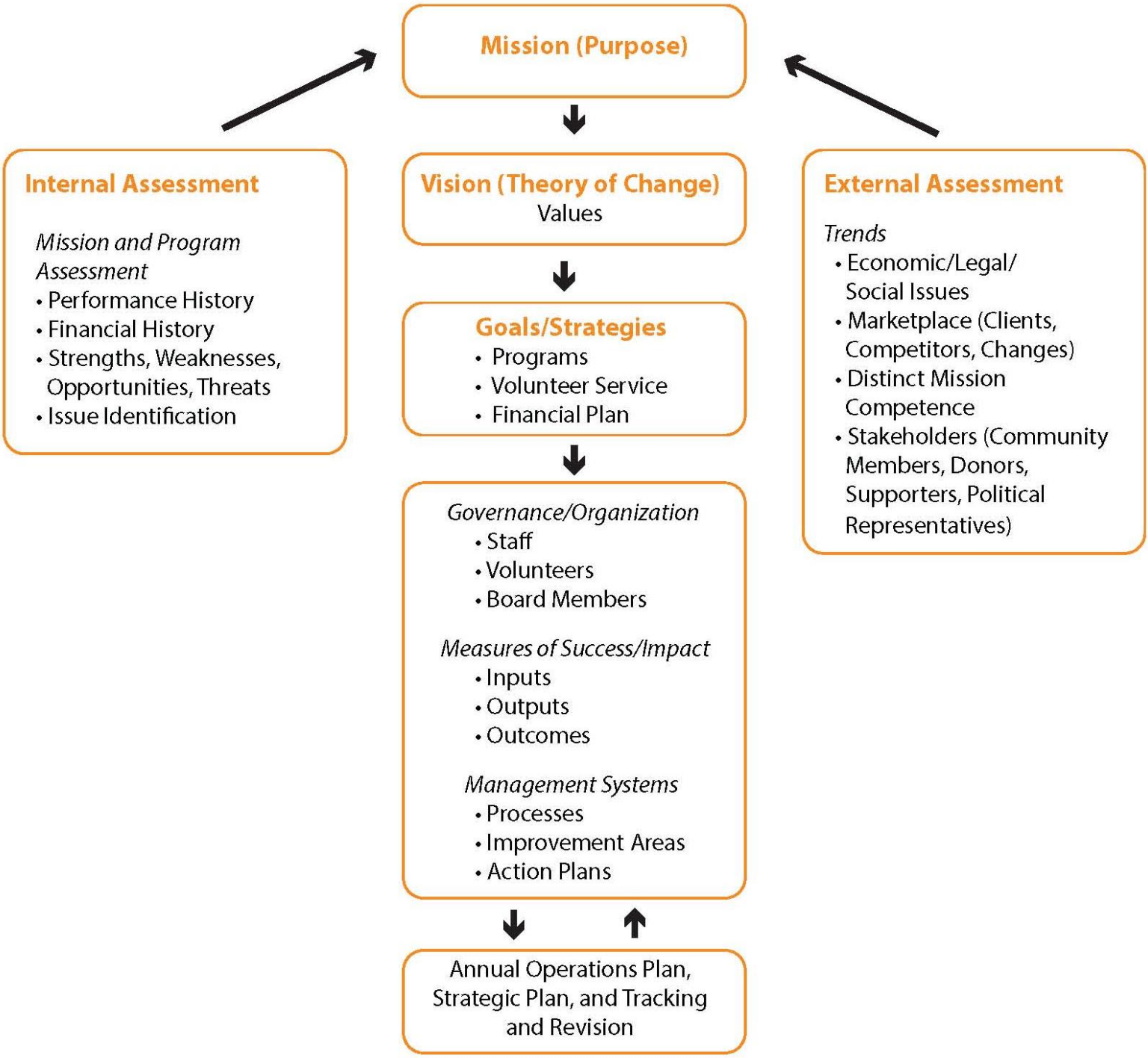
Reimagining and Legacy (10 Plus Years)
Mission Review/Expansion, Change Maker/Advocacy, Elevating Goals, Strong Financial Health

NYC Service

Strategic Planning Jumpstart For Nonprofit Organizations

November 2015

Strategic Plan Outline



Strategic Plan Jumpstart Checklist

- ✓ **Mission (Purpose)**
  - What You Do, Who You Serve, Where You Serve, Why/Your Impact
- ✓ **Vision (Promise)**
  - What You Want To Do, Who Served, Where You Will Serve, Why Your Impact Will Matter
  - Reflect Theory of Change: What Is Different When You are Successful and Achieve the Desired Change...Impact
- ✓ **Values (Operating Principles)**
  - The Rules You Live By
- ✓ **Internal Assessment**
  - Timeline of Organization
  - Mission Impact History
  - Program and Services: Size, Scope, Results, Client Quality
  - Financial History
    - Operating: Revenue, Expense, Net
    - Balance Sheet
  - Governance
    - Board Size, Tenure, Friend-raising/Fundraising
  - Administrative Capacity
    - Staff Size, Talent, and Tenure
    - Facilities and Technology
- ✓ **External Assessment**
  - Economic Trends
  - Demographic Trends
  - Marketplace/Competitive Analysis and Community Positioning
  - Regulatory/Legal Changes
  - Key Stakeholders and Relationships
- ✓ **SWOT Analysis**
  - **S**trengths
  - **W**eaknesses
  - **O**pportunities
  - **T**hreats
- ✓ **Organizations Top Issues (Big 5)**
- ✓ **Goals and Strategies**
  - Mission Differentiation/Positioning
  - Programs and Services
  - Funding
  - Infrastructure
  - Organization (Staff, Volunteers, Governance/Board)
- ✓ **Measures of Success**
- ✓ **Management Systems**
- ✓ **Implementation Plan**

Anatomy of Mission and Vision Statements

The Anatomy of a Mission Statement

A mission describes your purpose within one to two sentences.

- Make it Memorable
- Answer the 4 Ws:
    - What do you do? What are the programs/services?
    - Who do you serve?
    - Where do you serve?
    - Why do you do it and how measure your impact?

An example of a mission exercise is to define the purpose of an organization by answering the following questions:

- Why does this organization exist?
- What does the organization do to achieve its purpose?

NOTE: *Always reference the original Articles of Incorporation and/or current By Laws as mission is reviewed.*

Sample Mission Statements
The ABC Community Foundation helps people make a difference by inspiring the spirit of giving and by investing in people and solutions to benefit every neighborhood in ABC.

The City Community Center is a community-based organization in _____ which builds the potential of youth and adults through character building, education and healthy living programs, serving all people with a focus on families.

The Anatomy of a Vision Statement

A vision is your promise world within one sentence. Overall, you are answering the question what would be different if you were successful.

Answer the 4 Ws:

- What do you want to do?
- Who do you do it for?
- Where will you do this work?
- Why will you do this work and how will positive change occur?

An example of a visioning exercise is to answer these questions and/or create headlines that describe your nonprofit in five years:

- How will our "community" be improved if we are successful in achieving our mission?
- What "services" will we offer that are known as best in class?
- How will our board and staff be known in the community?

Sample Vision Statements

The ABC Community Foundation seeks to create a community where people care about each other and help each other to improve education, economy and public safety by contributing time and resources to their city, engaging 50% of residents in voting, volunteer work, and contributions to nonprofit organizations.

The City Community Center will serve one out of every 10 families in our City within the next five years, creating opportunities for improved education, employment and health.

Theory of Change

A comprehensive description of how and why a desired change is expected to happen, and the connection between the program or change initiative/activities and the long-term goals.

Sample Theory of Change

The ABC Community Foundation will connect people's volunteer time and resources to issues in the community, creating a positive impact on selected education, economic and public safety results.

The City Community Center will engage 10% of families, directing them to actions which improve the individual education, employment, and/or health results of the youth and adult members of the family.

Internal Assessment

A strategic evaluation of your organization's history, strengths, weaknesses, opportunities, and threats build a strategic framework of mission, vision, goals, and resource allocation as well as priorities.

Organization Timeline

Create a timeline with key events in the history of your organization.

SWOT Analysis

Ask your staff and board to identify your internal strengths and weaknesses and the external opportunities and threats. This is best done in a group setting, but you can also survey for responses.

Top Three Programs (Scope, Size and/or Impact) and/or Top Three Issues:

1.

2.

3.

STRENGTHS	**Top Three Strengths:** **1.** **2.** **3.**	**WEAKNESSES**	**Top Three Weaknesses:** **1.** **2.** **3.**
OPPORTUNITIES	**Top Three Opportunities:** **1.** **2.** **3.**	**THREATS**	**Top Three Threats:** **1.** **2.** **3.**

Financial Overview

Organization Name: _____

Revenue/Funding Sources – Private	**Last Year**	**Two Years Ago**	**Three Years Ago**	**Four Years Ago**
CORPORATE				
Number of Corporations				
Funding				
FOUNDATION				
Number of Foundations				
Funding				
INDIVIDUAL				
Number of Individuals				
Funding				

Revenue/Funding Sources – Government	**Last Year**	**Two Years Ago**	**Three Years Ago**	**Four Years Ago**
FEDERAL				
Number of Grants Received				
Funding				
STATE				
Number of Grants				
Funding				
CITY				
Number of Grants Received				
Funding				

Organization Revenue and Expense	Last Year	Two Years Ago	Three Years Ago	Four Years Ago
Total Revenue				
Total Expenses				
Personnel				
Facilities				
Other				
Total and By Program				

Organization Net Information	Last Year	Two Years Ago	Three Years Ago	Four Years Ago
Fund Balance				
Cash				
Investments				
Audit Results				

External Assessment

Organization Name: _____

Community Demographics	Last Year	Two Years Ago	Three Years Ago	Four Years Ago
Number of Communities Served				
Ethnicity Breakdown				
Employment Rate				

Describe the communities you serve:

_____

_____

_____

_____

_____

Please provide a list of key stakeholders:

_____

_____

_____

_____

_____

Please provide a list of organizations comparable to yours:

_____

_____

_____

_____

_____

Please describe the current areas of impact on your organization:

Economy

Government Regulations

Government Policies

Other

Other Resources and Tools

- Allison, Michael, and Jude Kaye. *Strategic Planning for Nonprofit Organizations: A Practical Guide and Workbook.* Hoboken, NJ: Wiley, 2005. Print.

- Bell, Jeanne, and Jan Masaoka. *A Nonprofit Dashboard and Signal Light for Boards.* http://www.blueavocado.org/content/nonprofit-dashboard-and-signal-light-boards.

SECTION III: FINANCIAL MANAGEMENT AND OVERSIGHT

Summary

A nonprofit board of directors has clear fiduciary responsibilities and is charged with safeguarding the assets of the organization. One way to ensure prudent financial management is for the board of directors to adopt financial policies**.** Financial policies clarify the roles, authority, and responsibilities for essential financial management activities and decisions.

Financial Oversight Starting Point

When you are determining the procedures you wish to put in place to ensure that your organization is managed with fiscal prudence and transparency, you should start with some simple requirements.

- The board should be provided with regular financial reports.
- The organization needs an annual budget to be approved well before the start of the fiscal year. Who is responsible for generating it?
- There are financial policies in the organization's bylaws and should be reviewed annually.
- There should be internal control procedures.[18]
- There should be an Audit Committee or group that reviews the annual financial report prepared by the organization's auditors.
- There should be a committee or group who independently review any potential conflicts of interest and the organization's whistleblower policies.
- The entire board is tasked with approving the IRS Form 990 before submission.

Reporting to the IRS – Form 990: One of the most important documents that an organization will produce is its annual report to the IRS. The 990 is a public document; it is available on the web in a number of different places and anyone who asks for a copy must be provided with one. Therefore, this document is more than a financial return demonstrating to the U.S. Government that the organization has used its funds in service of its nonprofit purpose. It is also the primary means of communicating to the public at large the work the organization is doing and that it is well governed and efficient. A well-constructed 990 may serve as a kind of 'annual report' if it includes all of the basic disclosures that should be in such a document – such as mission, summary of program achievements, list of board members and officers, and a financial summary listing total income versus expenses broken out by program, administration and fundraising, plus ending net assets.[19]

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[18] For more information on internal controls, see New York State's *Internal Controls and Financial Accountability for Not-For-Profit Boards* at http://www.charitiesnys.com/pdfs/Charities_Internal_Controls.pdf.

[19] For more information on Annual Reporting and Better Business Bureau of Metropolitan NY standards, see Standard 16 at http://give.org/for-charities/How-We-Accredit-Charities/.

Some key sections of the 990 include:

- Front page: This is the summary financial review document. It should be signed by a member of the Board (either the Chair or the Treasurer). By the time the reader gets to the end of this page he/she knows how many board members the organization has, how many staff, whether it spent more or less than it earned in the past two years, and were its money comes from.

- Part III, Page 2: This section asks about the work the organization has done of the past year. You should use this section to toot your own horn – report on the depth and impact of your programs and key accomplishments. If the space provided is not enough, you can add addenda. This is an opportunity to tell your impact story in a key document that funders will look at; everyone should take advantage of it.

- Parts IV, V, VI and VII: Many people think that the Sarbanes-Oxley Act, which was created to rebuild public trust in the corporate community in the wake of corporate and accounting scandals, applies only to for profit corporations. In fact, some key provisions also pertain to the nonprofit sector, many disclosures of conflicts and policies that your organization should have policies regarding.[20]

    - For example, Part IV asks if the organization conducted activities that require disclosure. Several questions ask if the organization made grants or loans to employees, board members, and/or their relatives. If your organization is going to answer "yes" to these questions, it is essential that you have a policy in place regarding conflict of interest issues, established in accordance with relevant laws, and that you follow the policy.[19]

    - Similarly, Part V requires the disclosure of many details of the organization's governance – were relatives involved, were all decisions made by the entire board, did the board delegate its authority to any other entity. Again, if your answer is "yes", you need to have thought all of this through. It also asks if you have whistleblower, conflict of interest, and document retention policies in place. In certain cases you may be required by law to have some of these policies in place. As a best practice, you might want to consider having all of them in place, so you can check the "yes" boxes in this section.

    - In Part VII, the organization lists its board members, key employees, and highly compensated. It also lists the organization's five highest paid consultants. Board members should check this section for accuracy (including name spelling), as this is going out on the World Wide Web. The names and compensation of the consultants should not be a surprise.

[20] Please note that *certain* policies are now required by New York State law. Visit http://charitiesnys.com/nonprofit_rev_act.jsp and reference the Nonprofit Revitalization Act of 2013 for further guidance.

- The rest of the document is straightforward disclosure of financial information. Every board member should be familiar with this information, which flows from the annual audit. There is a section where the names and addresses of the organization's largest donors are disclosed. This section is redacted from the version made available to the public.

The Mission and Financial Oversight

An organization's mission addresses the tax-exempt purposes for which resources are to be devoted. It is the board's fiduciary obligation to ensure that all money raised and spent is in furtherance of it successfully carrying out this mission. The general duties of care, loyalty, and obedience have been addressed in depth previously (Section I). As they pertain directly to the board's financial obligations, they include building the financial health of the organization by making and acting on sound financial decisions, policies, budgets, and controls that:

- Are mission, ethics, and priority-driven
- Ensure accuracy, integrity, transparency, and compliance
- Create stakeholder and public confidence
- Strengthen viability and build, protect, and best utilize corporate assets
- Follow an accountability structure

Interests and Requirements of Regulators and External Stakeholders

Charities are a public trust, and there are many regulatory entities that monitor their performance in order to protect the donors who support them and the constituents they serve. In addition, many donors want to review an organization's finances to ensure that their donations are being well spent.

A few regulatory/funding government agencies whose oversight your nonprofit may be subject to are: the IRS, New York Attorney General's Charities Bureau, and any government agency that funds your organization.

If you receive discretionary funding from elected officials, they are run through New York State and/or New York City agencies. For example, if your local assembly member secures a grant to help repair your playground, it will be run through a contract with the Office of Children and Family Services (OCFS).

Board Oversight and Interactions with Auditors

In the state of New York, nonprofits must file their financial information every year with the Charities Bureau. For nonprofits of sufficient size, these must be statements reviewed or audited by an independent accountant, as required by law.

- If you are an organization that is required to file a certified audit, you must have a board or an authorized committee be responsible for retaining the outside auditor and reviewing findings.

- If your organization has revenue in *excess of $1 million*, the board, or a designated audit committee *comprised solely of independent directors* must:

    - Review with the auditor the scope and planning of the audit prior to commencement.
    - Upon completion of the audit, review and discuss:
        - Any material risks and weaknesses in internal controls identified by the auditor.
        - Any restrictions on the scope of the auditor's activities or access to requested information.
        - Any significant disagreements between the auditor and management.
        - The adequacy of the accounting and financial reporting processes.
    - Annually consider the performance and independence of the auditor.
    - If this work is performed through an audit committee, a report on the committee's activities must be made to the board.
    - The board or audit committee must oversee the adoption, implementation of, and compliance with any adopted conflict of interest policy or whistleblower policy if this function is not otherwise performed by another committee.

Whistleblower Policy & Procedures

As discussed in Section I, any nonprofit it New York State with revenues in excess of $1 million must have a whistleblower policy and procedures. The Audit Committee, which is comprised of independent directors, is responsible for overseeing the creation and implementation of this policy.

The Bylaws-Policy-Procedure Flow

The bylaws, financial policies, and procedures work together through a process of checks and balances to ensure financial accuracy, integrity, accountability, and compliance. Bylaw provisions, policies, and procedures alone do not provide sufficient internal controls –they must be *operationally effective*. Board accountability starts with the bylaws.

Bylaws

- Bylaws are legal documents that state the rules and organization for governance. Compliance is required.
- The bylaws create the framework for financial governance decision making, monitoring, and reporting processes.
- The bylaws serve as a risk management tool.
- Bylaws should be reviewed periodically to consider whether updates are needed for legal compliance or other reasons.
- They are usually not amended without timely notification.

Setting Up the Governance Financial Oversight Structure: Navigating the Maze

Boards have officers whose responsibilities exceed those of other board members (this will be discussed further in Section IV). Among them are a president (or chair), a treasurer, and a secretary.

The treasurer should be carefully selected. It is critical that this individual understands finances and accounting, can ask critical questions, and can identify risks, opportunities as well as red flags.

The treasurer's fiduciary responsibilities include the following:

- Oversees all financial activities of the nonprofit
- Custodian of all funds and securities of the nonprofit
- Ensures that all financial matters are managed in an appropriate manner.
- Ensures that assets are held as designated

The treasurer's duties as an independent board member overseeing fiscal affairs, including the following:

- Regularly reports financial condition to board and at annual meeting
- Serves on/interacts with finance-related committees
- Interacts with auditors
- Works closely with Executive Director or CEO and fiscal officer
- Is a signatory
- Performs other duties, as assigned

The board secretary's role in financial accountability includes ensuring proper corporate recordkeeping and meeting notification.

Minutes are critical and should document:

- Reports and material presented.
- Proper board oversight, inquiry, deliberation, and voting regarding financial decision making (including committees).
- Approval (signature of secretary).

In order for the board to make timely decisions that involve finances, the treasurer and the finance committee must submit an annual budget for approval and make regular reports to the board about the organization's progress versus its budget.[21]

[21] For more information about Finance-Related Committee Options, see "Section III: Resources" at the end of this section.

SECTION III: RESOURCES

Finance-Related Committee Options

The Finance Committee

- Recommends budget and revisions to board
- Recommends financial policies and monitors compliance
- Reviews new funding and obligations
- Periodically reviews format and adequacy of financial reports and internal controls
- Monitors and ensures adherence to regulatory requirements and filing (IRS Form 990, CHAR 500, etc.)
- Maintains insurance coverage
- Oversees all audit activities (internal and external/independent and other)
- Ensures that audit recommendations are addressed
- Takes financial responsibilities not assumed by other committees
- Oversees and deliberates on conflict of interest disclosures

Audit Committee (Separate)

- Assumes audit and whistleblower policy-related functions
- Policy focus on fraud and internal controls
- "Independence" is valued – composition, interests, access to legal and other expertise, etc.
- Creation depends on organization size and complexity
- Oversees and deliberates on conflict of interest disclosures
- Nonprofits of a certain size may need to meet specific audit committee requirements under New York State law. See *Audit Committees and the Nonprofit Revitalization Act of 2013* at http://www.charitiesnys.com/pdfs/Audit_Committees.pdf.

Tips for Developing Financial Management Committees

- Be clear about committee charge; avoid duplication
- Do not create more than needed or can be supported and sustained
- Keep treasurer fully informed of all financial matters
- Consider chair other than treasurer for the Finance Committee
- Value independence and manage conflicts of interests
- Mix board "experts" with "non-experts"
- Avoid staff as voting members
- Executive Director or CEO should attend meetings with key fiscal staff

Self-Assessment

- The Nonprofit Association of Oregon. *Nonprofit Financial Management Self-Assessment Tool*. http://www.nonprofitoregon.org/sites/default/files/uploads/file/Fin%20Mgmt%20Self%20Assessment.pdf.

Other Useful Resources

- Standards of Excellence in Nonprofit Financial Management http://www.humanservicescouncil.org/Commission/Standards%20of%20Excellence%20in%20Nonprofit%20Financial%20Management.pdf

- Nonprofit Financial Stability KPI Recommendations http://www.humanservicescouncil.org/Commission/Nonprofit%20Financial%20Stability%20KPI%20Recommendations.pdf

SECTION IV: BOARD AND STAFF ROLES & RESPONSIBILITIES

Summary

Generally, the board and its leadership govern the organization, including setting the organizational direction, ensuring the necessary resources, and providing oversight. The board is also accountable to the public and to the organization's constituency, and it hires/fires the organization's executive director or CEO.

The nonprofit's staff usually conducts operations. There are, however, many exceptions, and this can vary by organization. While there is usually broad agreement in many areas on the varying responsibilities of board chairs and chief executives, in other areas it is not so clear (*e.g.*, fundraising, board member help with operations in smaller nonprofits, etc.). These are the gray areas of organizational leadership—areas where confusion can exist about who should be doing what. For an organization to achieve its goals efficiently and with a minimum of friction between the staff and board, it is essential for the board chair and executive director or CEO to eliminate confusion by making everyone's working role crystal clear.

Overview and Best Practices

Board Leadership and Committees

Roles and Expectations for Board Members

Nonprofit board members have two basic responsibilities—support and governance—each requiring different skills and expertise. In the role of "supporter" board members raise money, bring contacts to the organization, and act as ambassadors to the community. Equally important, the "governance" role involves protection of the public interest, being a fiduciary, selecting the executive director or CEO and assessing his/her performance, ensuring compliance with legal and tax requirements, and evaluating the organization's work.

Appointments and Terms

Ultimately, it is up to every nonprofit to determine appropriate terms and term limits for board members as well as committee members. Recently, organizations have moved toward implementing term limits for a number of reasons:

- Term limits allow for board members to "recharge their batteries" and to expand the number of people involved in fundraising on behalf of the organization.
- Term limits allow for the removal of underperforming board members
- Term limits ensure that there is a constant element of board renewal with the addition of new talents and perspectives to the board, as well as greater diversity.

The same would be true for establishing terms and term limits for committees.

Roles and Expectations for Board Officers

The officers of a nonprofit are described in its bylaws, and are generally the chair, treasurer, secretary, and any vice chairs. These officers make up the core of the Executive Committee. In

many ways, the advice about making roles and responsibilities crystal clear for the executive director or CEO and the Board member is equally true of board officers. Ideally, there would be position descriptions for all board officers with considerable clarity around the roles and responsibilities for each.[22] Board officers should take stock of their performance on an annual basis to determine whether or not they have met expectations.

To prepare future officers, it is worth looking at where board members are today and where they will need to be in the future as officers. This information can help determine what training, experience, and mentoring is needed. By considering a board member's past performance as a volunteer, work experience, fit with the organizational culture, and other members' acceptance of them as a potential leader, the best fit can be determined. In addition, current and future officers should be looked at for their willingness to carry out an organization's mission and to continue the organization's philosophy and culture.

Once future leaders are identified, a plan for each of them should be developed. Future leaders can be assigned mentors or coaches to help prepare them for future leadership roles on the board.[23]

Composition, Charge, Limitations, and (Limited) use of Executive Committee

The current trend for nonprofit boards is to limit the role of the Executive Committee to fully engage all board members. Accepted best practices consist of giving the Executive Committee limited purposes, including reviewing the executive director or CEO, and handling emergencies. Generally speaking, organizations specify a limited role for the Executive Committee in their bylaws and ensure that the Executive Committee reports back to the board promptly.

Committee Organization and Structure, and Boards Operating as Committees of the Whole

The enormous responsibilities of a nonprofit board cannot be accomplished efficiently through board meetings in which everybody does everything. Committees are critical because they help make effective and efficient use of a board member's time. While there are no hard and fast rules for what committee a nonprofit board should have, some common and important ones are:

- Executive Committee
- Finance Committee
- Audit Committee
- Personnel Committee
- Program Committee
- Governance/Nominating Committee
- Development/Fundraising Committee
- Marketing/External Affairs Committee

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[22] For sample position descriptions, see "Section VI: Resources at the end of this section.
[23] For resources on officer succession planning visit http://www.shrm.org/communities/volunteerresources/pages/succplg.aspx#sthash.Kfc7ONBo.dpuf.

Boards typically use the following questions when thinking about their committee structure:

- Is the committee a "standing committee," meaning that it has a permanent set of tasks?
- Is the committee a task force with very specific tasks that can be accomplished within a specific time frame? (Note: Their tasks should be related to the strategic direction.)
- Is this an advisory group that provides advice and support to the organization and its board but has no legal or formal responsibilities?
- Is the committee a working group that supports the work of staff (*e.g.*, fundraising) and does the group sometimes report to staff? (Note: This is important because this can blur the line between governance and management.

Staff/Board Partnership

Delegation of Authority to Management in Bylaws, Job Descriptions, and Policies

- BoardSource describes the board/staff partnership in the following way: "While respecting the division of labor, exceptional boards become allies with the chief executive in pursuit of the mission. They understand that they and the chief executive bring complementary ingredients to the governance partnership that, when combined, are greater than the sum of its parts."[24]

Executive Director/CEO and Key Employee Evaluations

One of the key responsibilities for nonprofit boards is to conduct an annual review of the executive director or CEO. Guidelines for an evaluation of the chief executive include committing to a process and timeframe and making this a constructive and regular exercise. The basis for an evaluation may include organizational goals, administration and budget, program activities, the chief executive's relationship with the board, funders, government agencies, and the community, the relationship with staff, and other areas appropriate for particular organizations.

Some of the key questions impacting the evaluation process include:

- Who has the principal responsibility: the executive committee, board chair, personnel committee, or full board?
- Is there agreement with the board on the criteria for the evaluation?
- What is the time frame for the evaluation?
- Will staff, community, or clients be involved?
- How will the chief executive provide input for the evaluation?
- How will the evaluation be shared with the chief executive?
- Does the chief executive have an opportunity to respond to the evaluation?
- How will the outcome of the evaluation process be shared with the full board?
- Will the process be formal or informal?

[24] For more information on job descriptions, see "Section VI: Resources" at the end of this section.

Establishing and Maintaining Open Communication

There is no rule of thumb for establishing and maintaining open communication, but we do know that when this communication breaks down, problems arise. Most highly effective boards discuss how to structure regular communications in between board meetings (*e.g.*, periodic email updates, committee meetings, conference calls) and also ensure that the executive director or CEO is in frequent communication with the board chair. The board should set expectations around communications and the frequency of meetings/updates.

Hiring or Replacing an Executive Director or CEO

Based upon a national study, about one-third of nonprofit executive directors or CEOs are either fired or forced out by the board.[25] Clearly, hiring and replacing an executive can be done poorly or done well. The rule of thumb is to make the performance review process a central part of the work of the board and to ensure that the executive director or CEO gets support and feedback. If the board finds itself in a position where a new chief executive is needed or wanted, there are a number of resources that are available.

Increasingly, there are interim executives who can manage the organization during a transition while the board searches for a new long-term executive director or CEO. However, boards should be aware of the transition costs associated with a change in leadership and whether there may be some systemic issues (*e.g.*, the performance of the board, poor communications, unclear expectations) that are contributing to poor performance. These may be instances where coaching and facilitation support could be a first intervention before a change in leadership.

Sample Evaluation Processes and Tools

There are many reasons why a board should conduct regular, systematic assessments of the chief executive. First, the executive's position within the organization, with no peers and no direct supervisor, makes it difficult for him or her to obtain honest feedback that can be used as a basis for improving performance. Many executives welcome this feedback and complain that they can't get the board to let them know how they're doing. The assessment also provides an opportunity for the board to express formal appreciation for a job well done, which most executives will appreciate. Most important, the chief executive's performance affects the performance of the entire organization—one of the board's chief concerns.

The assessment process has three broad goals:

1. To clarify expectations between the board and the chief executive on roles, responsibilities, and job expectations
2. To provide insight into the board's perception of the executive's strengths, limitations, and overall performance
3. To foster the growth and development of both the chief executive and the organization

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[25] See *Daring to Lead 2006: A National Study of Nonprofit Executive Leadership at* https://www.compasspoint.org/sites/default/files/documents/194_daringtolead06final.pdf.

The assessment should be a learning exercise. It is not meant to be a report card, to assign blame, or to be used strictly as a basis for setting compensation.[26]

In other instances, the board will seek a 360 degree frame of reference and feedback from those who stand around the outside of the circle, as well as inside it: clients, the community, volunteers, donors, funders, and staff. While such a project might be seen as threatening or overly time-consuming, it's an infrequent project, done perhaps every five years, or when a fresh perspective is wanted. [27]

Succession Planning

Executive succession planning is a structured process to ensure leadership continuity in key positions and to retain and develop knowledge and relationships for the future. The process ranges from identifying and developing specific candidates to fill the chief executive position to developing a talent pool with the capacity to be effective leaders in any number of key positions in an organization, including board and staff. Effective succession planning increases the likelihood that a nonprofit will have the strong leadership required to increase an organization's service capacity, program effectiveness, and long-term stability and sustainability. Succession planning can take on different forms and be completed for various situations.[28]

Board and Staff Decision-Making Structure and Running Board Meetings

Membership Rights and Processes in Decision Making

Ultimately, an organization's bylaws define the particular membership rights and decision-making processes for each organization (*e.g.*, how decisions are made, how many members are required to constitute a quorum, etc.). As discussed previously, board members are charged with: program oversight; establishing budget guidelines and overseeing financial management; legal and moral oversight—*e.g.*, management of compliance, values, conflicts of interest, and accountability; risk management; and evaluation of the chief executive.

Board Meetings

Within well run organizations, the work of the board is done by committees between board meetings, and decisions are made at those meetings. For smaller organizations, this can be unrealistic and the work may be done by the board as a whole. The board must decide how many times a year to meet, whether members may attend by teleconference or must be present to vote on board decisions. Board members are decision makers and making good decisions means coming prepared to board meetings, sharing ideas and perspectives, listening to fellow members with respect and, finally, reaching a collective conclusion.

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[26] For more information on board and staff compensation see "Section VI: Resources" at the end of this section.
[27] For executive evaluation resources, see "Section VI: Resources" at the end of this section.
[28] For succession planning tools, see "Section VI: Resources" at the end of this section.

Strategic Board Agendas, Consent Agenda, and Meeting Management

A key to high-performance board meetings is thoughtfully prepared agendas that provide time for meaningful discussion. The board chair and the chief executive should work together to set effective agendas, and committee chairs should submit high-impact issues for discussion. Best practice suggests that all board members should have a role to play, including time for strategic and generative issues and allotting time for board learning and relationship building. Creating an efficient meeting agenda is an issue with which many chairs struggle. Standard, repetitive items often eat up the agenda and not enough time is left to focus on serious deliberation.

Consent agendas are one way of liberating the allotted meeting time to concentrate on important issues requiring careful discussion. A consent agenda is a component of a meeting agenda that enables the board to group routine items and resolutions under one umbrella. As the name implies, there is a general agreement on the procedure. Issues in this consent package do not need any discussion before a vote. Unless a board member requests a removal of an item ahead of time, the entire package is voted on at once without any additional explanations or comments. Because no questions or comments are allowed on the content, this procedure saves time.

One last issue for board meetings concerns executive sessions. This is an opportunity for the full board to meet in private with and without the chief executive. There should be established rules regarding when and how the sessions will be used. Appropriate examples include investigating possible board member misconduct, planning major endeavors, such as a merger, or confidential issues.

Robert's Rules of Order

Many boards use Robert's Rules of Order because they provide common rules and procedures for deliberation and debate. They place the whole membership on the same footing and keep them speaking the same language. The conduct of all business is controlled by the general will of the whole membership—the right of the deliberate majority to decide. Robert's Rules provides for constructive and democratic meetings to help, not hinder, the business of the board. Under no circumstances should "undue strictness" be allowed to intimidate members or limit full participation.[29]

Role of the Chair and Managing Group Decision-Making

The role of the board chair in working with the chief executive includes communicating openly and fairly, serving as a liaison between the board and the chief executive, taking the lead in and encouraging the board to support and evaluate the chief executive; discussing issues confronting the organization with the chief executive, and reviewing with the chief executive any issues of concern to the board.

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[29] A "cheat sheet" of Robert's Rules is available at http://diphi.web.unc.edu/files/2012/02/MSG-ROBERTS_RULES_CHEAT_SHEET.pdf.

The board chair also leads board meetings after developing an agenda with the chief executive. The board chair facilitates the group decision-making process and understands how decisions are made based upon the organization's bylaws. The board chair works with the full board to appoint committee chairs and serves as ex officio member of committees, attending their meetings when possible.

The board chair also ensures that current job descriptions are in place for the chief executive and the board (officers, committee chairs, and members at large). In addition, the board chair helps the board maintain an effective board development committee, provides a thorough orientation for new board members, clarifies and maintains the board policy and oversight functions, keeps board members informed, and adheres to the doctrine of "no surprises." Other responsibilities including advocating for and helping to plan board retreats or special workshops, including periodic board self-study sessions of its responsibilities, membership, organization, and performance.

As a best practice, the board chair and chief executive should not be the same person. Likewise the board chair should not also be the treasurer and neither role should be performed by a paid employee. This helps to ensure separation of powers and accountability.

Minute Taking and Documenting Decisions and the Duty of Care

The duty of care describes the level of competence that is expected of a board member and is commonly expressed as the duty of care that an ordinarily prudent person would exercise in a like position and under similar circumstances. This means that a board member owes the duty to exercise reasonable care when he or she makes a decision as a steward of the organization.

Board decisions are recorded as part of the minutes of the organization and review of board minutes is a standard part of a nonprofit financial audit.[30]

[30] Guidelines and a template for minutes are available at: http://www.acc.com/chapterleaders/upload/MInutes_guidelines.pdf.

SECTION IV: RESOURCES

Compensation Setting (Board and Staff)

The board of directors is responsible for hiring and establishing the compensation (salary and benefits) of the executive director or CEO by identifying compensation that is "reasonable and not excessive," but that also is attractive enough to retain the best possible talent to lead the organization. The recommended process for determining the appropriate compensation is to conduct a review of what similarly sized peer organizations, in the same geographic location, offer their senior leaders. Nonprofits filing IRS Form 990 must describe the process they use to approve executive compensation as part of the nonprofit's responses on the annual return, IRS Form 990, Section VI, Part B, line 15.

The IRS recommends that charitable nonprofits follow a three-step process to determine compensation is "reasonable and not excessive." The board should arrange for an "independent body" (which means that the person directly receiving the compensation should not be part of the review process) to conduct a "comparability review." However, staff such as the CEO or CFO may be involved in supporting such a salary review. Many nonprofits task a "compensation committee," or use their executive committee or another sub-group/task force of board members, for this purpose. Ideally, the comparison will include data from other nonprofits of a similar mission focus. The board/independent body that is conducting the review should document who was involved and the process used to conduct the review, as well as the disposition of the full board's decision to approve the executive director's compensation (minutes of a meeting are fine for this). The documentation should demonstrate that the board took the comparable data into consideration when it approved the compensation.

Executive Evaluation Resources

- The Enterprise Foundation: *Evaluating Your Executive Director* http://www.uwasc.org/sites/uwasc.oneeach.org/files/Evaluationg%20Your%20CEO_0.pdf.

- A sample board compensation policy can be found at: https://www.nonprofitrisk.org/tools/hallmarks/tools/11compensation-review-policy.pdf.

- A resource that boards can adapt to develop their own executive director assessment: (http://www.nonprofitsteward.org/wp-content/uploads/2013/01/Executive-Director-Evaluation.pdf).

  This assessment provides tools to lead the board and the executive through a thoughtful discussion about the chief executive's past performance and future aspirations. It is only through discussion of this type that nonprofit leaders can chart courses of action and make progress in fulfilling their organization's mission.

Sample Job Descriptions: Employee Contract/Letter

- This resource guide includes a sample job description for how one smaller-sized, growing, multi-site nonprofit organization configured the role of executive director: http://www.bridgespan.org/getattachment/f63055d2-b2a6-49a8-805c-b93f10c44c3a/Sample-Executive-Director-Job-Description-Small.aspx.

  Often, job descriptions can be built from job postings for similar positions, but a key ingredient to governing a successful nonprofit is a clear job description for the chief executive as well as an original offer letter or employment contract that specifies key responsibilities around partnering with the board as well as an annual performance review process.

Succession Planning Tools

- This resource helps boards to think about: emergency succession planning—a process that is in place in the event the executive suddenly departs either permanently or for an extended period of time (*i.e.*, longer than three months); departure-defined succession planning—a process that is in place for a future planned retirement or permanent departure of the executive; and strategic leader development—a process that promotes ongoing leadership development for talent within the organization. https://www.kansascityfed.org/publicat/community/Nonprofit-Executive-Succession-Planning-Toolkit.pdf.

- A more detailed description of these legal responsibilities can be found at: http://www.bridgespan.org/getattachment/8b6c934d-21bd-4961-9705-e7a5e4012283/Legal-Responsibilities-Nonprofit-Boards.aspx.

Board Leadership and Committee Sample Position Descriptions[31]

BOARD OF DIRECTORS POSITION DESCRIPTION
Guidelines on General Expectations and Responsibilities

SUMMARY: As a member of the Board of Directors, you assume responsibility for ensuring that the organization fulfills its mission to…

Specifically, Board members are expected to do the following:

- Support and uphold the mission and values and goals of _____
- Actively participate in defining and implementing the organization's strategic vision and plans for the future
- Contribute an average of 6 hours monthly
- Attend bi-monthly board meetings
- Actively participate in at least one board committee
- Support fundraising efforts
- Make a financial gift of personal significance
- Be familiar with the organization's bylaws, personnel policies, and other key policies guiding governance and operational practices
- Understand and respect board-staff boundaries
- Participate in the annual evaluation of the executive director
- Assist in identifying prospective board members

In general board member responsibilities are expected to fulfill their legal and fiduciary responsibilities by completing the following:

SERVICE:

- To prepare for, and attend in their entirety, board meetings
- To serve in leadership positions and committee assignments willingly and enthusiastically when asked
- To bring a sense of humor to the board's deliberations
- To apply obedience to the law of the governance documents, a duty of care and loyalty to the organization

POLICY AND PLANNING:

- To participate in the development and establishment of policies through which the work of the organization is accomplished
- To suggest policy-related agenda items for meetings and ask timely and substantive questions, while supporting the majority decision on matters decided by the board

[31] New York Council of Nonprofits. *Board Development Resource Packet.* 2015. http://www.nyc.gov/html/mocs/downloads/pdf/nonprofit_help/05_NYCON%20Board%20Resource%20Packet.pdf.

- To help ensure effective organizational planning by reviewing, critiquing and approving annual budgets and work plans, as well as long-range plans
- To identify changing consumer, constituency and stakeholder interest and build stakeholder investment

FINANCES:

- To ensure the organization's long-term financial stability and integrity
- To adopt an annual budget that is financially responsible
- To ensure that periodic audits of the organization's finances are conducted and otherwise assist the Board to fulfill its fiduciary responsibility

DEVELOPMENT:

- To make every effort to ensure that the organization has the resources to meet current and long-term financial solvency
- To make a financial gift to the organization that is personally significant
- To understand and support the organization's fund development efforts, even if you are not expected to ask for funds yourself
- To use every opportunity to heighten the profile of the organization in the community and to its members/constituents

INTEGRITY:

- To maintain independence and objectivity and serve with a sense of ethics and personal integrity
- To fully disclose, at the earliest opportunity, information that may result in a perceived or actual conflict of interest; or information of fact that would have significance in board decision-making
- To exercise the powers invested for the good of all members of the organization, or of the entity you represent, rather than for personal benefit
- To respect the confidentiality of sensitive information known due to board service
- To respect the diversity of opinions as expressed or acted upon by the board, its committees and membership, and formally register dissent as appropriate
- To promote collaboration, cooperation, and partnership among the board, staff, and members

SELF-ASSESSMENT:

- To participate in the board's periodic assessment of its own performance and recommend improvement in such areas as composition, organization, tenure, retention, and responsibilities.

Sample Position Description: Board President

The President of the Corporation is the chairperson for the board of directors who:

- Serves as the chief volunteer officer of the organization
- Is the only person authorized to speak for the board except for the executive director, other than in specifically authorized materials
- Ensures that the board behaves consistently with legal and contractual obligations and the bylaws
- Provides leadership to the board of directors, who set policy and to whom the executive director is accountable
- Acts as a liaison between the board and executive director
- Chairs meetings of the board with all the commonly accepted powers of the position
- Encourages board participation in strategic planning
- Appoints directors to committees and chairpersons of committees in consultation with the executive director
- Delegates responsibility to other board members such as committee chairs
- Serves ex-officio as member of all governance committees and attends their meetings when possible
- Discusses issues confronting the organization with the executive director
- Reviews with the executive director any issues of concern to the board
- Monitors financial planning and financial reports
- Helps guide and mediate board actions with respect to organizational priorities and governance concerns
- Participates in the evaluation of the performance of the executive director and informally evaluates the effectiveness of board members
- Recognizes good performance of board members
- Recognizes performance of the executive director, evaluates the board's effectiveness (objectivity in making decisions, willingness to take action, and influence to carry out the mission.)
- Evaluates the board informally by observing what is happening in the organization, assessing the committee chairs, monitoring relations with other organizations, sounding out public opinion
- Self-evaluates his/her own performance and shares with Executive Committee
- Addresses performance and/or conflict of interest problems with board directors
- Accepts other appropriate board leadership duties, as directed by the board

Desirable Qualifications:

- Vision – broad, overall image of the agency's operations
- Generalist approach to the organization
- Impartial attitude
- Caring nature
- Strong leadership skills
- Ability to facilitate
- Working knowledge of Robert's Rules of Order

Sample Position Description: Board Vice-President

- Shall have all of the powers and functions of the president in the absence of the chief volunteer officer
- Be a "President-Elect" and shall succeed the chairperson of the board when appropriate
- Shall have signatory authority for cash transactions or other official agency reports
- Perform other appropriate duties as requested by the board or chairperson of the board
- Sometimes helps to support committee functioning and leadership

Sample Position Description: Secretary

- Perform or oversee documentation for activities of the board
- Assure that all documentation of corporate activities is managed in an appropriate manner
- Have custody of all records and reports of the corporation
- Perform or delegate to staff and assure the following:
    - Creating and mailing agendas for all meetings of the board
    - Keeping and reporting of complete and accurate minutes of all meetings of the board and all unanimous written consents executed by board members
    - Knowing and advising the board on Robert's Rules of Order
- Serves on the Executive Committee
- Perform such other duties as pertain to the office or as may be prescribed by the board
- Ensure that all board candidates and board members submit conflict of interest disclosure forms and disseminate them to either the president or the chair of the Audit Committee

Desirable Qualifications:

- Good communication skills, especially written
- Experience with minutes (ability to participate in a meeting and record at the same time)
- Strong filing and organizational skills
- Notary

Sample Position Description: Treasurer

- Oversee all financial activities of the corporation and, as an independent board member, act as the chairperson of the Finance Committee that reviews all financial matters
- Assure that all financial matters are managed in an appropriate manner
- Oversee management custody of all funds and securities of the corporation
- Perform or delegate to staff the preparation of the following:
    - Maintaining full and accurate accounts of receipts and disbursements in the corporate books (Records of financial transactions shall be retained for eight years from the date of transaction)
    - Depositing all money and other valuables in the name and to the credit of the corporation in such depositories as may be designated by the board
    - Disbursing the funds of the Corporation as may be ordered or authorized by board and preserve proper vouchers for such disbursements

    - Rendering to the chairperson and the board at the regular meetings of the board, or whenever they require it, an account of his/her transactions as treasurer and of the financial condition of the Corporation
    - Rendering a full financial report at the annual meeting of the board
    - Being furnished by all corporate officers and agents at his/her request with such reports and statements as s/he may require regarding the financial transactions of the corporation
    - Acting with the Finance Committee, see that a true and accurate accounting of the financial transactions of the corporation is made, that reports of such transactions are presented to the board, and that all expenditures are made to the best possible advantage
    - Performing other duties as are given to him/her by these Bylaws or as from time to time are assigned to him/her by the board or chairperson
- Serves on the Executive Committee and all other finance-related committees as determined appropriate

Desirable Qualifications:

- Accounting and financial management knowledge
- Skill in assessing financial position
- Ability to separate the overall financial picture from detail-oriented day-to-day operational issues and to focus on the overall financial picture

SECTION V: BOARD ASSESSMENT

Summary

Board Assessments are crucial to understand gaps within your board. This section will offer insight into best practices and templates for conducting the assessments, as well as guidance on recruitment and engagement.

Best Practices

Conduct an Annual Self-Assessment

Board assessments can serve as useful tools in creating actionable board improvement plans. As a best practice, organizations are encouraged to undergo a board self-assessment process during their strategic planning process. This usually only happens every three years, so it is also recommended to engage in an annual board self-assessment process. Doing this every year ensures that board members can celebrate the areas they excel in and work on their areas of weaknesses. The assessment should be sent to each board member and have a participation rate of at least 80 percent. A common purpose of board assessments includes incorporating the results in the agenda of upcoming board retreats. The retreats are most successful when done separate from a regular board meeting and led by an external facilitator.

While committee work is certainly part of larger board work, it is imperative to commit to a self-evaluation process specifically for committees. This is to be completed annually at the end of each year and tailored to each board committee. This process is a forum for committee members to reflect and give feedback on their experiences. These questionnaires can be a huge help in enhancing the effectiveness of the committee. Questions should be tailored to uncover the strengths and weaknesses so that responses can inform action plans for improvements with items like committee charters and board member scorecards.

Board Recruiting and Selection/Acceptance

Board recruitment is a critical board responsibility and is an ongoing committee function. While the Board Development Committee often leads this effort, it falls on the entire board's shoulders to ensure that there is a pipeline of eligible and deserving individuals to fill board seats. This is a year-round process that includes prospecting, contacting, recruiting, orienting, supporting, training, evaluating, and assessing potential and new board members.

Best Practices

Job Descriptions for Board Members

To begin, it is imperative that potential board members, as well as existing board members, have a clear understanding of their roles and responsibilities. The foundation of this understanding can be laid forth in a written board member job description. The job description should include board member duties, rewards and benefits of serving as a director and should always highlight the

mission and values of the organization. In addition, this description can be used as a recruitment tool as well as a point of discussion during annual assessments. Knowing roles and responsibilities is key to building and cultivating a well-functioning board.

Analyze the Landscape

Prior to engaging in a board recruitment strategy, it is helpful to assess the current board landscape. In this sense, board members can be made aware of skills, expertise, resources, connections, and attributes needed on the board. Often, this information can be gathered by completing a board matrix or even a SWOT analysis. Insights gained after completing one of these activities can help identify prospects as well as current members who should continue on the board. Board recruitment should always fold into the organizational priorities for the next few years. Additional factors to always consider are the organization's mission and vision.

Invitation for Applications

Once prospects are identified, the board development committee will invite these candidates to apply for a board member position. It is also best practice to invite the prospect to a site visit and see programs in action. Applications should be reviewed thoroughly and with the skill sets needed kept in mind. Ideally, the prospect meets with the executive director and one to two members of the board Governance/Nominating Committee. Following the interview, the committee should provide follow-up information to the full board on all prospects they will be recommending to join the board. Those who will not be invited should also be reviewed with key points on why this decision was made. In the next board meeting, formal nominations can be presented for a vote.

In addition to the onboarding process, it is critical to announce board appointments in publications identified by the new board member, as well as to funders and major donors of the organization.

Letter of Agreement

The letter of agreement explains the roles and expectations of an individual board member. It explains both the commitment that the board member has to the organization and the organization's commitment to him/her.

Board Engagement

Once a new board member has officially joined the board of directors, it's important to keep him/her engaged. Board members are often very busy with their career and family.

Best Practices

Onboarding and Orientation

The onboarding process of a newly elected board member is the foundation of their tenure at the organization. Onboarding should include:

- another program site visit so that the newly elected board member can deepen their connection to the mission
- thoughtful preparation for the board orientation determined by the board chair and board development committee
- distribution of the board member handbook
- assignment of immediate tasks by joining 1-2 committees
- ongoing support and training

Board chairs should touch base with new board members after their first board meeting and within six months of the new director joining.

Annual Calendar

The annual calendar lays out all the board meetings and committee meetings, as well as other engagement opportunities such as site visits, cultivation events and fundraisers. This should be sent to all board members at the top of the year to allow for board members to prioritize the meetings. Board members should conduct a program site visit at least once a year to connect with the programs and better understand its impact.

Board Buddies

Boards may also find it useful to develop a board "buddy" system, pairing experienced board members with newly elected members. This will allow new members to see firsthand the actions of a participative and active board member. Issues and successes can be captured and discussed through a self-assessment at the end of the first year of the board member, during an annual board retreat, and even during a mid-year meeting.

Term Limits

Board tenure should be managed through term limits. Board directorship is not a life time appointment and new members can help bring new life to the organization and bring the organization forward. Organizations are encouraged to consistently express their gratitude for the volunteerism of current and past board members, but not expect these individuals to stay on the board beyond term limits. Term limits can serve as a recruitment tool, engage those on the board who want to remain committed and honor those whose tenures have come to an end. This is especially important for officers' positions so that leadership on the board stays dynamic and current with the organization's needs. Term limits should be 2-3 years with the option to re-up 2-3 times.

Board Recognition

Nonprofit board members contribute their time, passion, expertise, networks, and finances to nonprofit organizations and they receive no financial rewards in return. A board recognition program is an important tool to demonstrate the appreciation that nonprofit organizations have for the board members' leadership and dedication. The recognition program could create systems to publicly recognize and thank board members, and introduce them to national programs to augment their board leadership skills.

Recognizing board members' accomplishments and commitment to the organization would have an impact beyond the initial honor of recognition. The recognition would also result in greater retention and a deeper excitement about and commitment to the organization, as board members understand the difference that the work has made to the organization as a whole.

Overview and Best Practices

Communicate Your Gratitude

When board members provide important contributions—whether helping out at an event, providing counsel on important organizational issues, or doing anything else extraordinary—thank them. Whether in person, on the phone, or in an email, showing your appreciation is important.

Recognize Your Board Members

When you publish printed materials, such as annual reports, brochures, or other organizational materials, list the names of your board members. You can also nominate them for recognition outside the organization. At the end of their terms, you can also present them with certificates honoring their service to the organization.

The "About Us" section of nonprofit websites provides a perfect platform for prominently listing your board members and giving visitors background information highlighting their experience and areas of expertise.

SECTION V: RESOURCES

Sample Board Member Scorecard[32]

[ORGANIZATION NAME]
Board of Directors Scorecard

Summary of Activities		
Name and Current Position (e.g., Treasurer; ___ Committee Chair):		Member since:
Term ends:		Eligible for re-election?
Committee Memberships	Committee(s)	
_____ *(enter current year)*		
_____ *(enter previous year)*		
_____ *(enter additional, prior year)*		
Participation and Contribution	**Current Year**	**Previous Year**
• Board meeting attendance:	_____ Number or % (e.g., 3 out of 4 or 75%)	_____ Number or % (e.g., 3 out of 4 or 75%)
• Committee meeting attendance:	_____ Number or % (e.g., 3 out of 4 or 75%)	_____ Number or % (e.g., 3 out of 4 or 75%)
• Total Annual Giving:		
• Getting:		
• Committee Participation beyond meeting attendance:		
• Event participation:		
• Other Service (including in-kind):		
Stated goals for Upcoming Year:		
Additional Comments		

[32] Source: Adapted from The Nonprofit Coordinating Committee of New York, Inc. (NPCC) Modified from Executive Director Richard Berlin, Harlem RBI, New York, NY as reprinted in *Board & Administrator.* April 2006 Vol. 22, No. 8

Sample Board Member Contract

- Kim Klein. *Recruiting Better Board Members*. Grassroots Fundraising Journal and Greenlights For Nonprofit Success, www.greenlights.org. Found at: http://www.adelphi.edu/wp-content/blogs.dir/91/files/2012/09/boardmembercontract.pdf?t=1347912985-74862.

Other Resources

- National Council of Nonprofits. *Self-Assessments for Nonprofit Boards.* https://www.councilofnonprofits.org/tools-resources/self-assessments-nonprofit-boards

SECTION VI: COMMON BOARD PROBLEMS AND SOLUTIONS

Summary

There are a number of common board problems that may develop in the early years of an organization's life cycle, but become counterproductive to organizations that are operating at a larger scale and need a different style of governance. Organizations often struggle to manage this shift in expectations without offending long-time board members and community members. Board development and strategic planning are best practices because they can keep the organization from these common board problems.

This section will discuss:

- Conflicts of Interest
- Founder's Syndrome
- Unengaged Board Members
- Fear of Finances and Fundraising
- Micro-Management Instead of Strategic Monitoring
- Lack of Investment in Organizational Development to Support Growth
- Mission Creep

Conflicts of Interest

Potential conflicts of interest include a board member related to an employee, an employee or board member with a relationship to an outside vendor, or a familial relationship between employees. All nonprofit organizations incorporated in New York State are now legally obligated to adopt a conflict of interest policy to guide decision making when such a conflict exists.

The consequences of conflicts can be severe, as they expose an organization's assets to significant risk. For example, an investigation of a nonprofit organization in Brooklyn found that the Fiscal Director and the Information and Technology Director were sisters. The computer consultant for the nonprofit and the Fiscal Director were also close friends. Moreover, the wife of the nonprofit's Chairman of the Board was a consultant to the nonprofit for fundraising events. These individuals colluded in fiscal improprieties arising from their close relationships, which resulted in criminal convictions and the defunding of the organization.

Best practices that can ensure decisions are made in the best interest of the organization and prevent employee mistrust, collusion, and theft, include the following:

- Establish a disclosure policy requiring that all conflicts of interest be disclosed to an independent committee of the board of directors and any transaction that is being considered with a related party (any salary decision or award of a vendor contract) must be voted on by all independent members of the board after a thorough discussion and consideration based on comparable options and the board's independent determination that the transaction is in the best interest of the organization without the participation or vote of the interested board member.

- Require written job descriptions for all positions. The qualifications written into these job descriptions must be fulfilled when making hiring, retention, and promotion decisions.
- Conduct regular performance evaluations of all employees, and establish a clear written policy and procedure for the consequences of both positive and negative employee performances.
- Do not allow employees to manage their relatives, and if there is a board member who is related to an employee, they should not participate in salary decisions or performance evaluations. (City contracts prohibit nonprofit vendors from hiring the relatives of board members.)

Founder's Syndrome

Founders that remain involved with a nonprofit exert an enormous amount of control over the organization. They may be the chief staff person who recruited their friends and family to make up the board, or they may be the board chair of a group of officers who were there from the beginning. Other board members often defer to the founder or founders on strategic decisions about the future of the organization and trust their judgment and vision to carry the organization forward. This is not a sustainable way to govern and leads to problems when the organization gets larger than is possible for one person to manage and nurture by themselves.

For example, an organization providing senior services in Queens and the Bronx had grown to manage seven centers, and the founder had been the chief staff officer for over 30 years. She had not built a strong independent board but instead recruited community members who supported and trusted her, and she didn't ask her board to take on a leadership role. This lack of balance with the management function led to allegation of impropriety and an investigation that found the board was not monitoring the organization and its founder appropriately. Financial health has suffered with several years of late audits, delayed contracts, and cash flow difficulties. The best-case scenario is a merger with a larger organization, so services can continue.

Best practices to ensure sustainability and a healthy balance of responsibilities between leadership and management include:

- Regular, written evaluations of the chief staff person.
- Transition planning to envision a future without the founder and plan to fill the position in a way that best serves the organization.
- Develop leadership of the board so members provide an adequate level of oversight and can act as a counterpoint to the founder.
- Support staff professional development and pay attention to the leadership pipeline.

Unengaged Board Members

Board members who do not come to meetings, return calls, or give a significant donation give no indication they want to serve on the board. This is toxic to board culture and should be addressed by the board chair with a conversation or in writing if the person cannot make time to speak. If one member is chronically absent with no consequences, others may do the same. It is important to develop a set of expectations that board members can agree to and then be accountable to their peers for fulfilling. If board members are not willing to meet those expectations then they should

be shown the gap between their actions and the expectations and potentially asked to resign from the board if they are not willing to improve.

If board members are only partially disengaged but have valuable assets to contribute (time, talent, and treasure), other leaders in the organization should try to learn why board members are not participating. It may be that the group doesn't have a great dynamic and perhaps needs more opportunities for social engagement. It may be that the meetings are boring—an agenda that is disconnected from the mission and doesn't provide stories of the organization's impact will not be very engaging. It may be that the board is not being asked to take responsibility for decision-making and fundraising efforts. If there is no expectation of the board's participation, then human nature will lead board members to think they are not needed.

For example, the chief staff person of a large senior services organization invited people to join the board who lacked the required expertise to provide oversight of a large, complex organization. They were paid to attend board meetings and signed whatever the founder asked them to sign, including approvals of large raises for the executive staff. The raises triggered an investigation, which uncovered fraud and malfeasance. Many of the board members were ultimately removed by the organization's government funders and the executive director was convicted of criminal contempt charges.

Best practices to engage board members:

- Set expectations for board members when they join the board, such as meeting attendance, committee membership, time commitment, and financial commitment, and annually reiterate those expectations. The board chair should hold members accountable for meeting board expectations.
- When recruiting new board members, let them know from the start that they will be expected to volunteer their time on behalf of the organization outside of meetings.
- When a board member is not meeting expectations, the board chair should reach out to the member to identify any problems and ask the member to resign if necessary.
- Provide training and other board development activities to the board so they understand their fiduciary duties and are prepared to fulfill them.
- Create a board development plan to identify the needs of the board and how to fulfill them, such as training, adding new members, or instituting term limits.

Fear of Finances and Fundraising

There are many board members who have an aversion to the financial oversight and resource development responsibilities of board service. Organizations should provide a lot of support for board members who are intimidated by numbers, including external training and coaching by another board member who has more experience. Fundraising is something that board members can ease into with support from staff and other board members. The board should practice describing the work of the organization in a succinct elevator pitch. Board members can come along to meetings with existing funders and listen to others pitch.

For example, the board of a community based organization with several City contracts was relying on the fiscal director's analysis of the organization's financial condition, as neither the board nor the executive director had the expertise to do their own analysis. The fiscal director did

not have an adequate understanding of nonprofit finances and funding restrictions, and as a result, the organization was misallocating revenues and underspending on its contracts and faced both negative cash flow and potentially a deficit if money is recouped. The board accepted the fiscal director's assurances that the financial condition was fine and did not understand the severity of the auditor's going concern note in the audit. The organization continues to face financial difficulties because the board does not understand the precariousness of the organization's financial position.

Best practices to overcome fear of finances and fundraising:

- Provide training in fiscal oversight and fundraising for the board.
- Create a financial dashboard for board members with easy-to-understand reports on the organization's finances. The dashboard should be the same for each board meeting and include at least a budget vs. actual report, profit and loss statement, and cash flow projection.
- Conduct a needs assessment for the organization and connect those needs to the mission.
- Create a fundraising plan and obtain board commitment to implement the plan.

Micro-Management Instead of Strategic Monitoring

Some boards are used to having a dominant role and spending their meetings dealing with staff issues and budget minutiae. While this situation may not be the worst problem to have, the risk to the organization is that the micro-managing board will handle an HR issue badly, exposing the organization to risk, and there are certainly opportunity costs to using the board's time in this way. If boards are not doing the strategic visioning for the organization then no one else is. If the organization doesn't have a vision for its role in the world, it is very likely that bumps in the road will be difficult to navigate.

Many day care sponsor boards have difficulty delegating management to staff. The board initially organized to provide a community based day care, and even though the organization has been running well for many years, they are unable to step back from management to play a more strategic role. The board meets monthly, and the meetings are dominated by discussions of contract requirements, personnel issues, and other day-to-day minutiae, instead of bigger-picture discussions of finances, organizational development, and plans for the future. This is a missed opportunity to have an engaged staff person developing a vision and plan for the organization's future.

Best practices to move the board into a more strategic role:

- Send written reports in advance of meetings to inform board members of the details and spend meetings discussing strategic questions for the organization.
- Evaluate current policies and discuss them with the board. Engage a committee of the board to address policy development so that the board can delegate implementation to the staff.
- Embark on a strategic planning process.

Lack of Investment in Organizational Development to Support Growth

Boards that do not fundraise and invest in organizational development and infrastructure as an organization grows are creating hollow organizations that will not be able to sustain their operations. Systems for managing records, accounting systems to track restricted revenues and report on those revenues, IT networking to support communication, human resources staff to adhere to personnel policies, the appropriate level of legal resources, and client outcome tracking are all critical systems for an impactful organization.

For example, a family-serving organization in Upper Manhattan that grew from being a small, community based organization to a large, multi-service organization with a $250 million annual budget took on large government programs without the infrastructure to support them. They also created several related companies and merged with other organizations to grow, but did not end these relationships when they began losing money. The organization's accounting systems did not adequately track their finances, and they did not realize how large their debts were until it was too late. The organization ultimately ceased operating and their programs were transferred to other providers.

Best practices to invest in infrastructure as your organization grows:

- The board should decide when and how the organization should grow, if at all.
- Evaluate programs regularly to ensure they are effective and fully funded. If they are not fully funded, the board should decide if they are effective, needed, and central to the organization's core mission, and, if so, should ensure there are adequate direct and indirect funds secured to continue the program.
- If IT or accounting systems are not serving the organization's needs, the organization should invest in them. This can be expensive, so the board should raise money for new systems or consider temporarily halting growth to divert resources to infrastructure. This may mean serving fewer clients in the short term, but in the long term, the organization will serve more clients more effectively.
- More staff can lead to more personnel issues. Hire a director of human resources and evaluate HR policies to keep them current with the changing staff profile.

Mission Creep

Part of the board's fiduciary duty is to ensure that assets are used in service of the mission that the organization exists to pursue (stated in the organization's incorporation papers). While some new programs may be within the legal bounds of an organization's certificate of incorporation, they may divert resources to a program that the organization doesn't have expertise in or that doesn't connect to the programs that are core to the mission. Mission creep generally happens in an organization that has not done strategic planning and doesn't have a set of values to use to evaluate program decisions.

For example, after Hurricane Sandy, many organizations jumped into action to help their communities. They provided food, shelter, and other services to people who had lost their homes to flooding. In many cases, however, providing these services was not in the scope of the

organization's purpose as stated in their certificate of incorporation. As a result, FEMA refused to reimburse them for the expenses incurred during the relief efforts.

Best practices to avoid mission creep:

- Review the organization's corporate documents before adding new programs and discuss expansion with the board.
- If the board wants to add a new program that is not in line with the corporate documents, file a change with the authorities.
- Evaluate decisions to add, cut, grow, or shrink operations with a decision tree and knowledge of the full cost of running a successful program.