

GOOD PRACTICES

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Good Practices for Good Governance

RIORDAN VOLUNTEER LEADERSHIP DEVELOPMENT PROGRAM

Good governance is the cornerstone of a well-run nonprofit organization. However, even seasoned nonprofit veterans can be unclear on the proper role of a board of directors; the range of duties and responsibilities—fiduciary, legal, and other—entrusted in board members; and the importance of board development. With 15 years experience training young executives for nonprofit governance in the greater Los Angeles region, the Riordan Volunteer Leadership Development Program (RVLDP), shares its expertise, tips, and resources with Southern California nonprofit leaders.





ORGANIZATION PROFILE

Formally a part of the Los Angeles Junior Chamber of Commerce, the Riordan Volunteer Leadership Development Program (RVLDP) was founded in early 1990 as a collaboration with Coro Southern California and The United Way of Greater Los Angeles to train young professionals for volunteer service on nonprofit boards. Participants in the program are required to complete a 10-month course curriculum as well as an internship on a board of directors or a committee of the board. Training topics include financial management, fundraising, human resources, strategic planning, and board development. Today with 15 years experience in the field of nonprofit governance and board development and more than 650 alumni, approximately 65 to 70 percent of whom are actively serving on either nonprofit boards or committees in the greater Los Angeles area, RVLDP has earned its wings as an authority on governance and board development and as an important resource to Southern California nonprofit organizations.



THE CHALLENGE

Clothes The Deal, a small nonprofit organization, has been providing high-quality, recycled business clothing to job training programs throughout Southern California since 1996. When its Board of Directors found themselves confronted by a host of daunting challenges—a social enterprise that was draining resources, serious financial and accounting problems, and a struggling board split over how to move forward—they called in the Riordan Volunteer Leadership Development Program (RVLDP) for help. Acting as a skilled matchmaker, RVLDP

matched the nonprofit with three of its capable interns to help them with accounting, database management, and marketing. Four years later, with the help of RVLDP, Clothes The Deal is operating in the black again, has secured a steady source of income, and has reorganized its board of directors, inviting one of its RVLDP interns to join its board.

1 THE RESOURCE

RVLDP was founded by former Mayor Richard Riordan in the early 1990s. “Before he became mayor, Richard Riordan noticed that while young professionals were volunteering, they weren’t volunteering for leadership roles in the nonprofit sector,” according to Richard Diaz, Director of RVLDP. “He saw a need to cultivate, develop, and specially train these young professionals for lifelong service on nonprofit boards.” To fill this leadership vacuum, Coro, The United Way, and Los Angeles Junior Chamber of Commerce developed RVLDP with funding from the Riordan Foundation.

Incoming participants vary in age and experience, come from a range of backgrounds, and bring a variety of skills to the program and internship. For the past 15 years, Southern California nonprofit organizations, like Clothes The Deal, have tapped the expertise and talents of these RVLDP interns for special projects, to serve as “consultants” addressing specific challenges, and as prospective board members.

2 THE ROLE OF A BOARD: A MACRO APPROACH

According to RVLDP, the key to effective governance is a board of directors that understands its proper function. The ideal board should serve as a policy maker for the organization. “Admittedly, the lines do start to blur with very

small organizations that rely on board members to help manage or run the organization,” says Diaz. “As well, with really large organizations, such as the Red Cross, their governance structure is built around committees.” However, he says while size does play a role, “in general boards should develop and set policies—fiscal, legal, personnel, etc.— so the organization can manage itself.” He adds, “Boards are too often reactive rather than strategic. They should be policy driven.”

Diaz recommends that organizations consider using the Carver model of governance,¹ which requires that organizational policy be directed by the board and executed by the executive director. Where do boards most often get into trouble? “When they get into the operational part of the organization. The executive director should be in charge of operations. And no micromanaging by the board,” says Diaz. “What you see a lot is board members talking to staff members about the executive director and about what is going on in the organization. For the most part, this isn’t appropriate.” An organization’s personnel policies, which the board should establish, should clearly state lines of authority as well as establish a distance between staff and the board.

Another common area of trouble is the complex, and frequently thorny, relationship between the chief executive and the board chair. Diaz says the root of many problems between executive directors and board presidents is often just plain communication. “I’ve seen more problems arise between board chairs and ED’s due to a lack of communication.” Diaz, who is designing a training on chief executive / chairperson relationships, encourages board chairs to keep open lines of communication with their executive directors and to clarify their roles from the

outset. “It really is a partnership, and for the organization to run smoothly they need to work together.”

3 RESPONSIBILITIES OF A BOARD OF DIRECTORS

A nonprofit board of directors should develop an organization’s mission statement, periodically review and revise the mission, articulate the mission to the public to garner support, and ensure that programs are consistent with the organization’s mission. According to Diaz, “If a board member always keeps the mission in the back of his or her mind, it really helps them to focus on the big picture and avoid micromanaging.”

Boards also hire, fire, and evaluate the chief executive as well as recruit and orient new board members and evaluate board performance. The board should play a supporting role to the executive director, ensuring that he or she has the tools and support needed to achieve organizational objectives. Closely related to this, boards need to actively participate in the strategic planning process. “Strategic planning is a partnership with the board taking the lead and the Executive Director managing the process,” says Diaz. Jointly they identify the planning process, senior management manages that process, the board approves the strategic plan, and then the staff operationalizes it. RVLDP recommends that a strategic plan be reviewed every year, with a new plan developed about every three years.

Financial oversight and ensuring legal and ethical integrity also fall under the purview of the board. A nonprofit board should assist in the development of the organization’s annual budget, approve the budget, review financial statements, and ensure that financial safeguards are in place. One of the trainings that the RVLDP does for participants is an in-depth

session on finances, including teaching program participants how to read financial statements. “You would be surprised, even some of our professionals with backgrounds in banking have a difficult time reading nonprofit financial statements,” says Diaz. “Our trainer educates the participants on what to look for and goes through a whole list of red flags to watch out for on financial statements.”

In terms of legal responsibilities, board members, as stewards of the nonprofit organization and public trust, must meet certain standards of conduct often described as the duty of care, the duty of loyalty and the duty of obedience. The duty of care requires a board member to exercise prudent and reasonable judgment in his or her decisions (the due diligence standard) related to the organization. The duty of loyalty mandates that board members act in the best interest of the agency, avoid conflicts of interest, and not use their position as trustees for personal gain. And the duty of obedience is the standard of public trust requiring the board member to manage donated funds in a way that is faithful to the nonprofit’s mission and in compliance with all laws and regulations.

4 **BOARDS AND FUNDRAISING**

As a general rule, boards play a vital role in fundraising. However, Diaz points out that while one of the primary functions of a board is to ensure that an organization has adequate resources to carry out its work, fundraising technically falls under operations, rather than governance. This is most evident in large nonprofit organizations, like the United Way, which have entire departments devoted to fundraising under the direction of the chief executive, and where the board plays a minimal role in fundraising. “Fundraising may be the exception to

the governance rule for boards,” says Diaz. Exactly where the responsibility to fundraise falls, depends on an agency’s development capacity. If a nonprofit is lacking in this area internally, then fundraising becomes one of the key responsibilities of the board of directors.”

Diaz recommends that organizations implement a “give or get policy” with board members, requiring that they either raise a set amount of funds themselves (sell tables at an event, identify individual or institutional donors, etc.) or make an annual contribution. “I feel very strongly that a board member needs to contribute to an organization financially. It encourages board members to be more active.” While the money raised by a “give or get policy” will never be enough to keep the organization afloat, Diaz believes it demonstrates a board member’s commitment to the organization.

Diaz also suggests that boards develop a reserve policy. “One of the other things we really emphasize is a good reserve policy. It’s important for nonprofits to have a reserve, given the nature of nonprofit finances.” Reserve funds are flexible funds from accrued surpluses that can be used to run the organization during down periods as well as used for gap funding. RVDLP emphasizes that boards need to develop a policy and set a reserve amount suitable for their organization and mission.

If a board of directors plans to create a fundraising board, or a “friends of” board, then RVDLP recommends that from the outset, they be aware of the tensions that can arise, and have a plan in place to manage these conflicts before they become an issue for the organization.

5 **TREASURE, TIME, AND TALENT**

One way of thinking about the responsibilities of individual board members is the three T’s

model: treasure, time and talent. This refers to the board member's personal financial contributions to the organization, his or her time and labor given to the agency, and the board member's expertise (e.g. an attorney, an accountant, etc.) Often overlooked, but key among these, according to Diaz, is time. "Attending meetings is essential. I'm working with a group right now that can't get a quorum," says Diaz. Still, it's about more than just showing up for meetings and events. "Board members need to be active participants: they need to ask questions, they should be informed about what is happening with their organization, they should understand the programs, and they should serve on committees or task forces."

In order to maximize participation and minimize burnout, it is important to respect the time of board members. Diaz says, "A lot of boards get hung up on long meetings. I'm a big advocate of consent agendas." With a consent agenda, prior to the meeting, the agenda, the minutes of the last meeting, and committee reports are sent to all of the members and are then approved as the first order of business. If a board member has an issue with a report, then he or she can bring it up at the beginning of the meeting. Adds Diaz: "It is a much more efficient way of getting boards to do their business."

While an executive committee and a finance committee are essential, Diaz believes that other tasks, for example an audit or an event, are better served by either an ad hoc committee or a task force than a standing committee. "A lot of boards establish standing committees for everything. If it is something that has a time limit, then it may be better to establish a task force rather than a permanent committee." What is more, committees and task forces serve another important function: they are an excellent way to

recruit new board members, which is another responsibility of board members. Inviting candidates to first join an ad hoc committee or task force can allow the individual to become familiar with the organization, while allowing the agency to assess the individual's "talent," and to see how the person makes decisions and works in a committee structure.

Who should an organization invite to join their board? The first step is to do an inventory of the expertise (or "talent"), diversity, and experience of those individuals currently serving on the board. "I recommend a matrix for board development. Board members need to look at who is on the board, and then assess organizational needs and where the deficits lie," says Diaz. In general a matrix includes categories such as legal, accounting, public relations, and human relations under affiliation, and a range of diverse demographics as well as gender. However Diaz cautions, "You shouldn't have an attorney just to have an attorney. There needs to be a fit between what the organization is looking for and what they hope to accomplish." He adds, "Diversity is really important. We make a concerted effort to train young professionals from diverse backgrounds and ethnicities in nonprofit governance. Boards need to value diversity more."

6 **GETTING THE BALANCE RIGHT**

Still, after working with hundreds of nonprofit boards over the past six years as Director of the Riordan Volunteer Leadership Development Program and as a board member himself, Diaz, the nonprofit veteran adds with a smile, "You know I still haven't come across the ideal board. It really is difficult to get the balance just right. I'm still looking."



GOOD PRACTICES For Development

- ① Consider using the Carver model of governance² as your rule of thumb: organizational policy should be directed by the board and executed by the executive director.
- ② Keep lines of communication open between the board president and the executive director. In order for the organization to run smoothly, the chairperson and chief executive need to work effectively together.
- ③ An excellent resource covering a range of issues from board responsibilities to board recruitment is Board Source (<http://www.boardsource.org>).
- ④ Consider a “Give or Get” policy, which requires that board members either raise a set amount of funds themselves or make an annual contribution.
- ⑤ Establish a reserve policy. Reserve funds are funds from accrued surpluses that can be used to run the agency during down periods and/or for gap funding.
- ⑥ Review strategic plans every year, and develop a new plan about every three years. A key planning resource for nonprofit boards is the Fieldstone Alliance’s Strategic Planning Workbook. (<http://www.fieldstonealliance.org>)
- ⑦ Opt for task forces or ad hoc committees rather than standing committees for things like audits or events. Ad hoc committees are also an excellent way to recruit new board members.
- ⑧ Create a board development matrix in order to inventory the talent, diversity, and experience of those individuals serving on the board. In general a matrix includes categories of expertise (such as legal, accounting, public relations, etc.), and a range of diverse demographics as well as gender.
- ⑨ Board members need to be active participants: they should be informed about what is happening with the organization, they should ask questions, they should understand the programs, and they should serve on committees.
- ⑩ You don’t need Roberts Rules of Order to run an efficient meeting: consider using consent agendas, which are sent to board members prior to the meeting along with the minutes of the last meeting and committee reports. As the first order of business, there is an opportunity for board members to raise questions or to make amendments to the documents, and then all are approved.

ENDNOTES. 1. Carver, John (1990). *Boards That Make a Difference: A New Design for Leadership in Nonprofit and Public Organizations*. San Francisco: Jossey Bass. 2. Ibid.

The Center for Civil Society is the focal point for the UCLA School of Public Affairs’ programs and activities in nonprofit leadership and management. “Good Practices for Good Governance” is one in a series of “good practices” of Southern California nonprofits developed by the Center for nonprofit practitioners and community leaders. These vignettes, covering a range of topics from governance to innovation to volunteer management, are available for download, free of charge, on the Center for Civil Society’s Web. Visit us online to read other Good Practices or to sign up for the next session of the Nonprofit Leadership Program. <http://www.spa.ucla.edu/ccs>