



What's the Difference between For-Profit and Non-Profit Boards?

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As we have worked with our Fellows to prepare them for governing board service, we are often asked to comment on the similarities and differences between For-Profit and Non-Profit Boards. Although a deeper analysis should be undertaken by those considering an appointment to either, this essay, as part of our on-line series supporting the Academy's work to encourage the appointment of nurses to boards, will provide a broad overview of the distinctions and similarities, and some beginning resources for those who wish to build their understanding. (See also previous INL essays, including: Wray, R [September 2016]. *Board Roles and Responsibilities: Before you say YES...Ask.*)

The **key differences** between the For-Profit and Non-Profit corporations is whether they govern entities that intend to create profits. **For-Profit** corporations are "owned" by shareholders to whom profits would ultimately accrue. These can be privately held companies or publicly traded companies, but the point is to create revenue that will be paid to the shareholders/owners. **Non-Profit** corporations engage in activities as outlined in their corporate charters. While they might produce income, that income will be used to sustain the corporation and not be distributed to shareholders/owners.

At their initiation, corporations file **articles of incorporation**, also known as a **corporate charter**, in accordance with state law. This document sets out the purpose of the corporation and declares its intended status as a For-Profit or Non-Profit corporation. Once formed, the corporation can apply for specific tax-exempt status from the Internal Revenue Service and the state. The specific Non-Profit tax exempt status, as defined by the IRS, is based on the nature of the activities in which the corporation intends to engage and the use to which it will put any funds earned from commercial operations or donations. For example, the **American Academy of Nursing**, was formed as a non-profit corporation under District of Columbia law and was granted tax-exempt status by the IRS as a charitable organization under Section 501 (c)(3) of the Internal Revenue Code. The Academy is permitted to educate and to raise and spend funds for charitable purposes. The Academy is greatly limited as to the amount of political activity in which it may engage on behalf of its interests. Non-Profits may have members (such as our Fellows) or other stakeholders (such as the prospective patients who live in the nearby community), but they do not have **shareholders** who expect a share in the corporation's financial success.

For-Profit corporations are expected to pay income, sales and property taxes and provide updates on their business practices, performance outcomes and financial status. Non-profit organizations can accept tax-deductible charitable donations; For-Profit organizations cannot. Generally, For-Profit boards offer compensation and expense reimbursement to their directors. Non-profits are allowed to offer board members expense reimbursement and even compensation, but if compensation is paid it must comply with IRS "reasonableness" standards.

The boards of For-Profit and Non-Profit entities **are similar** in many ways. Subject to state law, **corporations** - whether for-profit or not - are governed by boards of directors, whose responsibility includes overseeing the business affairs and operations of the corporation. These responsibilities were earlier described in an essay authored by [Rita Wray](#). The bias that For-Profit companies are "bad" and Non-Profit companies are "good" should be examined! The inherent value of any company must be evaluated against a set of standards/values – internal to the company or external. Many For-Profit companies are engaged in important work with high social impact. Similarly, Non-Profit companies can fail to live up to their responsibilities. The Board Members have a role in each scenario.

What do these differences mean for you? When considering an appointment to a board, ask some questions:

1. Does this board govern or advise?
2. Is the corporation For-Profit or Non-Profit?
3. Is there a charter that you can review? Are there other organizing documents? Bylaws?
4. What will be expected of you?
5. What will be offered to you in return for your service?
6. By what standards will the success of this company be valued?

Today there are resources that support your performance as a board member. Importantly, you need to know what is expected of you and whether that matches your own interests and skills. Use these resources and seek the counsel of those with more experience to help answer the questions you might have.

Resources

- Harris, D. (2014). Contemporary Issues in Healthcare Law and Ethics (4th Ed.). Chicago: Health Administration Press.
- How is a Nonprofit different from a For-Profit Business? <https://www.thebalance.com/how-is-a-nonprofit-different-from-for-profit-business-2502472> (Retrieved March 31, 2017).
- Jansen, P. & Kilpatrick, A. (2004). The dynamic nonprofit board. The McKinsey Quarterly. <http://www.mckinsey.com/industries/social-sector/our-insights/the-dynamic-nonprofit-board> (Retrieved March 31, 2017).
- Non-Profit Organization vs a For-Profit Organization. <http://smallbusiness.chron.com/non-profit-organization-vs-profit-organization-4150.html> (Retrieved March 31, 2017).
- Salmon, M. (2016). Putting nurses on governing boards: Time for an educational perspective. J of Professional Nursing 32, 393-395.
- Sarbanes Oxley Act https://en.wikipedia.org/wiki/Sarbanes%E2%80%93Oxley_Act (Retrieved March 31, 2017).