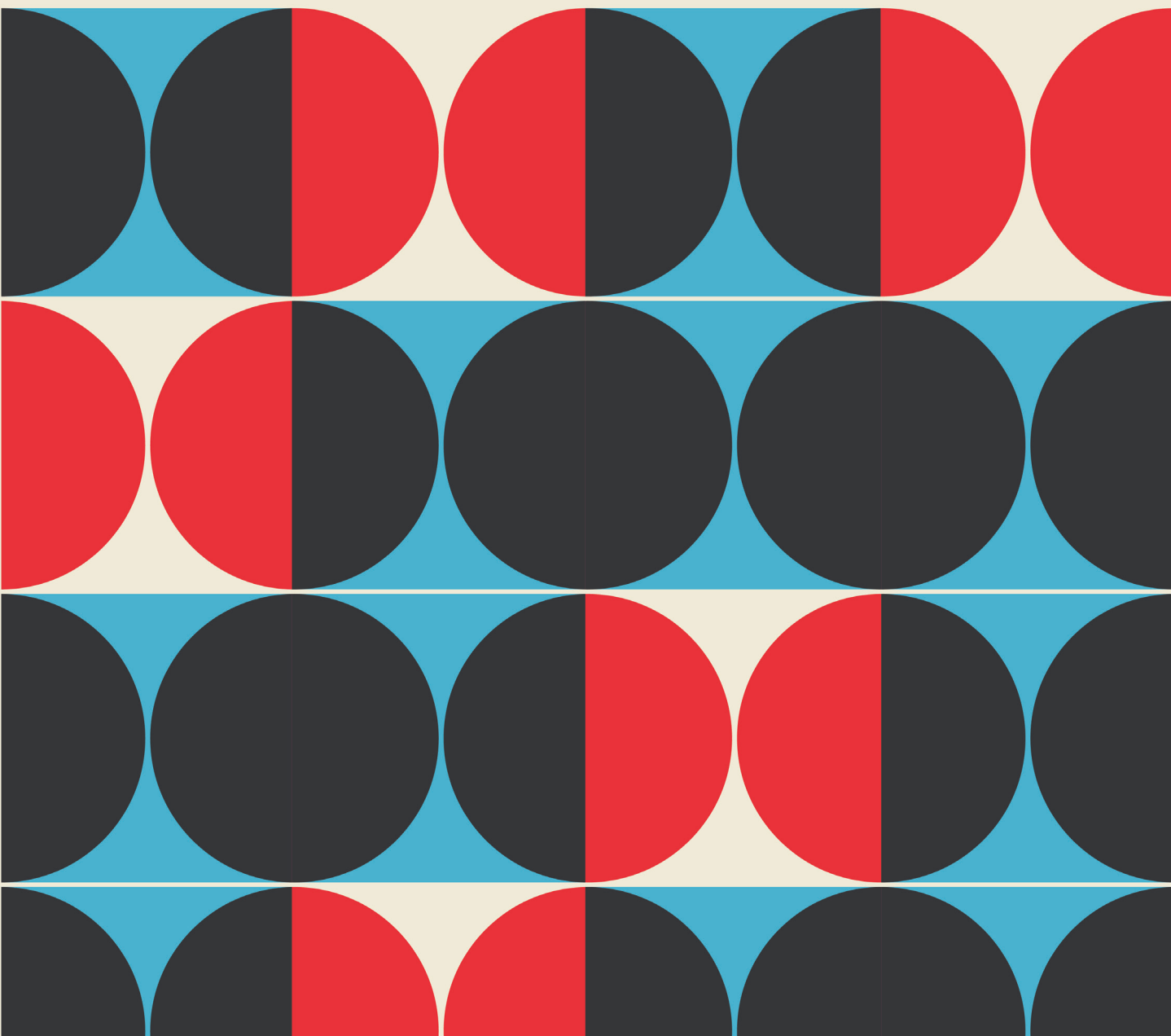


# Nonprofit Board Committees

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- Marla J. Bobowick, Sandra R. Hughes, and Berit M. Lakey, *Transforming Board Structure: Strategies for Committees and Task Forces*
- Berit M. Lakey, Sandra R. Hughes, and Outi Flynn, *Governance Committee*
- Mark Light, *Executive Committee*
- Thomas A. McLaughlin, *Financial Committees*
- Eugene R. Tempel, *Development Committee*
- Nancy R. Axelrod, *Advisory Councils*

# FOREWORD

Dear Nonprofit Leader,

The role of the nonprofit board is not a singular one. Boards — and board members — are responsible for a wide range of functions and leadership roles: hiring and partnering with the chief executive, defining the organization’s mission and purpose, engaging on strategy, providing financial oversight, and serving as external ambassadors in the community, to name just a few.

For most boards, fulfilling all of these roles requires a thoughtful and strategic approach to board committees. Committees enable boards to leverage the board’s time more efficiently by performing critical tasks and functions that require group — but not necessarily full board — engagement. Between board meetings, a committee can gain a deep understanding of a particular issue, in effect becoming the board’s expert in that area and freeing time for the full board to focus on important decisions and big-picture issues related to the organization’s mission, vision, and strategic priorities.

Not all committees work well, however. They can become ineffective and frustrating for both board and staff when there is a lack of board member participation or a clear purpose, or when they replicate the work of staff or draw the board into operational matters at the expense of strategic thinking. This is why BoardSource encourages every board to ask on a regular basis: Are our committees working? Or are they rooted in traditions that grew out of past necessity but have lost their relevance in today’s context? Are they helping or hindering the board?

BoardSource can be a partner to you as you answer these and other questions about your board’s leadership. It is our hope that *Nonprofit Board Committees* will help you develop and implement a committee structure that makes sense for you, and that enables you to fully leverage your board’s leadership in service to your organization’s mission. We know that the work you do is important, and, on behalf of all of us at BoardSource, I wish you great success.

Sincerely,

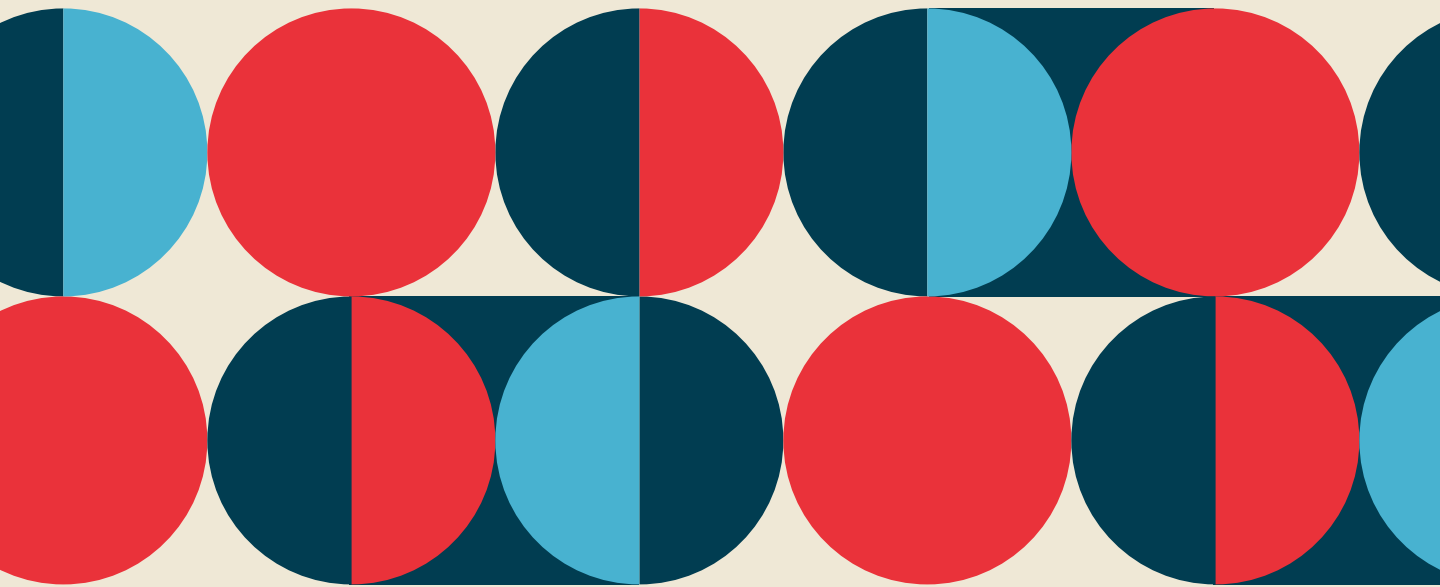


Anne Wallestad  
President & CEO  
BoardSource

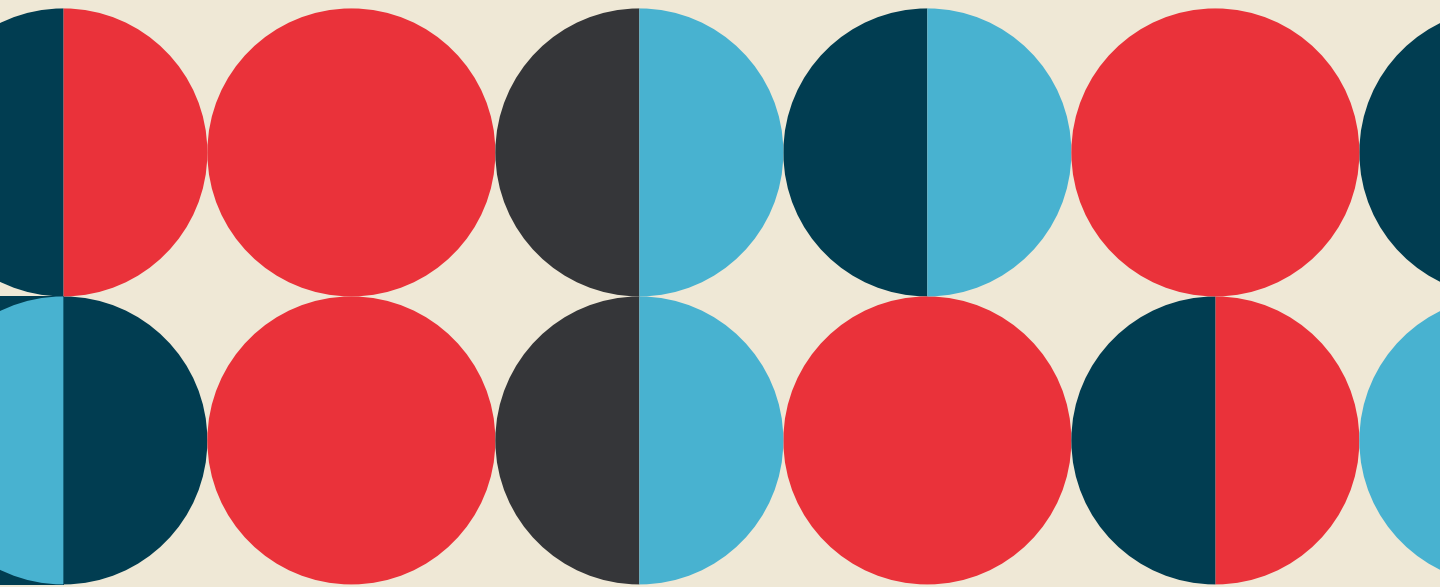


# Transforming Committee Structure

Nonprofit Board Committees // Chapter 1



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## INTRODUCTION

Every nonprofit strives to make a difference in the world and looks to its board to lead the way by planning for its future, safeguarding its fiscal health, and monitoring its programs to ensure mission impact. To accomplish this important work in bimonthly or quarterly meetings is difficult, however. To manage their responsibilities, most boards create standing committees to help manage ongoing board activities, task forces to manage time-limited assignments, and advisory groups to provide guidance and insight on particular issues. When used strategically, these smaller groups enable board members to perform critical tasks and functions, often between full board meetings, in an efficient and meaningful manner.

A committee or task force can gain a deep understanding of a particular issue, in effect becoming the board's experts in that area and freeing time for the full board to focus on important decisions and big-picture issues related to mission, vision, and priorities. Unlike the board as a whole, which has fiduciary responsibility for the organization and is legally liable for its activities, committees and task forces usually do not make organizational decisions. Their members do not carry liability, unlike members of the full board.

Committees and task forces can be as beneficial to the members of the board as they are to the organization as a whole. They give board members a chance to use their expertise and contribute to the board's work in ways they sometimes cannot do in regular meetings. They foster board-staff interaction and cooperation, and they strengthen the board's knowledge of matters that have a lasting impact on the organization. Committee work can also be a valuable way to identify and prepare future board leaders, as it provides opportunities for board members to develop and demonstrate their leadership potential.

Committee, task force, and advisory group work generally falls into four categories:

- **Board-delegated oversight** — A finance or investment committee drafts and proposes an investment policy to the board and supervises the work of an independent professional investment manager.
- **Implementation** — A development committee works closely with the chief executive — and development staff (if development staff exist) — to put an organization's development strategy into action.
- **Research and recommendation** — An executive evaluation and compensation task force oversees the chief executive's performance review, benchmarks the chief executive's salary and benefits against peer organizations of similar size, and brings its recommendations to the board for discussion and voting.
- **Representation** — An advisory group of constituents and community leaders provides valuable links to a cross-section of community partners as the board seeks to strengthen its advocacy strategy.

Committees are either *standing board committees* or *organizational committees*. Standing committees take on ongoing policy and strategic work and prepare the board for decision

making. These committees report to the board, and they are typically composed of board members. The finance committee, for example, ensures that the board has the information it needs to monitor the organization's financial health and safeguard its assets.

Organizational committees work on issues that are usually part of the staff's responsibility – programs or marketing, for example. In organizations without paid staff, these committees do the work that staff would perform in larger organizations, from financial management to program development. In organizations with paid staff, they generally have an advisory function, are composed of both board and staff members, and report to the staff. This requires careful attention to the distinction between board and staff roles (see pages 14 and 23).

How should a board structure its work groups? As with many organizational issues, there is no single right answer to this question. While BoardSource recommends a “lean” board structure, it depends on a variety of factors, the most important being what the organization needs to accomplish its mission. Board structures should not be static. As board and staff members, the organization, and the community around you change, so should your committees and task forces. The board, with support from the chief executive, is responsible for articulating the organization's needs, determining an appropriate board structure, implementing it, and evaluating its effectiveness.

This chapter presents a variety of approaches to organizing work groups and suggests a range of practical solutions to improve board structures. Nonprofit leaders must determine what makes sense for their organizations. Be creative in rethinking how your board might be organized, and be flexible in experimenting with different strategies.

### QUESTIONS ANSWERED IN THIS CHAPTER

- How does our board decide whether we need a committee, task force, or advisory group?
- Why is a balance of committees and task forces a good idea?
- What steps can we take to make sure our committee structure works well on the board's behalf?
- How do we choose committee members? Must they all be board members?
- Do committees need term limits?
- What's the difference between a committee meeting and a board meeting?
- How does a committee relate to the board, staff, and other committees?
- How do we assess the effectiveness of our committees?

## COMMITTEES, TASK FORCES, AND ADVISORY GROUPS

The board's committee structure should be lean and strategic and complemented by the use of task forces and advisory groups. Only ongoing board activities, such as financial oversight and board self-management, warrant a committee. Other activities are best addressed by time-limited task forces, which utilize board members' time, interest, and expertise in an efficient and meaningful manner, and advisory groups, which complement and enrich the board's work with guidance from non-board members on particular issues or topics.

**Committees** ensure consistency in certain board practices and can serve as organizational memory. While every organization has different needs, the most common committees are executive; finance or finance and audit; governance, nominating, or governance and nominating; and development. Boards generally have between four and five committees.

Each committee should have a clear and essential function that is aligned with appropriate board leadership roles and responsibilities. The governance committee is a good illustration of an ongoing, cyclical committee that has responsibility for a subset of the board's work. Besides identifying and nominating new board members, this committee focuses on board development, self-management, and effectiveness: determining governance needs, providing educational opportunities, and conducting board self-assessment. Having a smaller work group that can focus intently on these tasks ensures that overall governance effectiveness receives the ongoing attention it requires.

**Task forces** are designed to accomplish a specific objective within a specific time frame. When the work is done, the group disbands. Examples include a bylaws task force, tasked with reviewing the bylaws, or an executive search committee, tasked with leading the search for a new chief executive. Temporary work groups allow boards to tackle immediate issues like these quickly and efficiently without rethinking the whole committee structure or assignments. They also can offer board members opportunities to contribute their expertise in specialized areas. For example, a board member with experience planning meetings would be a valuable member of a special event task force. Each task force is unique, so the answers to questions about meeting frequency, membership, and size will vary.

**Advisory groups** provide advice and support to the organization and its board in the form of technical expertise or program assessment. Typical advisory groups focus on fundraising, advocacy, strategic communications, and liaison with constituents. Their members have no legal or formal responsibilities. Sometimes advisory groups for start-up organizations functioning under the fiscal sponsorship of another corporation serve as substitute boards without legal responsibilities.

An advisory group's role should be limited to making recommendations, providing background information for board or staff decisions, and listing the pros and cons of issues that need to be addressed. Advisory councils can be temporary or permanent, but this role should be defined up front and communicated clearly to group members. Advisory groups can serve as an introduction and orientation to the organization for prospective board members or can provide an opportunity for retiring board members to stay involved.

An organization has only one governing board, which must be distinguished from an advisory body. Possible names include advisory committee, advisory council, auxiliary council, council of experts, and sponsors or friends of the organization. For more about advisory groups, see Chapter 6.

Occasionally, a board might convene as a **committee of the whole** to focus on a particularly challenging and immediate topic or to engage all board members in a matter of great importance to the organization. This approach enables the board to operate in a less formal style that encourages open debate and discussion. For example, a board retreat framed as a strategic planning committee meeting of the board as a whole can be a highly effective way to launch a new planning process. Or addressing fundraising strategy as a committee of the whole can help facilitate greater participation and support by board members. The challenge to the board and staff is to define the gatherings as committee meetings of the whole and be clear about when the board is meeting in this way and when it is in a regular board meeting.

## DECIDING ON A COMMITTEE STRUCTURE

Keep in mind that there is no one-size-fits-all model for a nonprofit board's committee structure. For many organizations, committee structures and meeting schedules are rooted in traditions that grew out of past necessity but are losing their relevance in today's context of more professional staff, busier board members, and increasingly complex external challenges. As a result, these structures are being streamlined to preserve core committees focused on the ongoing work of the board, create temporary task forces, and disband operationally oriented committees that mirror staff functions. As the board's focus changes, the number, size, and purpose of committees may change as well. Small and particularly cohesive boards may find that they need no committees at all. Board members manage the workload together as a committee of the whole or delegate tasks to individual board members, though this approach requires effective leadership and commitment from every member.

The following principles contribute to a flexible and smooth-functioning committee structure:

- Make sure each committee has a significant amount of ongoing and important work to do. If it does not, it should be disbanded.
- Rely on task forces for short-term or special projects, but create them with care. They must relate to the organization's mission, strategy, and priorities; have a clear reporting structure; have no liability issues; and have more work than one board member working with staff can handle.
- Keep the committee structure out of the bylaws, except for the description of the executive committee, if you have one. Instead, include a phrase in the bylaws that says the board may establish and disband committees as needed to support its work.
- Give each work group an objective, explained in writing. Each group's job description should explain its role, what it is responsible for achieving, and to whom it is accountable. The full board should agree on the objective.
- Lay some ground rules and determine lines of communication on how committees will work with the board.
- Ensure each committee or task force has the resources it needs to function efficiently.

### **Avoid Duplication of Staff Work**

Committee structure should not duplicate or mirror staffing structures. In an organization that has marketing and communications staff, for example, it is difficult to justify a board committee focused on those activities. If the board includes experts in this area, there is nothing to prevent staff from asking for advice from knowledgeable board members, who should be happy to oblige. If there is no staff dedicated to marketing and communications, the board may consider forming a task force to look at current issues or needs — developing a crisis communications plan or a digital marketing strategy, for example. The board could also form an organizational committee that is more operational in nature, composed of staff members, board specialists, and outside experts. If the organization needs non-staff expertise in a particular programming area, it could consider an advisory group that may include board members, but reports to staff.

### **Consider a Zero-Based Committee Structure**

Some boards have a zero-based committee structure, starting each year (or every two years) with a clean committee slate. Using an evaluation process, the board determines its organizational strategy and priorities and then creates or re-creates only necessary committees and task forces. This approach also allows the board to reassess the composition and redirect the focus of each work group if necessary. Each group is formed with the understanding that it will disband when it meets its objective or when the board decides to dissolve the group at its next committee review. Some boards adapt this structure, using it for all but a few basic committees.

A zero-based approach has a number of benefits:

- The board is flexible and future-oriented, not trapped in an outdated system.
- Unnecessary committees are dissolved.
- Leadership opportunities are more frequent.
- Leadership changes are not threatening.

## HOW THREE DIFFERENT BOARDS MANAGE THEIR WORK

What works for one organization may not work for another. Here are examples of committee structures created by three groups of different sizes and in different stages of development.

**An organization working on human rights issues** has no staff and does all its work informally through task forces with four to 12 board and non-board members each that report to the board. These groups have various time frames, meet as often as needed, and are disbanded and reestablished according to the workload:

- Education task force
- Special events task force
- Public policy and advocacy task force
- Board development task force

**A women's health coalition** has three staff members, six board members, and no committees. Individual board members have specific assignments, taking charge of issues that board committees often handle in larger organizations, such as the following:

- Board development
- Financial issues
- Fundraising
- Human resources, with a focus on chief executive support and evaluation

The board receives written reports on each topic before board meetings.

**A large museum** with extensive collections and a sizable physical plant has a typical committee structure for a complex institution. Work groups address both general nonprofit and museum-specific issues:

- Audit committee
- Building and grounds committee
- Collections committee
- Development committee
- Executive committee
- Finance committee
- Governance committee
- Executive evaluation and compensation task force
- Planning task force
- Special events task force

## SETTING UP WORK GROUPS FOR SUCCESS

Once the board has determined what work groups it needs, it may be tempting to just let the committees dive into the tasks that need to be accomplished. First, however, the board must have some policies and procedures in place to guide the work of committees and their relationship with the full board. Empowered by the bylaws to form committees and task forces, the board should create written guidelines for committees in general; make sure each has a clear charter or job description and a process for selecting committee chairs and members; determine committee size and term limits; and understand how committee meetings relate to the work of the board.

### WHAT AN EFFECTIVE COMMITTEE LOOKS LIKE

Committees positioned to do their jobs well have these characteristics:

- A clear job description and defined goals
- A skilled chair who engages all members in the committee's work
- Members who are committed to spending the needed time to accomplish the objective
- A sense of being part of the full board and not working in isolation
- An awareness of the time constraints and deadlines
- An understanding that it does not make decisions, but advises, recommends, or carries out a task
- An evaluation process to assess its own achievements or challenges

### Clear Objectives and Charters

Naturally, the board should also make the initial purpose of each standing committee or task force as explicit as possible to avoid any situations where the committee might establish its own charge (or description of purpose). Responsibilities of each group may shift as circumstances change, so it is important to remain flexible in each group's charge. Usually the board chair chooses each committee chair and, in collaboration, they put together the rest of the group. Some boards require the chair's appointments to be approved by the board.

### Bylaws

To provide maximum flexibility, avoid listing the job descriptions for committees and task forces in the bylaws. A simple statement indicating that the board has the power to form committees and task forces as needed is sufficient, with policies or procedures to define the details. An exception is the executive committee. If your board finds it necessary to form an executive committee, its authority must be detailed in your legal document. The full board should discuss and agree on the need for a specific committee or task force.

## Ground Rules

Committees need ground rules for how they should work and how they bring information or recommendations to the full board. Otherwise, they may begin to work autonomously and communicate with the board in inconsistent ways. While each committee will have its own job description, the full board should invest in the creation of generic procedures that establish common expectations for all committees. By setting aside time for discussion during a regular meeting, the board can develop a document to ensure that all committees serve the mission and current needs of the organization and operate in a similar manner. It can also be used as a benchmark for committee monitoring and evaluation. Ask the board to reflect on these discussion questions in advance:

1. What should be the size of each committee? Should it be standardized or customized due to the nature of the committee?
2. How will the intent of the committee be determined? For example, is it a standing committee or a task force charged with the goal of accomplishing a specific task or tasks? And, if so, what will be the duration of the committee?
3. What will be the process for determining who will serve on each committee? Will a certain expertise or perhaps a certain length of board tenure be required for service on particular committees?
4. Must the committee be staffed, and, if so, which staff position is the most logical?
5. How will the committee chair be named and oriented to the role? What are the chair's specific functions?
6. How will the committee report to the board? In written form in advance of the meeting? If so, what format should committee reports take? Or, if the report will be verbal, will there be back-up information, such as committee minutes for archival purposes? And remember, not all committees may have something to report at every meeting.
7. Should committee reports be part of the consent agenda?
8. How will the committees be instructed to work together? Should they agree to adopt communication guidelines?
9. How and when will each committee and its members be evaluated for effectiveness?

## Charter or Job Description

A written charter or job description helps ensure that committee members understand the responsibilities and expectations for the committee — including the scope of its responsibilities and decision-making power, which should be limited only to those things explicitly delegated by the full board. The description should reflect an organization's vision and mission. Just as a board operates in accordance with its bylaws, a committee should operate in accordance with its job description. For a task force, the description should also include deadlines and the time frame to complete the work. A committee charter includes the following elements:

- **Purpose or mission statement** – What work has the committee been created to do?
- **Type of work group** – Is the group a standing committee with an ongoing function (for example, governance or finance)? Or is it a task force with a special, time-limited purpose?
- **Responsibilities** – What are the committee's specific responsibilities?
- **Delegation of authority** – What decisions can the committee make without the full board's approval?

- **Membership** – What is the size of the committee? Who serves on it? Can it include non-board members? Who has voting privileges? What are the term limits for members?
- **Committee chair** – Will the chair be selected by the full board, by the committee, or (more typically) by the board chair? What are the term limits for the chair?
- **Procedures** – How often does the committee meet? For a task force, what is the deadline for completion of its work?

## The Right Leaders and Members for the Job

### Committee Chairs

It is often said that if a committee has a good chair, then it is a good committee. Bylaws or board policies usually define how committee and task force chairs are appointed — typically, by the board chair. This means that part of the board chair’s job is to nurture the leadership qualities and skills of board members who have the potential to chair committees. Chairs of organizational committees, which function at the staff level, may be chosen by the chief executive in consultation with the staff member assigned to the task at hand.

Committee chairs should be skilled at running well-organized, engaging meetings that guide the committee’s work. It helps for the chair to have some expertise in the committee’s focus, or to have served on the committee and become experienced with its goals and objectives. These leaders may also be potential board officers, so appointing someone to chair a committee is a good way to develop those leadership skills. The committee chair has two basic areas of responsibility:

1. **Facilitate committee work.**
  - Plan and lead committee meetings.
  - Assign tasks to committee members.
  - Monitor the group’s progress, and communicate with staff members assigned to the committee.
  - Arrange for the committee to evaluate its work at the end of each program year — or at the completion of its objective.
2. **Communicate with the full board.**
  - Serve as the committee’s liaison to the chief executive, the board chair, and the full board.
  - Ensure that appropriate reports are submitted to the board, and keep the board chair and the chief executive informed about the committee’s progress.

### Committee Members

The authority to make committee assignments should be spelled out in the bylaws or board policies. The board chair usually selects committee members in consultation with the committee chair and the chief executive, though sometimes chairs appoint their own members. Committee assignments are usually made as soon as possible after the first board meeting of the year, with additional assignments made throughout the year as the need arises.

Every board member should serve on a committee or task force at least once during his or her term. Incoming board members who join committees must understand that their contributions in this arena are just as important as their work with the full board. They should also know that the more research- or action-oriented work of a committee may take extra time, even beyond attending meetings.

Decisions about who participates on what committee should be mutual. The chair should explain to committee members why they were chosen and seek their agreement. Board members should not be too choosy about committee assignments. Having already accepted a leadership position in the organization, they should be interested in every aspect of the board's work.

Two types of candidates should be considered: those who have specific expertise to contribute and those who bring a different perspective or a fresh eye to the issue and, in turn, can learn a lot and develop new skills by serving a term on the committee. For example, it is important for the finance committee to have some members with financial expertise, but board members with more limited experience can learn about the board's fiduciary responsibility by serving on the committee.

Committees need a variety of personal and professional perspectives to ensure that all aspects of an issue or task receive adequate consideration. By rotating board members on committees, the board offers individual development opportunities. Sometimes people who have a particular interest in learning or contributing to a specific subject or cause will ask or volunteer to be on a specific committee. It is probably not wise, however, for an individual board member to serve on more than two committees at a time because of possible burnout.

### **The Role of Non-Board Members**

Some state laws prohibit non-board members from serving on nonprofit board committees — particularly finance and audit committees. Most states permit it, however, and if yours is among them, involving some people from outside the board can achieve the following benefits:

- Test the interest and leadership skills of potential board members while giving them hands-on experience with the organization.
- Add specialized skills, knowledge, and expertise without increasing the size of the board.
- Enhance the organization's standing in the community by giving more people a chance to get to know its work.
- Provide a chance for people to be involved who don't have the time to commit to board service, cannot afford to give financially at the level required by some organizations, or do not want the liability of a full-fledged board member.
- Offer an opportunity for former board members to stay involved.

In committees and task forces, the opinions of board members and non-board members should carry equal weight. But when the committee's work involves highly confidential information, such as the chief executive's performance review or a difficult personnel situation, these matters are best left to board members.

Non-board members should not be appointed to committees simply to resolve inherent problems. If a board is too large and inefficient, for example, or if too many members lack interest and commitment, it is wiser to solve the problem first before adding outside committee members.

### **Group Size**

A committee should be small enough to get the work done and keep members thoroughly involved, but large enough to have the necessary skills, knowledge, and perspectives. The optimal size depends on the purpose of the work group and the scope of the task. Group dynamics can determine effective working relationships and consequently influence the size of the group. Committee size may or may not be related to the size of the board since non-board members sometimes serve on committees. Large groups are usually cumbersome and may suffer from a lack of member involvement. Small groups often have an easier time making decisions. On the other hand, if a committee is too small, the board may risk overlooking significant questions. A small committee may also give the perception that considerable power is resting in the hands of too few.

### **Term Limits**

Terms on standing committees should be limited — often to two years — to allow people to serve on different committees so that they can broaden their understanding of the whole organization. Board members should be aware of the term limits when they are appointed to committees. In some committees, it can be helpful for members to have more than one term to give them time to acquire and use specialized knowledge. On the finance committee, for example, you may want continuity among members because they deal with more complex issues that require specific expertise. Similarly, some nonprofits may have longer committee terms because it takes longer for members to get up to speed on the processes, regulations, or terminology of the organization's mission area.

The risk of allowing committee members to serve multiple terms is that the committee may grow stagnant and generate few new ideas. People may become territorial and start thinking that things have to be done a certain way because that is the way they have always been done. Longer stints on committees could also create an unhealthy concentration of power — or a perception of insularity.

### **Productive Meetings**

The frequency of committee meetings depends on the type of committee and the task. A governance committee has year-round, ongoing responsibilities, for example, so it may meet monthly in some organizations. If you have an executive committee, it should meet only as needed to address a particular issue. Some boards have opted to reduce the number of board meetings — perhaps switching from monthly to bimonthly — and hold committee meetings in the off months. These boards find this schedule works well because it does not increase board members' overall time commitment to the organization, but simply divides it between the full board and work at the committee level. Although each committee has a different objective, committees do not, and should not, work autonomously. In some situations, two or more committees may need to meet to

work together on an initiative that falls into the scope of both committees' objectives. For example, the development committee may need to meet with the finance committee to discuss the organization's upcoming financial needs.

When committee members live in various places and in-person meetings are impractical, virtual meetings are a good substitute. It is not a good idea to schedule committee meetings only before a full board meeting just because everyone is gathering in one place. Committees and task forces need time to prepare and submit their reports to the full board, and board members need time to read through the material. Otherwise, the board may just rehash what went on in the committee meetings.

Committee meetings are usually less formal than full board meetings, and their members often find them engaging and rewarding. There are no specific guidelines for how a committee functions, so the chair can set the tone and pace. Training board members for committee chair positions is worth considering as part of the governance committee's overall leadership development activities. See below for a comparison of board and committee meetings.

Each committee also has the freedom to determine how to keep track of what happens in meetings. Members may or may not find minutes necessary, but you will want to take notes for purposes of reporting to the board or to keep track of particularly detailed information.

### BOARD AND COMMITTEE MEETINGS: WHAT'S THE DIFFERENCE?

#### Board meetings

- result in organizational and board-specific decisions
- involve elected, voting board members and non-voting advisors
- occur on a schedule determined by the board, but at least once a year by law
- are structured according to some parliamentary order, with bylaws and policies defining the details
- have minutes that are a legal document

#### Committee meetings

- yield recommendations for board action and carry out tasks assigned by the board
- involve committee members, some of whom may be non-board members
- are scheduled according to the scope and purpose of the task
- are structured by the committee chair
- have informational reporting, with no legal obligation

### Sound Communication with Board and Staff

Although each committee has its own objective, its work must be integrated into the work of the full board. Committees are accountable to the board for their work, and the board has final decision-making authority — unless it chooses to delegate that authority to a committee for certain decisions. It is the job of the board chair and the committee chair to ensure that committee efforts are not duplicated elsewhere and are not at odds with the work of other committees or staff.

## **Board Committee Communication**

Committees need a good system for communicating with the board and for keeping records and reports. Efficient records are especially helpful when it comes time to hand off responsibilities to a new committee chair. They should provide enough of a review of the committee's accomplishments so that the incoming chair can move forward on the task at hand without having to re-create any work. If committees have access to organizational funds, they should have budgets and be held accountable for their spending.

Committees should submit written reports to the board about their activities, which should be circulated before each full board meeting. The reports should be presented in the context of the strategic picture — a reminder of the strategic objective with some updates. Board members are busy, so material should be presented in a concise way so that they can grasp the details quickly. If committee reports are confusing or incomplete, the board may waste time at meetings asking questions to get the missing information.

It is advisable to include committee reports as part of the board consent agenda. This approach allows board members to become familiar with the contents before the meeting and eliminates the need to spend meeting time listening to committee reports. Major issues for board debate should be placed on the main agenda.

Reports should contain concise background information on the committee's work, but not a detailed account. They may include a request to the board for feedback on an idea, an emerging direction with salient pros and cons, or a recommendation for board action. If the committee is not making a recommendation or requesting feedback, it should submit a progress report for the board's information only, with no discussion needed during the board meeting.

If board members want more information on committee work than what is shared in the regular board report, they should speak with the committee chair. In some cases, a board member may be interested in sitting in on a committee meeting — not to micromanage but to learn more about a certain issue. Board members should not attend committee meetings where confidential matters are being discussed — for example, if the governance committee is dealing with the poor performance of another board member.

The board has legal responsibility for the organization, but it may delegate authority to committees for certain decisions or for implementation of board decisions. When doing so, the full board may in some cases be held liable for the committee's work. It is the board's responsibility to establish risk-management policies that will guide the actions of committee chairs and staff assigned to committees.

## **Committee Chair Communication**

Between board meetings, committee chairs should share information from their meetings, such as their minutes or notes, with each other because the work of one committee could affect the work of another. This practice also helps ensure that committees are not duplicating work. The information may not need to go to all board members, except for the minutes of executive committee meetings. Or, the minutes could be included as background information with board meeting agendas.

### **Committee-Staff Communication**

Some board committees or task forces benefit from direct staff support. A staff member can provide context by relating committee work to operational work, explain standards in the field, or help with background information. The staff member may also take notes, follow up on administrative tasks, and coordinate logistics. The chief executive assigns a staff member to each committee and should ensure that both staff members and committee members are clear about their respective roles. This awareness will pay off later by helping to avoid conflicts or misunderstandings.

In an organizational committee, staff provide the leadership, and board members assist in the implementation. Staff are ultimately accountable to the chief executive for the committee's work. As with any board-staff activities and committee work, clarifying roles and responsibilities in the beginning prevents future problems. Organizational committees do not need to distribute their minutes outside the committee — except maybe to the chief executive — because their work deals with supporting staff or implementing board mandates and does not need to become the board's concern. The chief executive should coordinate the organizational committees and keep the board apprised of progress toward established goals.

## **ASSESSING COMMITTEE EFFECTIVENESS**

When committees function well, they support the work of the board and give board members a way to engage more deeply with the strategic issues affecting the organization. For some organizations, committees are a way to leverage functional support in the absence of staff expertise. But a stagnant or inflexible committee structure or an ineffective committee can cause problems. Boards can keep committees dynamic and on track by conducting two kinds of self-assessment: an evaluation of the overall committee structure (by the full board) and individual committee evaluations (by each committee).

### **Evaluating Committee Structure**

Board committee structure is not set in stone, as mentioned earlier in this chapter. Pay close attention to the needs of the board and the organization, and make sure the work groups are meeting those needs. Through assessment, you may find that it is time to eliminate a committee that has met its objective, create a task force to take on a short-term assignment that had been added to an existing committee's already full agenda, or reassess a committee's charter to confirm that its responsibilities are appropriate. As part of the board's regular self-assessment, ask board members to evaluate committee structure using a questionnaire based on the following questions. Then set aside time during a board meeting or board retreat to discuss the results, decide whether change is needed, and make a plan for implementing improvements. Consider the following questions:

1. Do your board members feel their participation in committees enables them to contribute to the board's work and use their expertise that regular meetings do not?

2. Are committee assignments distributed evenly so that every member has a chance to be involved in committee work?
3. Do your board committees foster, rather than hinder, board-staff interaction and cooperation and deepen the board's understanding of the issues that have an impact on the organization?
4. Does each of your work groups have an objective? A life span?
5. Are any of your board members confused about your committees' roles?
6. Are any of your committees duplicating another committee's work or the staff's work?
7. Has a standing committee that had important work to do in the past now completed its objective and taken on work that the board may not have been sanctioned to occupy its time?
8. Does your board have so many committees that your board members are being stretched thin and having to attend too many meetings?
9. Are any committees too large or too small to be effective?
10. Could any standing committees be turned into task forces with specific objectives to be accomplished within specific time frames?
11. Are your board committees focused on policy and strategic work? Or are they involved in operations, which is the staff's responsibility?
12. If you have an executive committee, are all board members comfortable with the role it is playing? Does anyone feel the committee is acting in place of the board?

## HOW TO KNOW WHEN A COMMITTEE STRUCTURE ISN'T WORKING

Here's how to address some warning signs that committees are no longer meeting the board's needs:

- A standing committee that had important work to do a year ago has now completed its objective and has nothing to do. To make committee meetings seem more worthwhile, the committee has taken on a few new initiatives, none of which were sanctioned by the board.  
Solution: Disband the committee. Consider establishing it as a task force if new initiatives warrant it.
- A board divides all its work among four committees. Sometimes certain tasks do not fit any of these committees, so the board chair assigns them to the committee that is the least busy at the time. This leads to board member confusion about that committee's role. Some have reacted by simply not showing up to meetings.  
Solution: It's time for a serious evaluation and reconfiguration of the board committee structure. Confirm the purposes of the four committees, and possibly establish task forces for specific needs.
- A board started out with three committees. Every time a task came up that did not fit in with the work of those committees, the board established a new one. Now the board has more committees than it has board members, and members are complaining about having to attend too many meetings and nothing is getting done.  
Solution: Disband all committees, and move quickly to evaluate the board's current needs. What tasks really need committees? What other current, time-limited work should task forces handle? Establish general committee ground rules as described earlier in this chapter.

## Committee Self-Assessment

Individual committees and task forces need to assess their work to continually improve their effectiveness — and indirectly improve the effectiveness of the board. After an objective is met or a major task is accomplished, each work group should submit an evaluation to the board. In addition to a summary of the group's work and process, the evaluation should reflect how well it did the work and what it might have done differently. Evaluation gives the group a sense of whether it accomplished what it set out to do, what worked, and what did not. Committee evaluations are especially helpful during the strategic planning process to ensure the board is structured in a way that supports the plan.

Consider these questions as a template for committee evaluation. Supplement them with specific questions based on each committee's responsibilities as described in its charter.

1. Is the committee charged with doing meaningful work? Does its charter include a clear, complete description of the committee's responsibilities? If not, what changes are needed?
2. Is the committee receiving all the information it needs to fulfill its responsibilities, in easily understood formats? Is background information distributed sufficiently before the meeting?
3. How effective are staff reports to the committee in terms of length, context, timeliness, and clarity?
4. Does the committee have an appropriate mix of skills and backgrounds to meet its responsibilities? Should it actively seek new members with additional skills or backgrounds?
5. How effective are committee meetings? Are the meeting frequency and length appropriate? Does the committee have enough input into setting the agenda? Is there enough time for discussion?
6. What issues should this committee focus on for the coming year? Define and prioritize specific goals.

## How to Address a Lack of Participation

At some point, a committee may find it has a member who is not contributing to the group's work. One way to promote commitment is to be clear about expectations from the start. The committee chair should ensure that all prospective committee members understand the committee's responsibilities, the timeline for its work, the meeting schedule, and the amount of time each member should expect to devote to the task. All committee members also deserve orientation, training, and mentoring. Not all will be experts in finance or fundraising, for example. Even the most capable people who seem perfect for the job should not be given committee assignments they cannot fit into their schedules. But when the symptoms appear — poor attendance, failure to contribute to team assignments, procrastination, or apparent lack of interest in the committee's basic purpose — it is up to the chair to get to the root of the problem and, if a solution cannot be found, replace the member.

- Talk to the committee member about why he or she has not been an active participant. Sometimes a reminder about expectations will correct the situation. Or a

member who simply does not have the time or interest will welcome the opportunity for a graceful exit.

- Offer a strategy and timeline for improvement. If the member says he or she does not feel well equipped for the task, find out what is needed in the way of information or education. Then schedule another conversation to review the situation.
- If it is clear that the committee member cannot improve enough to continue, have a conversation with the board chair about other options. The board chair should then let the member know that he or she is not a good match with the committee. Offer a different committee assignment, or let the board member refrain from committee participation for the rest of the year.

If the person is also a low-performing board member, then the problem becomes one the board chair and the governance committee must address.

## BOARD COMMITTEES

Every organization must decide for itself which work groups it needs and what their responsibilities should be. This section briefly describes some common board committees. Chapters 2 through 6 address these committees, as well as board advisory groups, in detail.

### Governance Committee

Ongoing board development and self-management are the role of the governance committee, which is responsible for strategic recruitment, effective board engagement, and intentional revitalization. This committee builds a board that meets the organization's needs and then supports good governance by engaging board members in ongoing education and self-assessment of the board's performance. Most boards (71 percent in 2017, according to *Leading with Intent: A National Index of Nonprofit Board Practices*) have governance, nominating, or governance and nominating committees. To learn more about the governance committee, see Chapter 2.

### Executive Committee

The executive committee typically performs policy work on behalf of the board and acts as liaison to the chief executive. Some executive committees coordinate strategic planning and conduct executive searches. The committee's purpose and authority are defined in the bylaws, which should state clearly whether and when executive committee decisions must be confirmed by the full board. Although most boards have executive committees (76 percent in 2017), the board should analyze its entire structure before forming one to determine whether it will add value. To learn more about the executive committee, see Chapter 3.

### Finance Committee

The finance committee supports the board's responsibility for oversight of the organization's fiscal health. It recommends policies to the full board to safeguard the

organization's assets, ensures the completeness and accuracy of its financial records, and oversees proper use of resources. The committee ensures that the organization has appropriate internal controls, conducts proper financial analysis, and reports any concerns to the full board. Most boards (76 percent in 2017) have finance committees or finance and audit committees. An organization with sizeable assets may need an investment committee, but many boards handle investment-related issues through the finance committee. To learn more about the finance committee, see Chapter 4.

### **Audit Committee**

Many boards (45 percent in 2017) combine the audit committee with the finance committee, but 16 percent form a separate committee. This committee, or the combined finance and audit committee, selects an independent auditor and serves as a link between the auditor and the board. It ensures that the auditor has full access to financial and related records, reviews the auditor's report and submits it to the board, and arranges for the full board to meet with the auditor. If these two committees are separate, ideally they should have no overlap in membership. Some boards decide to create an audit task force instead of a committee. To learn more about the audit committee, see Chapter 4.

### **Development Committee**

The development committee provides input and insight into the organization's fundraising strategy and engages board members in their individual and collective individual fundraising roles. Some boards form a task force to fill this role. This committee or task force also ensures that the organization is investing strategically and appropriately in its fundraising program. It may work very closely with staff and often with other work groups, such as special events committees or task forces, capital campaign task forces, and business advisory councils. To learn more about the development committee, see Chapter 5.

## **TASK FORCES**

BoardSource has found a lean committee structure supported by task forces to be the best way to help the board accomplish its work. Task forces can accomplish a great deal within their focused, short-term assignments. The descriptions that follow are options, not recommendations, because committee structure in general must be tailored to the needs of each board.

### **Executive Evaluation and Compensation**

Assessing the chief executive's performance is one of the board's most important governance responsibilities and a primary vehicle for carrying out the board's oversight and stewardship functions. Many organizations form a small task force for this purpose composed of the board chair and the governance committee chair with a few other board members. Some boards choose to give the governance committee or the executive committee this responsibility.

The task force manages the evaluation and compensation review process, sometimes with the help of an outside facilitator. After all board members — and often, senior staff members — have rated how well the chief executive has met their expectations in pursuing or achieving annual goals, the task force reviews and discusses the results with the board and agrees on the key messages to be communicated to the chief executive. The task force members or the board chair alone then meet with the chief executive to discuss the results and develop performance goals and an action plan for the next year.

Every chief executive deserves to have his or her compensation reviewed on an annual basis. The task force compiles information about executive compensation in peer organizations of similar size, scope, and geography and recommends a compensation package to the full board for discussion and a vote.

## **Strategic Planning**

Strategic planning is a periodic activity that requires participation by both board and senior staff members. The board's role is to establish the organization's strategic direction by considering internal and external challenges and opportunities as well as mission, values, and major goals for the future. The staff's role is usually to flesh out the goals and create a plan or framework that will guide the organization's activities during the next few years. The strategic planning task force helps to ensure that the planning process is well structured with participation by the right people at the right time and that the plan integrates all aspects of the organization's internal and external communities.

As with other work groups, a strategic planning task force needs a clear charter. It may be charged only with organizing and overseeing the planning process, or it may be asked to conduct the planning process and produce a plan for the board's approval. In either case, it may be authorized to identify and hire a strategic planning consultant or other experts as needed. Once the plan or framework has been approved, the task force disbands. At this point, key indicators of success should have been established, and responsibility for monitoring progress becomes a central board responsibility.

Many nonprofits are now moving away from traditional strategic plans based on three- to five-year time horizons and long planning processes. Instead, they are developing strategic frameworks that allow for flexibility. Depending on the organization's complexity and stage of development, the volatility of the environment, and available resources, a strategic planning process may take a few months or consume a full year.

## **Public Policy and Advocacy**

A public policy and advocacy task force champions the board's involvement in advocacy, leverages board members' access and influence to support advocacy efforts, and works with staff to create and implement advocacy strategies. This task force often is an organizational work group (see page 11), with the chief executive and sometimes staff members taking the lead.

The task force does not necessarily recommend or review all policy positions, but it establishes general policy guidelines for which activities belong to the staff and which require board involvement or approval. Internal education is an important function, so that board and staff members appreciate the benefits of public policy engagement and advocacy and know the limits of what the organization is permitted to do. The task force should also lead regular board discussion of the impact of specific public policy issues on the organization's mission. The task force also supports the staff in identifying advocacy partners, building coalitions of organizations with similar interests, and meeting with public policy decision makers to advocate for the organization's mission.

## **Program**

Many boards are inclined to have a committee or task force that pays special attention to the organization's programs and services. But experience shows that these groups have mixed success. When they work well, they take a strategic approach, considering the big picture of the organization's mission, market, and resources. They advise the board on industry trends and strategic challenges, identify key indicators for measuring program progress, and track these indicators. When program committees don't work, they drain staff time and diminish morale. In such cases, committees either listen passively to staff reports or confuse oversight with micromanaging.

Many argue that a program committee is not needed if the board takes its strategic planning seriously and if it identifies key indicators for tracking progress toward established program goals. Some organizations are now experimenting with program-related advisory groups that consult with staff or share in volunteer activities that support direct service efforts. Another option is to set up a program review task force in preparation for strategic planning. This group is charged with identifying the strengths and weaknesses of current programs and with proposing changes for the future.

## **Marketing**

People with skills and interest in communications — both board members and non-board members — can be a valuable resource when convened as a task force or organizational committee. This group can be a sounding board for staff, do research on target audiences, and open doors to media outlets and others who can spread the organization's message. It provides eyes and ears in the community to help evaluate the organization's image and the effectiveness of its communications strategy.

The marketing and communications work group is often an organizational committee that serves in an advisory and support capacity to staff. As with all such committees, members must be mindful of their role. A written statement about the respective responsibilities of staff members, the committee chair, and committee members can go a long way toward avoiding misunderstandings. The committee may consult on marketing and communications strategy, but designing strategy is the staff's job. Only in small organizations with limited or no staff should marketing and communications committees have an expanded role in developing and implementing a strategy for reaching different audiences and spreading the word about the organization.

## Other Task Forces

- A **bylaws task force** conducts a periodic review of the bylaws, gathering feedback from board officers, committee chairs, and board members, and drafts changes for the board's approval.
- A **capital campaign task force** works closely with the chief executive and development committee and staff to build awareness of the campaign, help identify major donor prospects, attend campaign-related events and fundraising meetings, and participate in donor recognition. In a smaller organization with few or no development staff, this task force may also be involved in shaping a campaign plan, setting a goal, reviewing the case for support, and monitoring progress.
- A **special events task force** works with the development committee and staff to plan, organize event volunteers, and carry out special fundraising events.

## RECOMMENDED RESOURCES

Visit [BoardSource.org](https://www.boardsource.org) to view, download, or purchase resources.

[Are Your Board Committees Working Well?](#)

[Ask Our Consultants: Board Committees](#)

[Board Committees: Who Should Serve on Which Committee?](#)

[BoardSource Recommended Governance Practices](#)

[Committees: E-Policy Sampler](#)

[Do We Really Need Board Committees?](#)

[Leading with Intent: 2017 National Index of Nonprofit Board Practices](#)

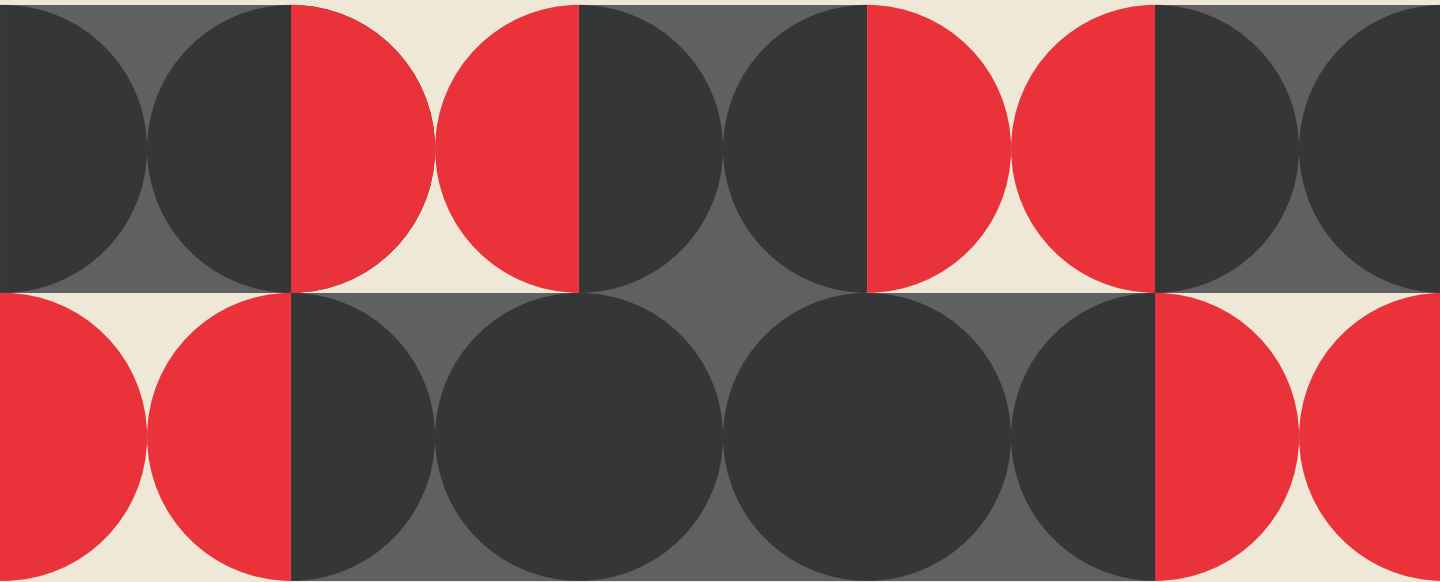
[Non-Board Members as Committee Members](#)



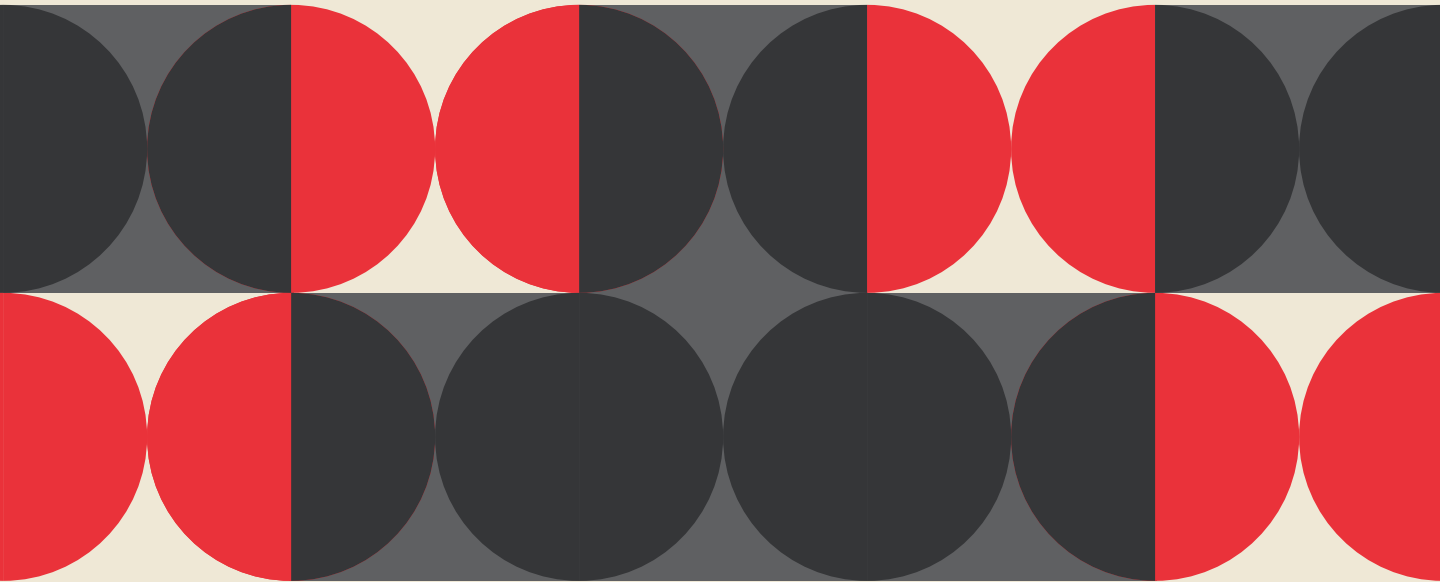


# Governance Committee

Nonprofit Board Committees // Chapter 2



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## INTRODUCTION

The governance committee's basic purpose is to help the board — and ultimately the organization — reach its full potential. This simple statement encompasses a complex set of responsibilities that influence a board's capacity for effective governance. Sometimes called the conscience of the board, this committee adds value by institutionalizing best practices in three areas:

1. **Strategic recruitment** — The committee builds a board of capable, diverse, and enthusiastic people with the right mix of skills by identifying potential board members, cultivating their interest, and recruiting them to serve.
2. **Effective board engagement** — The committee engages all board members — not just new ones — in the work of the board through ongoing education about the organization and its programs, the external operating environment, and the board's leadership role.
3. **Intentional revitalization** — The committee stimulates thoughtful conversation about effective governance, manages self-assessment of the board's performance, and regularly looks for ways to strengthen the way the board works.

Nonprofit board governance committees have evolved from what were called nominating committees, which had the principal job of recruiting new board members. Although bringing the right people into the boardroom is an essential activity, ensuring board effectiveness does not begin and end there. *Leading with Intent 2017: A National Index of Nonprofit Board Practices* highlights the governance committee's central role. For example:

- Strategic board composition depends on focused, disciplined, and nontraditional board recruitment practices.
- Ongoing education deepens the board's understanding of the organization, leading to stronger board engagement, strategy, and external leadership, including fundraising.
- Boards that engage in regular self-assessment perform better on their core responsibilities.

Every board should create a governance committee to formalize the responsibility for ongoing board development and board self-management. This committee makes it possible for the board to be run well, and it is key to securing the organization's viability in years to come.

## QUESTIONS ANSWERED IN THIS CHAPTER

- Why is the governance committee one of a board's most important committees?
- How does the committee work with the full board, the chief executive, and staff?
- How does the committee find the best people for the board?
- How does board diversity affect organizational performance, and what can the governance committee do to address this critical issue?
- How do we keep board members informed, engaged, and knowledgeable about their individual and collective governance responsibilities?
- What are the benefits of board self-assessment, and how do we go about it?
- How does the committee develop future board leadership?
- How can the committee promote a positive and productive board culture?
- What is the committee's role in monitoring board bylaws, conflict-of-interest policy, and an organizational code of ethics?

## GUIDING QUESTIONS FOR THE GOVERNANCE COMMITTEE

Every board will choose its own focused goals and priorities for board development and self-management and develop a charter or job description that outlines the governance committee's responsibilities in these areas. If your board lacks diversity, for example, the committee will need to concentrate on recruitment and cultivation. If you observe gaps in board members' knowledge about the organization's programs and stakeholders or their own responsibilities, the committee needs to plan more extensive education to inform new board members and keep others actively engaged in learning. If your board has not assessed its performance within the past two years, the committee will want to focus on that important task. Other governance committees may decide that the board would benefit from improved meeting quality or a commitment to plan for board leadership succession.

All board committees must be responsive to the needs of the board, but this capability is critical for the governance committee. The committee must be alert to board dynamics, the organization's overall evolution, and current and potential challenges, which will all determine its focus and the way it operates. Its job is to build a board that successfully secures the organization's future.

Questions like these help the governance committee be intentional about board development and self-management:

- **Composition** — Does our board's composition reflect the present and future needs of the board and the organization?
- **Term limits** — Does the board have term limits? If not, why not? If so, do they help bring new perspectives to the table and remove burned-out board members?
- **Expectations** — Do board members know what is expected of them? Do they

receive thorough information about the organization, its programs, and its impact on constituents and the community?

- **Meetings** — Is board meeting attendance consistently good? Do all board members participate? Are discussions lively? Do meetings regularly feature time to focus on board development and learning? Does the board regularly evaluate its meetings?
- **Assessment** — Has the board asked individual board members to assess their own performance and provide feedback on the overall workings of the board? Has the board engaged in a self-assessment in the past two years? If not, why not? If so, what did the board learn? Did the board discuss the results and plan for follow-up on problem areas?
- **Leadership succession** — Has the board done succession planning to prepare for unexpected board leadership transitions? Has the board discussed transition planning with senior staff and board members?
- **Bylaws** — Have the organization's bylaws been updated recently? Do they cover issues such as electronic voting and meeting procedures? Do they include irrelevant information that could be eliminated? Are board and staff aware of what is in the bylaws, and do they follow them?

## COMMITTEE (O)

### SAMPLE GOVERNANCE COMMITTEE CHARTER OR JOB DESCRIPTION

The governance committee is responsible for ongoing review and recommendations to enhance the quality of the board. The work of the committee revolves around five major areas.

1. Help create board roles and responsibilities
  - Lead the board in regularly reviewing and updating the board's description of its roles and areas of responsibility and what is expected of individual board members.
  - Assist in periodically updating and clarifying the primary areas of focus for the board, and help shape the board's agenda for the next year or two, based on the strategic plan or framework.
2. Pay attention to board composition
  - Lead in assessing current and anticipated needs related to board composition and diversity, determining the knowledge, attributes, skills, abilities, influence, and access to resources the board will need to consider to accomplish its work in the future.
  - Develop a profile of the board to identify gaps in future needs.
  - Identify potential board member candidates and explore their interest and availability for board service.
  - Nominate individuals to be elected as members of the board.
  - In cooperation with the board chair, contact all board members eligible for re-election to assess their interest in continuing board membership, and work with them to identify what they might be able to contribute to the organization.
3. Encourage board development
  - Provide candidates with information needed prior to election to the board.
  - Design and oversee a process of board orientation, sharing information needed during the early stages of board service.
  - Design and implement ongoing programs for information sharing, continuing education, and team building.

4. Assess board effectiveness
  - Initiate periodic assessment of the board's performance, and propose, as appropriate, changes in board structure and operations.
  - Provide ongoing counsel to the board chair and other board leaders on steps they might take to enhance board effectiveness.
  - Regularly review the board's practices regarding member participation, conflict of interest, confidentiality, and so on, and suggest needed improvements.
  - Periodically review and update board policies and practices.
5. Prepare board leadership
  - Take the lead in board member succession planning, taking steps to recruit and prepare for future board leadership.
  - Nominate board members for election as board officers.

## WHO SERVES ON THE GOVERNANCE COMMITTEE?

The governance committee should be both visionary and strategic. Members should understand the full range of the committee's responsibilities, knowing that it is not there simply to recruit new board members, but to make sure the board has a culture of learning and self-assessment.

Committee members should represent a microcosm of the full board, with a variety of backgrounds and experiences. Engagement in a wide range of community circles is an asset because it yields not only personal contacts, but a varied perspective on the external environment. Internally, they should have a deep knowledge of the organization and the needs of the board, along with the respect of their board colleagues. Understanding of human dynamics, relationship building, and organizational development helps committee members know when the board is functioning well and when it needs improvement. The committee can especially benefit by drawing on people with specific expertise. Board members who are management consultants, organizational development experts, human resource professionals, nonprofit executives, and community activists all could make good governance committee members.

The committee chair is the link to the full board. The chair must have experience with the board and the organization but need not be a veteran board member. He or she should have energy, enthusiasm, and openness to new ideas, along with a thorough grasp of good governance practices. The chair must work closely with the board chair so that the governance committee's work syncs with the work and priorities of the board. In some organizations, the board automatically asks a former board chair to chair the committee, but this practice can prove to be a mistake. A former board chair might be the right person, but it is never a good idea to create an automatic succession system that does not take into account individual abilities and interests.

# RELATIONSHIPS WITH BOARD AND STAFF

## Chief Executive

Board development is a dynamic, collaborative process with a variety of participants. The chief executive is a central figure in the governance committee's activities. It makes sense for the committee to work closely with the organization's staff leader and take advantage of his or her knowledge of day-to-day operations, communication and training expertise, and contacts in the community and broader network.

The chief executive can help the governance committee in the following ways:

- **Staffing the committee** — The chief executive — not other staff members — should work with the committee chair to provide information and maintain momentum in the committee's work throughout the year.
- **Board orientation and ongoing education** — The chief executive contributes to the success of board orientation and, in general, keeps board members up to date on organizational issues.
- **Confirming the current needs of the board** — The chief executive provides the internal point of view about the impact of board composition on organizational effectiveness. He or she will have useful insights into what board demographic characteristics, personal qualities, skills, and experience would most benefit the organization.
- **Identifying and cultivating potential board members** — The chief executive's network of professionals and organizations can be helpful in identifying prospective board members. He or she can suggest qualified people to serve on the board.

Every chief executive can add a different perspective to defining board composition, and committee members should be grateful for this level of assistance. Chief executives have a strong motivation to have a responsive board with which they can develop a positive working partnership. They have an incentive to participate in the board-building process, but they should not be left with the full task. This would lead the executive to select his or her own supervisors, creating an explicit conflict of interest.

## Board Chair

As the board's leader, the chair must have an open and mutually supportive relationship with the governance committee. A wise chair identifies ways in which the committee can support him or her in promoting board effectiveness, efficiency, and accountability. A governance committee should not shy away from proposing improvements in operations but must guard against taking over the chair's leadership role. Open communication between the board chair and the governance committee chair is vital for successful board development.

## Executive Committee

The division of labor between this work group (if it exists; see Chapter 3) and the governance committee may become cloudy. The roles of the two committees will vary,

but in most cases, the executive committee has the authority to act on behalf of the full board, while the governance committee is involved in maintaining overall board effectiveness.

On some boards, the governance committee — because its activities touch so many aspects of the board’s work — may begin to take on roles that do not belong to it. The committee must function in total openness, not overstep its responsibilities, and always invite feedback from board members about the committee’s and the board’s performance.

### **Other Board Committees**

The governance committee can offer helpful observations on committee structures (including the merits of creating a task force instead of a committee), committee assignments, and the way committees communicate with the full board. The governance committee has no authority over other committees of the board; it should simply be available to advise on restructuring, operational changes, and assignment of members.

## **THE GOVERNANCE COMMITTEE'S ROLE IN STRATEGIC BOARD RECRUITMENT**

Strategic recruitment means finding the right people for the board based on their expertise, experience, diversity, background, and networks. It is not simply about filling seats at the board table. Grounded in a strategic view of the organization and its leadership needs, this practice requires year-round time and focus from the governance committee and the full board. It is not a once-a-year activity. Purposeful criteria guide the identification and cultivation of potential board talent — and help the committee say no to candidates whose qualifications are not aligned with current recruitment goals.

### **A Commitment to Diversity, Inclusion, and Equity**

The elements of strategic recruiting — identifying needs, cultivating interest, and recruiting qualified prospective board members — should be informed by a commitment to creating a diverse, inclusive, and equitable board.

Exceptional nonprofit boards recognize they can better achieve their missions by drawing on the skills, talents, and perspectives of a broad and diverse range of leaders. The diversity of viewpoints that comes from different life experiences and cultural backgrounds strengthens board deliberations and decision making and creates powerful opportunities to deepen the organization’s impact, relevance, and advancement of the public good.

While board composition will be different in every organization, having a homogeneous board risks having blind spots that can lead to flawed strategies. The blind spots created by a lack of racial and ethnic diversity are particularly concerning, because they may result in strategies and plans that ineffectively address societal challenges and inequities — or even reinforce them.

The reality of a diverse board mirrors an organization's values and beliefs about who should be empowered and entrusted with its most important decisions. It sends the message that diversity is crucial and not just a policy or a statement, but an important way to lead an organization.

Chief executives report that diverse boards have a greater capacity to

- understand the changing environment from a broader perspective
- develop creative new solutions to new problems
- understand the client populations served by the organization
- plan effectively

The diversity of a board is unlikely to change unless its strategic recruitment practices change. Good intentions are not enough. With the governance committee's leadership, the board should explore why and how diversity, inclusion, and equity matter to the organization's mission and work — and the missed opportunities that may result if the board is homogeneous. Consider the following questions as part of a full board conversation:

1. What does the makeup of our board say about our organizational values?
2. How well are we cultivating a deeper understanding of the communities we serve and bringing their perspectives, needs, feedback, and priorities into boardroom discussions? Do we ever risk making decisions without fully understanding how they will affect those we serve?
3. What would a deeper commitment to diversity, inclusion, and equity look like for our organization? If we were to fulfill that commitment, what would that mean for our mission, our work, and the people we serve?

Making a visible commitment to diversity will help ensure that it is not only a recruitment priority, but a core value that can be articulated to potential board candidates and others. The next step is to incorporate this commitment into all strategic recruitment efforts:

- Establish a written policy on board diversity and inclusion.
- Develop a board diversity plan with strategies, goals, objectives, tasks, and a timeline.
- Look to more and different sources to create a diverse candidate pool (see page 42).
- Cultivate and engage prospective board members by expressing the board's commitment to diversity early in the recruitment process.
- Provide equitable access to board leadership opportunities.
- Pay careful attention to the board's social inclusion practices.
- Incorporate questions about board diversity strategies when designing board self-assessment tools.

## Identify Needs

The governance committee — consulting with the full board — considers what the board will need from its members to serve the organization over the next few years. What skills, knowledge, perspectives, and connections should be reflected on the board to implement the strategic framework and address upcoming opportunities and challenges? Which ones are already present? Where are the gaps?

Many boards use a board recruitment matrix to gather information about the current board, create a board profile, and then direct strategic recruitment efforts to fill the gaps. (See Recommended Resources at the end of this chapter.) Consider what works well and what needs improvement. Are there too many board members with expertise in financial oversight and not enough with experience in advocacy and fundraising? Is there a diversity of race, ethnicity, age, and gender? Focus on a variety of factors, such as community connections, leadership abilities, resources, areas of expertise, and communication style.

When developing a board profile, keep the organization and its specific needs in mind. Don't try to check every box. Instead, create a scale of what is most vital to your board composition. For example, if your organization focuses on youth services, it may prioritize recruiting educators or younger candidates to serve on the board.

### THINKING INTENTIONALLY ABOUT BOARD ATTRIBUTES

What qualities must every board member have? What qualities need to be present in the board as a whole, but not necessarily in every board member? Governance committees often engage the full board in this discussion, using attributes that relate to their own boards and organizations. Here are some examples:

Every board member must have...	The board needs members with...
passion for the mission	financial expertise
time and willingness to be actively involved	legal expertise
ability to make a financially meaningful contribution	corporate connections
willingness to contribute to fundraising efforts	nonprofit board experience
ability to work well in a group	ability to think both strategically and generatively
willingness to be an advocate and champion for the organization	leadership abilities and experience

### Cultivate Potential Members

Cultivation is about relationship building — creating a pool of qualified, interested people — based on needs identified in the board matrix, so that when the time comes to bring on new board members, the governance committee can recruit them from among these candidates. Cultivating future board members should not wait until a board election is looming. Like all aspects of strategic recruitment, it is an ongoing activity. The cultivation process requires the full board's commitment to identify candidates, get to know them, and learn more about their interest in board service. Before these prospective board members are offered a place on the board, invite them to get involved with the organization through volunteer opportunities. They could serve on a board committee or task force, host an event, or contribute expertise to a special project, further developing their interest.

The governance committee can help the board think carefully about how to expand its typical pool of candidates to include a greater variety of people whose resources, ideas, and attitudes would add value to the board. Changing racial and ethnic diversity in particular may mean moving beyond personal networks of existing board members and considering new strategies (see below). The committee manages this process — making sure that the full board is involved — finding ways to connect with candidates, get them interested in the organization, and keep them informed.

The approach should be to explore a potential candidate's interest and ability to serve when and if there is an opening during the next year or two. It is appropriate to share information about the organization's work, determine how much a candidate supports the organization's mission, and even invite candidates to events. But board members should be careful not to invite candidates to serve on the board or be too transparent about a potential nomination.

### CREATING A DIVERSE CANDIDATE POOL

Consider looking outside traditional networks and sources to find diverse candidates for your board. Here are some examples:

- The local chamber of commerce
- Members of other nonprofit boards
- Community leaders
- Clients or customers
- Professional, trade, or fraternal organizations
- Organizations representing racial or ethnic groups
- Local colleges and universities
- MBA programs
- Executive leadership programs
- Postings on LinkedIn Board Member Connect
- Using an executive search firm or a board matching service

### Recruit Prospective Members

The final step in the recruitment process is the formal nomination and election of new board members. But first, the board chair, the governance committee chair, and the chief executive should meet with each candidate. A board candidate assessment form is a useful tool for evaluating the candidate's attributes. This conversation is the time to

- explore the candidates' reasons for wanting to join the board. Taking the time to understand their motivations and goals for board service will ultimately make the partnership more productive.
- give candidates more information about why they were selected as prospective board members. Do they have expertise in a needed area? Good connections?
- have an open discussion about board individual giving and fundraising responsibilities. Ensure that candidates know the board's expectations for personal gifts and understand the variety of ways they can get involved in fundraising efforts.

Those who have been tasked with extending the invitation should approach candidates with a positive message about board service as an opportunity to advocate for and advance the organization’s vital mission. Explain why the organization, its community, and the candidate would all benefit from the candidate’s service on the board. The governance committee should make sure those doing the recruiting are well versed in the mission and current programs so they show a sense of pride as they describe to others what the board and organization do.

**COMMITTEE TOOL**

**BOARD CANDIDATE ASSESSMENT**

**Candidate name:** \_\_\_\_\_

**Interviewed by:** \_\_\_\_\_ **Interview date:** \_\_\_\_\_

**Please rate the candidate on each characteristic:**  
(5 = exceeds expectations; 3 = meets expectations; 1 = does not meet expectations)

Proven interest in our mission	1 2 3 4 5
Knowledge and understanding of our work	1 2 3 4 5
Professional knowledge and skills needed by the board (list specific areas) _____	1 2 3 4 5
Connections in the community (list types of organizations) _____	1 2 3 4 5
Fundraising experience and willingness to participate	1 2 3 4 5
Ability to make a substantial financial contribution	1 2 3 4 5
Experience in working with people from other ethnic backgrounds	1 2 3 4 5
Ability to listen well	1 2 3 4 5
Ability to express ideas and opinions clearly	1 2 3 4 5
Ability to participate effectively in a conversation, neither monopolizing nor hanging back	1 2 3 4 5
Sense of humor, positive presence	1 2 3 4 5
Ability to ask appropriate questions	1 2 3 4 5
Ability to participate on a regular basis in the board's work	1 2 3 4 5

Average score: \_\_\_\_\_

Other strong points about this candidate: \_\_\_\_\_

Red flags: \_\_\_\_\_

## Governance Committees in Membership Organizations

In membership organizations, particularly associations, members elect the board, and the governance committee has a demanding role. If members nominate candidates, the committee must communicate the special qualities and characteristics the board currently needs. It is the governance committee's responsibility to prepare the slate of candidates according to the organization's bylaws or policies. Well in advance of the election, the committee should make the slate available to the full membership, with ample information about the candidates and their qualifications. It is also helpful to include information about continuing board members. Bylaws or policies will describe the specific requirements, including a schedule and the voting mechanism.

The governance committee should present the candidates in a fair and balanced way while identifying the needs of the board and the direction of the organization so that members can vote for the candidates who are best qualified to move the board and organization forward. If the committee sets the appropriate tone, it will prevent board elections from becoming popularity contests based on personal preferences instead of the current and future best interests of the organization.

In federated organizations where chapter representatives nominate national board members, the governance committee must stress that members are voting for people who will best govern the national organization and focus on its interests rather than on the interests of local affiliates. The board will concentrate on major issues that address national strategy for the organization. While the board must be receptive to the perspectives of individual affiliates, it cannot get bogged down by details affecting these groups. Only a well-tuned board is able to advance the business that benefits every chapter in the federated organization.

## THE GOVERNANCE COMMITTEE'S ROLE IN EFFECTIVE BOARD ENGAGEMENT

Board members who have a clear picture of the organization's mission and work and a solid understanding of their own responsibilities are better able to provide capable leadership. Effective engagement begins as prospective board members are cultivated and recruited and continues with thorough and ongoing education. Board education can be structured or unstructured, and it may include some or all of the following activities:

- Comprehensive orientation for new board members that features orientation to individual roles and to the organization and its programs
- Focused educational sessions or moments as a part of regular board meetings that help cultivate a deep understanding of the organization's mission, programs, and impact, as well as the board's important advocacy role
- Ongoing education and reflection about the board's role and how to best leverage its full leadership potential

Bringing promising and eager board members into your boardroom is an excellent start, but leaving them on their own to figure out what to do next is a waste of good potential. The governance committee must take charge and ensure that ongoing education and engagement are part of the board's practices, and that even the ideas of seasoned board members are continuously refreshed.

### REFLECTION QUESTIONS FOR THE GOVERNANCE COMMITTEE

Make it an ongoing priority to deepen your board's understanding of your organization's programs — what you do, why it matters, and how you know that you are having an impact. To understand your starting point, reflect on the following questions with your governance committee:

1. To what extent does each of our board members understand our programs? Is that level of understanding strong enough to give us confidence about our ability as a board to make strategic decisions about our organization's future?
2. How effectively are we creating opportunities for board members to experience our programs and/or hear from those we serve? Does our approach to board education include enough "show" instead of just "tell"?
3. If our chief executive left the room during a board meeting, would board members be able to continue a robust discussion about what we have prioritized programmatically, and why?

## Understanding the Work of the Board

Since it is impossible to do a job well if you don't know what the job is, the governance committee must take the time to ensure that every board member fully understands what is expected and needed and then to hold all members accountable for their collective and individual responsibilities. *Leading with Intent: 2017 National Index of Nonprofit Board Practices* notes that boards generally do well with fundamental board responsibilities, such as understanding mission and providing financial oversight, but they tend to struggle with external responsibilities, including fundraising, advocacy, and community-building and outreach.

Through orientation for new board members and ongoing education for all board members, the governance committee's role is to explain, reinforce, and lead the board in reflecting on these collective responsibilities:

### Basic Responsibilities

- **Mission alignment** — Understand the organization's mission in order to make mission- and values-driven decisions.
- **Oversight and accountability:** Understand proper oversight measures that safeguard the organization's resources.

## Strategic and Adaptive Responsibilities

- **Constructive partnership with the chief executive** — A productive working relationship promotes board engagement and strategic leadership.
- **Thinking and leading strategically** — Adopt and follow a strategic plan or framework, and then monitor organizational performance and impact against its goals or objectives.
- **Intentional board practices** — Strategic recruitment, ongoing board development, and regular reflection on board performance are essential responsibilities.

## External Leadership and Ambassadorship

- **Fundraising** — Adopt clear expectations for board member involvement, and support individual board members' fundraising capabilities with training and guidance.
- **Advocacy and outreach** — Act as ambassadors for the organization to advance organizational goals and values in the community and among policymakers.

## COMMITTEE [0]

### ELEMENTS OF A BOARD MEMBER JOB DESCRIPTION

Each individual board member is expected to do the following:

- Understand his or her fundamental legal duties:
  - Duty of Care — Each board member has a legal responsibility to participate actively in making decisions on behalf of the organization and to exercise his or her best judgment while doing so.
  - Duty of Loyalty — Each board member must put the interests of the organization before his or her personal and professional interests when acting on behalf of the organization in a decision-making capacity. The organization's needs come first.
  - Duty of Obedience — Board members bear the legal responsibility of ensuring that the organization complies with the applicable federal, state, and local laws and adheres to its mission.
- Know the organization's mission, goals, policies, programs, services, strengths, and needs
- Follow trends in the organization's field of interest
- Read and understand the organization's financial statements
- Serve as an active advocate and ambassador for the organization and fully engage in identifying and securing the financial resources and partnerships necessary to advance its mission
- Leverage connections, networks, and resources to help the organization fully achieve the mission
- Give a meaningful personal financial donation
- Help identify connections that can benefit the organization's fundraising and reputational standing and influence public policy related to the organization
- Prepare for, attend, and conscientiously participate in board meetings
- Participate fully in one or more committees
- Follow the organization's bylaws, policies, and board resolutions
- Sign an annual conflict-of-interest disclosure, update it during the year if necessary, and disclose potential conflicts before meetings and actual conflicts during meetings
- Maintain confidentiality about all internal matters of the organization

## New Board Member Orientation

Orientation prepares board members for full participation in the work of the board. It actually begins during the recruitment phase, when you approach prospective board members about their interest in board service and provide information about your organization, the general responsibilities of board members, and the commitment involved. Formal orientation should be held before new board members attend their first board meeting to help them start contributing as quickly as possible. The orientation session, planned by the governance committee, can be crafted according to individual needs and organizational culture. Many boards invite current board members to attend relevant orientation sessions as a refresher on board and individual responsibilities. Experienced members can also serve as discussion leaders or facilitators.

Orientation is a good time to initiate a peer mentoring program, which is an effective way to get board members involved right away. The governance committee pairs experienced board members with new ones, helping to create a welcoming, inclusive atmosphere and promote ongoing learning and teamwork. During the first year, mentors act as resources for incoming board members, answering questions and generally helping them get acclimated to the culture of the board.

### HOW A BOARD MENTORING PROGRAM WORKS

A national educational agency has implemented a board mentoring orientation program that works like this:

- Every new board member is matched with a veteran board member mentor from day one to ease his or her integration and involvement.
- Mentoring partners meet virtually and/or in person before and after board meetings during the first year of board service.
- Board mentors welcome new board members to the team by introducing them to the people, issues, and work of the organization and serving as resources and sounding boards.
- As the mentor gets to know the new board member, the two confer about how to best utilize the mentee's time and talent and enhance his or her board experience.



## BOARD ORIENTATION PLANNING CHECKLIST

This checklist of activities and resources is designed to help you develop an effective orientation program. Consider sharing the resources as digital documents through a secure portal. The scope and detail of the orientation may require more than one session.

### 1. Programs

To help new board members feel emotionally and intellectually connected to the organization, give them a feel for what it does, who it serves, and what difference it makes. You can choose from a variety of approaches, including giving them a tour of the facilities, inviting them to observe program activities, introducing them to a client or member, or participating in presentations given by the chief executive and key staff.

> **Materials to share:**

- Organization's website
- Annual calendar
- Publications and programs list

### 2. History

For the present to make sense, new board members should know about the past. It's important to explain the history of the organization. When was it founded? Why? How has it grown and developed? Do not overlook past crises or hard times.

> **Materials to share:**

- Brief written history or fact sheet on the organization
- Brochures and newsletters (print and online)
- Articles of incorporation
- Use of directors and officers liability insurance

### 3. Strategic Direction

To provide context for effective participation, clarify the mission, vision, values, and goals to inspire organizational actions. Review the strategic framework or plan.

> **Materials to share:**

- Most recent strategic framework or plan
- Current case statement
- Recent press coverage

### 4. Finances

New board members need to know where money comes from, how it is spent, the state of the organization's financial health, and their role in ensuring the organization has the resources it needs to operate. Begin with a presentation by the chief executive, chief financial officer, or treasurer. Review recent financial information. Provide an overview of essential budget practices for board members, including what to know to approve budgets, what IRS Form 990 is, and how to read and understand a nonprofit financial statement.

> **Materials to share:**

Annual reports  
Form 990s for the past three years

## **5. Organizational Structure**

New members should become familiar with who does what in the organization and how the board interacts with different departments and staff. Review the bylaws, the board's committee structure, and the organizational chart. Introduce key staff members.

> **Materials to share:**

List of staff positions  
Bylaws

## **6. Board Roles and Individual Board Member Responsibilities**

Discuss and clarify the respective roles of the full board and individual members. Explain board members' fundraising responsibilities, the role that advocacy plays in mission achievement, and how board members can be vigorous advocates for the organization's mission. Introduce participants to trends in nonprofit governance and major issues that currently affect nonprofit boards.

> **Materials to share:**

Board member letter of agreement  
Board conflict-of-interest policy  
Board roster  
Board member position description  
Document comparing board roles and individual member roles  
Recent board meeting minutes

## **7. Board Operations**

An overview of board operations helps new members become familiar with the process of governance, including board meetings, committee work, ongoing board education, board self-assessment, board retreats, and community engagement and advocacy activities. Explain how and when committee assignments are made. Review the board manual and explain the use of the online board portal for communication and information sharing. Offer a separate training session on the board portal and virtual meetings, if the board holds them.

> **Materials to share:**

Board meeting schedule  
Committee meeting schedules  
Full board and committee rosters  
Board portal access information

## Ongoing Board Education

Continuing learning is a defining quality of exceptional nonprofit boards. *Leading with Intent 2017* confirms that board knowledge is related to board performance, indicating the need to build understanding of the organization's programs and operating environment through ongoing board education.

The governance committee takes the lead in assessing the board's educational needs and collaborating with the board chair and staff leaders to create education and training opportunities that deepen members' knowledge about factors that affect their planning and decision-making capabilities and the organization's long-term success. Build educational activities into board meetings and retreats, and encourage board members to attend outside workshops and seminars on nonprofit governance topics. By observing the organization's programs and services, board members can make mission-related issues and needs come alive.

Some form of education should be on the agenda of nearly every board meeting — whether a presentation by an outside consultant or a briefing by a staff member on current issues in the organization's mission area. Including a small piece of work that varies from business as usual can make a big difference in board meeting dynamics. A board member could lead colleagues in a few minutes of conversation about a current issue that challenges nonprofit governance, a promising practice that another board engages in, or an aspect of the bylaws that has prompted questions. Another option is to invite open discussion instead of questions and answers after a presentation: What are the possible implications of what the board has just heard? How does the topic relate to the strategic framework? What questions need exploration?

Keeping the board informed is an essential piece of keeping the board engaged. The board chair and the chief executive are responsible for generating board communications, but the governance committee can be a helpful resource. Thoughtful preparation of board information — from the board handbook to meeting materials — ensures that board members have the context and background they need to discuss, deliberate, and make decisions.

## THE GOVERNANCE COMMITTEE'S ROLE IN INTENTIONAL BOARD REVITALIZATION

Sustaining the health and vitality of the board is the third piece of the governance committee's role. Every board needs fine-tuning — even boards that devote great care to recruiting, cultivating, educating, and engaging members. Intentional revitalization begins with a commitment to regular assessment of the board's performance. It involves keeping the board fresh by instituting term limits and rotating leadership positions and committee membership, along with monitoring certain policies that relate to the board's self-management.

## Conducting a Board Self-Assessment

Boards should carry out a comprehensive self-assessment approximately every two years to evaluate its own performance and to serve as a planning tool for the board. The governance committee — not the chief executive or the board chair — ensures that assessment takes place regularly and is well organized. Only through structured self-reflection can board members judge their own collective performance and understand the extent of their individual responsibilities. Boards may choose to engage in more frequent evaluations, but it is usually not necessary to do a formal assessment every year. It is important to allow adequate time between assessments to implement identified improvements. Keep in mind that the focus is on the board's work, structure, and dynamics, not on the organization's performance.

According to *Leading with Intent 2017*, boards that assess their performance regularly perform better on core responsibilities — particularly adopting and following a strategic plan or framework, monitoring organizational performance and impact against strategic goals, understanding board roles and responsibilities, and evaluating the chief executive. Self-assessment gives the board a holistic view of what it is doing well and what may need to change. Board members feel more fully engaged in board development efforts and hold themselves accountable for making positive changes.

Self-assessment is best accomplished using an outside facilitator or consultant, such as BoardSource, with the help of a variety of tools designed specifically for this purpose. The board should discuss the questionnaire to make sure everyone is familiar with the process and has a chance to ask detailed questions. The opinions and comments expressed should not be attributed to individual board members. This confidentiality ensures that board members are more likely to share their honest opinions without filters or fear of being criticized. It also adds a level of neutrality to the board's discussion of the results.

The consultant collects the completed questionnaires, analyzes the comments, and provides the governance committee with a report that is sent to the full board. With the consultant as facilitator, the board discusses the results at a retreat or in a setting other than a regular board meeting. This way the board can devote its full attention to the self-assessment and the opportunities or challenges it presents. The conversation should yield answers to these questions:

- How does the board excel, and how can we build on those strengths?
- What areas of the board's work need development or improvement?
- Do board members generally agree in their assessments of the board's performance level, or are there divergent views?
- What are our priorities for the next steps in board development?

For some boards, the first self-assessment experience feels awkward and somewhat daunting. But if the process is well-managed and accepted, the first assessment should result in a beneficial learning experience. Embarking on a second assessment proves that the board has learned the importance of monitoring its own effectiveness. Assessment is about the board's commitment to ensuring the highest quality in its contribution to the organization's future.

## Individual Board Member Self-Assessment

Either in tandem with a board self-assessment or as a separate process, board members should have the opportunity to evaluate their own contributions to the board's work, set personal goals for growth and improvement, and identify areas where they feel they need more training or practice. Some boards use a simple self-assessment tool with a series of questions related to the board member job description. Others ask members to meet informally with a governance committee member for a conversation about their strengths, challenges, and satisfaction with board service. Peer-to-peer assessment is another way for board members to reflect on their performance while learning about colleagues' perceptions of the value they add to the board and areas that could use improvement. Like the board self-assessment, the individual self-assessment should yield feedback that helps individual board members strengthen their participation.

### TEN GOOD REASONS TO ASSESS BOARD PERFORMANCE

1. Take a deep internal look at the board's work.
2. Reflect on board members' individual and shared responsibilities.
3. Identify different perceptions and opinions among board members.
4. Determine areas of responsibility that need attention.
5. Use the results as a springboard for board improvement.
6. Increase the level of board teamwork.
7. Clarify mutual board and staff expectations.
8. Clarify common objectives and ensure that everyone shares the same vision.
9. Demonstrate that accountability is a serious organizational value.
10. Display credibility to funders and other external audiences.

## Keeping the Board Fresh

Sustaining an engaged and dynamic board is work that may be shared by the board chair and governance committee. The governance committee is responsible for making sure the board stays balanced with the right people in the right positions. There are a variety of ways to keep a board healthy and enthusiastic.

### Term Limits

Term limits enable a board to gain the new talent and leadership that are essential for its long-term health. As the organization's needs change over time, so should the board's composition. Regular turnover among board members encourages the board to pay attention to its makeup, helps to avoid stagnation, offers the opportunity to expand the board's circle of contacts and influence, and provides a respectful and efficient method for removing unproductive members. According to *Leading with Intent*, 72 percent of nonprofit boards have term limits for board members, and the most common are two consecutive three-year terms. Term limits do not prevent valuable members from remaining in the service of the organization or the board in another capacity. An exception might be extending the term of a board member who is elected chair.

## **Committee Assignments**

The governance committee should guide the board to rotate committee assignments periodically. If the same people have served on or chaired the same committees for years, ask them if they would consider leading in a new capacity and reassign them. Make certain the chairs of each committee receive training and continuing education about their committee focus areas. Ensure that they are involved in recruiting great new members as well. To infuse new ideas, consider committee members from outside the board (see Chapter 1).

When a special issue comes up that will not likely remain part of the board's work indefinitely, create a task force to address it (see Chapter 1). Short-term task force assignments are sometimes ideal for people from outside the organization who you are trying to get more involved. They will be exposed to the work of the board through a time-limited project that can provide more immediate satisfaction and is not as significant a commitment as board service.

## **Board Leadership**

Board officers need not be the longest-serving members of the board. Nor is it necessary that the treasurer be an accountant or that the vice-chair will eventually become the next chair. The governance committee should draft processes for officer rotation. Shake up board leadership if necessary. Find rising stars to take key positions. Divide responsibility so newer or younger board members are not intimidated by the prospect of serving as board officers. Depending on the election process outlined in the organization's bylaws, you may be able to ask current officers to continue in other capacities. In this way the organization still benefits from their wisdom and experience, but the board can benefit from new perspectives. Any changes to the process of selecting board leaders should be included in the bylaws. (See page 55 for more about board officer succession.)

## **Organizing Board Retreats**

One way the governance committee can focus on board revitalization is to organize an annual board retreat. Ideally held at a site away from the usual boardroom, a retreat offers the opportunity to look at strategic issues in a relaxed and comfortable setting while strengthening the interpersonal dynamics among board members. A structured retreat can be an opportunity for planning and team building; a chance to refocus on fundamentals and reflect on mission, vision, and strategic goals; a vehicle for strengthening trust and relationships among board members and between board and staff; or a way of pulling together a divided board on a critical issue.

The best person to lead a board retreat is an experienced outside facilitator, who can help the board explore issues from a neutral position. The governance committee should work with the facilitator to create an agenda that combines strategic issues with an opportunity for board members to socialize and get to know each other better. Set the tone for a productive but enjoyable experience by balancing formal sessions with icebreaker and team-building activities that suit the culture and style of the board. Some boards find it particularly useful to go away for an overnight retreat because of the added opportunities for socializing.

The governance committee can use a retreat as a way to gather information about the board's interests and the gaps in its members' knowledge. A retreat can help the board set direction for the future or learn more about its current state. Many boards use a retreat to discuss the results of a board self-assessment. A variety of results can emerge, and no particular agenda is better than another.

### **Helping the Board Remove Noncontributing Members**

Many boards unfortunately find themselves with members who are not making a positive contribution to the board's work. The governance committee cannot remove board members, but it should work closely with the board chair in exploring problems, options, and possible solutions. A board member who does not feel fully engaged but would like to be more involved may jump at the chance to articulate what he or she is looking for in board participation, and the situation improves. But sometimes these board members simply are looking for the option to resign gracefully without feeling guilty.

The worst-case scenario is a troublesome member whose presence at meetings hinders progress and is starting to drive other board members away. If the board and organization are not happy, chances are the individual is not happy either. The best thing for everyone is to part ways amicably. It is helpful to build a clause into the bylaws about how to remove a board member who is not working well with the rest of the board. As hard as it may seem, the board chair, with the support of the full board, can ask the troublesome board member to step down. This choice should be made only after he or she has been offered every conceivable diplomatic option. Be honest but tactful, thank the board member, but state firmly that the board no longer requires his or her service. Be as kind and respectful as possible to avoid burning any bridges — but do dismiss the board member for the sake of the board's effectiveness.

## **OTHER GOVERNANCE COMMITTEE TASKS**

### **Bylaws Review**

Bylaws should be a living document that accurately reflects the authority, processes, and structure of the board. Every few years, the bylaws should be examined to make sure they are easy to understand, relevant, and include the most up-to-date legal requirements of nonprofits. Ensuring that this happens could be a task assigned to the governance committee, but the implementation belongs to a special task force designated by the board.

Besides keeping an eye on bylaws clauses that seem outdated, create confusion, or are missing altogether, another key role for the governance committee is ensuring that all board members are aware of the contents of the bylaws and understand how bylaws govern their actions.

## Board Officer Succession

Just as the governance committee recruits, cultivates, and engages board members, it must create a structured process for developing future board leadership. Board officers do not automatically emerge in even the most committed boards, and the board that leaves this process to chance is risking its own leadership capacity. Every board needs to plan deliberately for board officer succession by identifying and developing leadership qualities, electing the best candidates, and preparing officers for their roles. Board officer positions should have term limits.

The governance committee's systematic approach to developing board leaders should include these elements:

1. **Define board officers' roles.** Create a clear job description for each officer that outlines the criteria, responsibilities, and performance goals.
2. **Identify future board leaders.** Early in the recruitment process for new board members, seek board candidates who might eventually become board officers. Every prospect does not need to fit that category, but make sure that the candidate pool includes enough people with leadership talents and interest so that the board does not struggle to fill officer positions.
3. **Invest in leadership development.** Deliberately build the credentials, knowledge, skills, and confidence of board members who have leadership qualities. Committees and task forces are good growth and learning experiences for future leaders. Volunteer assignments and special projects also highlight board members who are especially committed to the organization.
4. **Create a succession process.** Bylaws set the rules for officer selection and length of service. Review the bylaws periodically to be sure they reflect the organization's current needs.

Most state laws require every nonprofit board to have certain officers, with roles defined in the bylaws. The following positions are common:

- **Board chair.** The board chair leads the board in the oversight and support responsibilities that are essential to good governance while also developing the board as a cohesive and effective team. The chair's partnership with the chief executive is key to organizational leadership.
- **Vice-chair.** The vice-chair fills in when the chair is not able to carry out his or her duties and often takes on special projects. On some boards, the vice-chair may become board chair under succession of leadership laid out in the bylaws.
- **Treasurer.** The treasurer oversees the management and reporting of the organization's finances and ensures that board members are well versed in important financial issues. He or she chairs the finance committee.
- **Secretary.** The secretary keeps the minutes and the board records, but a staff person often performs these tasks. In some organizations, the positions of secretary and treasurer are combined.

Most often, the governance committee prepares a slate of candidates for board members' consideration. Through open discussion, the board makes final choices from the slate. Some boards look to the governance committee to facilitate the election process. The committee collects nominations from board members, communicates back and forth with candidates, and finally recommends one candidate who emerges as the best choice for each position. Finally, the board confirms the nominations.

In membership organizations, the members may elect the officers as well as the entire board. But because it is easier for board members to assess the qualifications of candidates and the needs of the board than for the entire membership to bear this responsibility, it makes sense to strengthen the role of the governance committee in the eyes of the members. Explain the role of the committee and show that the members can trust its recommendations.

## Board Culture

Board work is a collective effort that requires a unique kind of teamwork among members. Board dynamics and board member relationships need deliberate attention from the board chair, other board officers, and the governance committee. The committee can focus on three tactics:

1. **Be attentive to people skills when building the board.** In addition to looking for professional skills and demographic criteria that will ensure diversity in your board's composition, the governance committee should look closely at personal traits that will advance the work of the board, such as the ability to work effectively within the group process of a collective decision making body.
2. **Model collaboration through mentoring.** Mentoring new board members is a good way for a board to show that teamwork is part of its culture. It facilitates trusting relationships, greater board cohesion, and ultimately a stronger shared understanding that promotes more informed decision making. (See page 47 for more about mentoring.)
3. **Help board members get to know each other.** To overcome the potential barriers of distance, diversity, demographics, and varying years of service, plan opportunities for informal interaction with board colleagues. Getting to know each other builds social capital, promotes teamwork, and creates greater loyalty and desire on the part of board members to collaborate and contribute as a group.

Positive board dynamics also depends on promoting civility in the boardroom. Acceptable behavior standards are not tied to any parliamentary order. They are common-sense rules, often unwritten, that allow board meetings to proceed with courtesy and good humor. The governance committee should ensure that basic rules for keeping civility in the boardroom are addressed in new board member orientation and discussed periodically by the full board, perhaps before the first meeting of the year or at the beginning of a board retreat. Each board will have its own priorities, but this list is a starting point:

- Arrive on time, and stay until the end.
- Prepare for the meeting by reading materials.
- Don't use judgmental statements.
- Talk about issues, not people. Don't interrupt.
- Don't criticize those who are absent.
- Don't monopolize the discussion.
- Avoid side conversations.
- Ask questions when you do not understand. There are no wrong questions.
- Keep confidential information confidential.
- Raise concerns in the boardroom, not in the parking lot afterward.
- Recognize when you have a conflict of interest, and disclose it to the group.

## Conflict of Interest

Every board should adopt a conflict-of-interest policy that defines what a conflict of interest is and how it is managed. The board and senior staff should sign annual conflict-of-interest statements, disclose known potential conflicts, and recuse themselves from participating in discussions and voting when conflicts do arise. Board members must adhere to a legal duty of loyalty, making decisions based on the best interests of the organization. By actively managing conflicts of interest — real or perceived — the board is better able to remain independent and unbiased in decision making.

Some boards assign full oversight for conflict of interest to the governance committee. As more boards create audit committees, conflict of interest is becoming that committee's responsibility. In other organizations, the first two responsibilities on the following list belong to the governance committee and the next three belong to the finance and audit committee (or to the audit committee if the board has one).

1. Revise the conflict-of-interest policy as needed.
2. Ensure that prospective board members receive and understand the policy. Include a segment on conflict of interest in board orientation.
3. Ask every board member to complete an annual conflict-of-interest statement.
4. Manage board disclosure statements by collecting, checking, and retaining them.
5. Monitor compliance and handle reports of conflict of interest, reporting to the full board with a recommendation. If the board has designated a compliance officer, he or she has full responsibility for this task.

## Code of Ethics

Every nonprofit organization should have a code of ethics that reflects its statement of values and applies to board members, staff members, and volunteers. A code of ethics promotes ethical behavior, and in doing so it ensures stability, viability, and accountability of the organization. In some organizations, the governance committee develops a code that describes ethical board behavior, but as organization-wide codes become more typical, a board-staff task force can be appointed for this purpose. In all cases, the board should approve the final document.

Once the organization has a code of ethics, the board's governance committee has the following responsibilities:

1. Review the code of ethics periodically and form a board-staff task force to revise it if necessary.
2. Share the document with prospective board members, and include a discussion of ethical behavior in board orientation. Ensure that the chief executive does the same with staff and volunteers.
3. Address board violations of the ethics code, unless the board has delegated this responsibility to a compliance officer. Ensure that the chief executive addresses staff violations.

## COMMITTEE (O)

### SAMPLE CODE OF ETHICS FOR BOARD AND STAFF

We, as [organization name] professionals (staff and board members), dedicate ourselves to carrying out the mission of this organization. We will do the following:

1. Recognize that the chief function of [organization name] at all times is to serve the best interests of our constituency.
2. Accept as a personal duty the responsibility to keep up to date on emerging issues and to conduct ourselves with professional competence, fairness, impartiality, efficiency, and effectiveness.
3. Respect the structure and responsibilities of the board, provide it with facts and advice as a basis for its policy decisions and uphold and implement policies adopted by the board.
4. Keep the community informed about issues affecting it.
5. Conduct our organizational and operational duties with positive leadership exemplified by open communication, creativity, dedication, and compassion.
6. Exercise whatever discretionary authority we have under the law to carry out the mission of the organization.
7. Serve with respect, concern, courtesy, and responsiveness in carrying out the organization's mission.
8. Demonstrate the highest standards of personal integrity, truthfulness, honesty, and fortitude in all our activities in order to inspire confidence and trust in our activities.
9. Avoid any interest or activity that is in conflict with the conduct of our official duties.
10. Respect and protect privileged information to which we have accessed in the course of our official duties.
11. Strive for personal and professional excellence and encourage the professional development of others.

## RECOMMENDED RESOURCES

Visit [BoardSource.org](https://www.boardsource.org) to view, download, or purchase resources.

### General

[The Board Building Cycle](#)

[The Care and Feeding of Your Board: A Checklist for a Top-Level Board Governance Committee](#)

[Leading with Intent: 2017 National Index of Nonprofit Board Practices](#)

### Strategic Recruitment

[Beyond Political Correctness: Building a Diverse and Inclusive Board](#)

[Board Composition and Recruitment](#)

[Board Member Job Description](#)

[Board Recruitment Matrix](#)

[Diversity, Inclusion, and Equity: BoardSource's Commitment for Ourselves and the Social Sector](#)

[Recruiting a Stronger Board: A BoardSource Toolkit](#)

[Recruiting the Right Board Members](#)

[What Makes a Good Board Member?](#)

[Where Is Race on Your Board's Recruitment Agenda?](#)

### Effective Board Engagement

[Board Member Orientation Checklist](#)

[Board Orientation Template](#)

[Getting on Board with Effective Orientation: A BoardSource Toolkit](#)

[Mentor Your Way to Board Development](#)

[Should We Include All Board Members in Every Orientation?](#)

### Intentional Revitalization

[Board Member Exit Interviews](#)

[Board Officer Succession Planning](#)

[BoardSource Board Self-Assessment Tool](#)

[Board Retreat How-To](#)

[Dealing with Resistance to Board Self-Assessment](#)

[Game On! Successful Peer-to-Peer Assessment](#)

[How to Remove a Board Member](#)

[Sample Board Performance Matrix](#)

[Successful Board Self-Assessment](#)

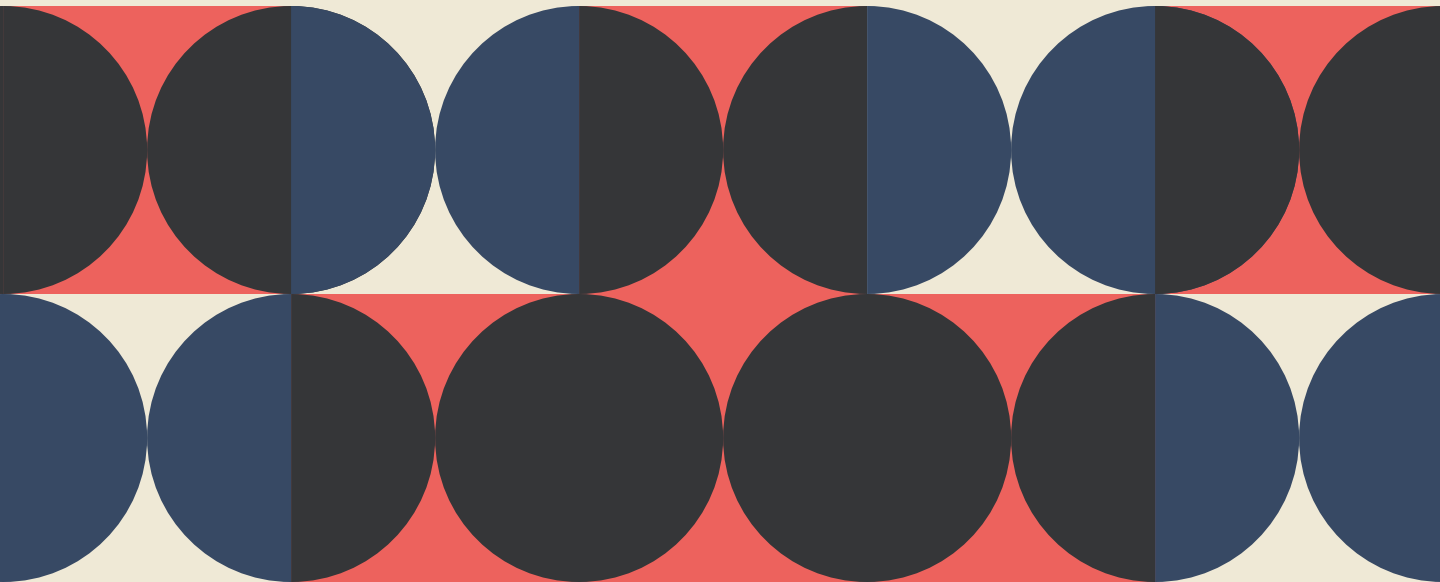
[Succession Planning for the Board Chair Position](#)

[Term Limits: Thumbs Up? Thumbs Down?](#)

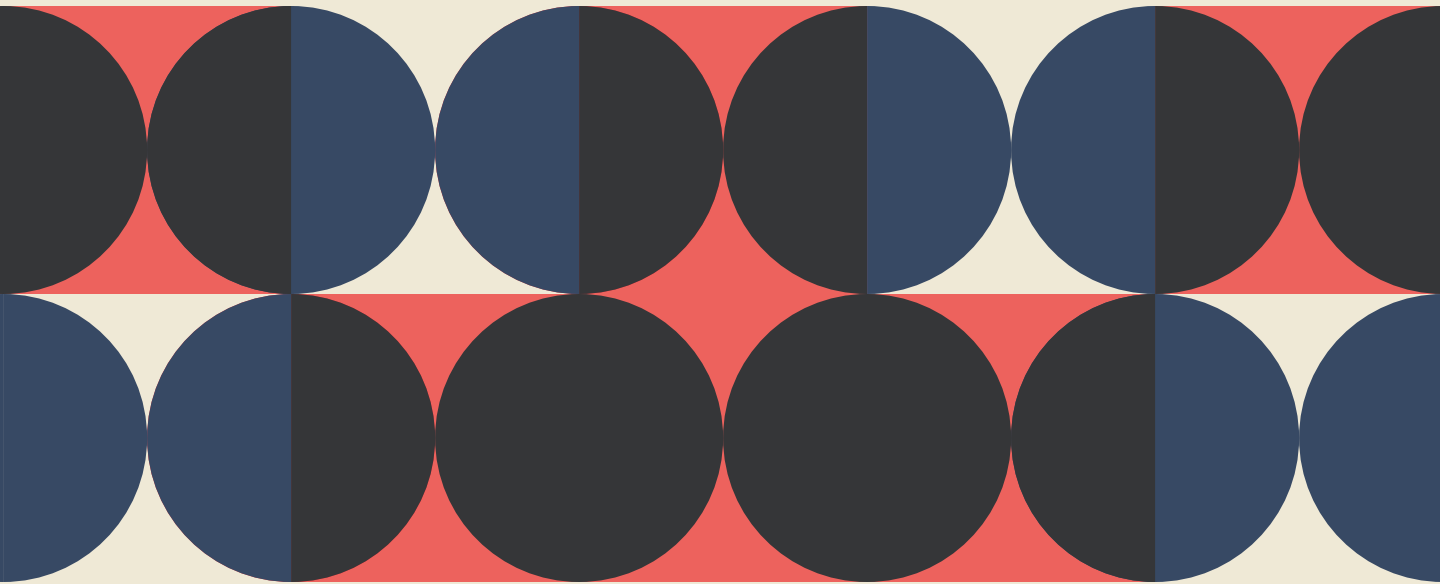


# Executive Committee

Nonprofit Board Committees // Chapter 3



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# INTRODUCTION

The executive committee is a small group of board members — usually including the board chair, other officers, and the chief executive as an ex officio member — that often has the authority to make decisions on behalf of the full board. Committee chairs may also sit on the executive committee. Its overarching role, like the role of all committees, is to help the board do its work in the most efficient way.

While most boards have executive committees (76 percent according to *Leading with Intent: 2017 National Index of Nonprofit Board Practices*), BoardSource encourages all boards to ask if they really need one. Not all do. Many boards find an executive committee to be effective for vetting ideas and setting priorities for the full board's discussion and action or for serving as a sounding board for the chief executive and handling his or her performance evaluation and compensation review. But executive committees have been known to assume so much autonomy that they take over board decision making, leaving the rest of the board complacent, disengaged, or even alienated. Because of this, many boards responsibly choose to not have an executive committee.

When creating any committee, it is wise to first analyze the entire structure of the board and determine if that particular committee would add value. This chapter helps each board make its own best decision about whether to have an executive committee. It addresses some of the benefits and challenges, takes a look at how an executive committee operates, and presents some best practices that will support an executive committee's success.

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## QUESTIONS ANSWERED IN THIS CHAPTER

- Would an executive committee support and add value to the work of our board?
- What are the benefits and drawbacks of an executive committee, and how do those factors apply to us?
- What would governance look like if we did not have an executive committee?
- If we choose to have an executive committee, how do we make sure it does not take on the work of the full board?

## DOES YOUR BOARD NEED AN EXECUTIVE COMMITTEE?

The only good and credible reason to create an executive committee is to help the full board do its job. The board itself is responsible for deciding if an executive committee is needed and what its role should be. Many boards give the executive committee the power to act on behalf of the board. If the board decides to do this, it needs to ensure that the bylaws define the limits of this authority. Otherwise, the committee has the authority to make major organizational decisions that rightfully belong to the full board. To guarantee that the board remains in control and informed, decisions made by the executive committee should be confirmed at the next full board meeting.

The following questions will help your board decide whether an executive committee would be valuable:

- Can our board benefit from a committee that focuses the board's full attention by testing ideas and setting priorities?
- Should we provide a resource for the chief executive that offers mentoring, coaching, and professional support?
- Do our organization's purpose and structure mandate a large board, and would a smaller group authorized to act on its behalf in certain circumstances facilitate faster decision making?
- If we create a smaller inner circle of members, what steps will help ensure that other board members, who also have legal responsibilities and liabilities for board decisions, do not feel shut out and, as a result, disengage? How do we offer all members the opportunity to contribute and lead in a meaningful way?
- How might the creation of the committee change the way board members communicate with each other?
- Has the board worked well together in the past, or does the leadership need to take a more organized approach in shepherding the board's activities?

Your board should be cautious about accepting the following conventional reasons for forming an executive committee, which sometimes mask problems in board culture, structure, or practices that need to be addressed:

- **Board members do not participate actively in the board's work.** Have you explored ways to improve engagement through better meetings, stronger orientation and education, and well-matched committee assignments?
- **The full board has trouble zeroing in on the right issues and reaching decisions.** Have you examined broader issues of board leadership, culture, and composition?
- **The full board's current workload is unmanageable.** Have you distributed enough tasks among board committees, task forces, and advisory groups?
- **Board members are scattered all over the country.** Have you considered holding some full board meetings by teleconference or videoconference?

An executive committee may be less beneficial — and may actually be harmful — if the board is active, harmonious, and motivated, and if it is easy to get all members into the boardroom for efficient dialogue that produces results. Boards with temporary task forces instead of a standing committee structure may also not need an executive committee. Some boards decide against forming an executive committee simply because the thought of one more meeting is not appealing. Or, if open-meeting laws in your state apply to executive committees, the meetings may turn out to be counterproductive.

On the other hand, an organization experiencing a period of high growth might benefit from an executive committee to help focus the board on key issues beyond daily matters. And if a new organization has few or no staff, the executive committee can form the foundation for effective governance as other committees carry out operational activities.

### MYTHS AND MISPERCEPTIONS ABOUT EXECUTIVE COMMITTEES

- Every board should have an executive committee.
- Only large boards have executive committees.
- An executive committee member has elevated status on the board, and serving on the executive committee is the only reason highly influential people join boards.
- Creating an executive committee will help solve the board's problems.
- The executive committee is all powerful.

### The Impact of Board Size and Structure

The most common rationale for creating an executive committee is to alleviate the burdens of a large board. Common sense dictates that a larger group will have more difficulty making decisions than a smaller group. But before chartering an executive committee simply because the board is large, think about whether the board might reduce its size. According to BoardSource's national indexes of nonprofit board practices, the average board size has decreased over the past 20 years; in 2017, the average size was 15 members, and the median size was 13. For some boards, downsizing is a feasible response; for others, it may not be due to fundraising needs, inclusive community representation, or directives from association membership. However, the use of advisory groups with well-defined functions (such as helping raise funds) can help limit board size and keep every member focused on the main responsibilities that come with board service (see Chapter 1).

How much does board size matter? Here are some guidelines:

- **For boards with fewer than 13 members**, there rarely is a need for an inner circle of leadership. With the occasional use of virtual meetings for members who are unable to attend a meeting in person or in the case of an emergency, it should be easy to reach and convene the full board. But if the board agrees that an executive committee should be created, it should be limited to board officers only, with the chief executive as an ex officio member; should facilitate emergency situations only; and should meet only as needed. The full board, board chair, or the governance committee can easily accomplish the rest of the more common executive committee duties outlined in this chapter.

- **For medium-size and large boards with 13 to 23 or more members**, an executive committee can best be used to identify and study major issues and then focus the board's attention on the heart of those issues at full board meetings. It can also help coordinate the work of committees and keep the board informed of operational matters. For the chief executive, the committee can be a sounding board and coordinate his or her performance evaluation and salary review. It sometimes manages the important but often-overlooked task of executive succession planning, though the governance committee generally has this responsibility. For boards of this size, the committee should be composed of board officers and committee chairs with the chief executive as an ex officio member, and keep meetings to a minimum.

For boards with a complex committee structure — perhaps more than four committees and a variety of task forces and advisory groups — an executive committee can bring together the chairs and coordinate committee activities. In organizations with no staff, committees most often take on the roles of department staff and perform functional tasks. When this happens, an executive committee can become a necessity to keep things on track.

### Alternatives to an Executive Committee

What are the options for a board that chooses to not have a formal executive committee? Who assumes the committee's work if the board decides to disband it? If the board is small enough, the work can be done by a committee of the whole (see Chapter 1). If there is a formal committee structure, the duties can be dispersed to other board committees. Boards need to be practical and creative when considering the alternatives, which may include work groups like those described below. It is important to note, however, that boards must monitor these groups to ensure they do not, over time, take on more responsibility than charged.

- A task force of board officers and committee chairs that can convene quickly in the case of an emergency. Key community members may be involved in this task force if they can add value to the group.
- An informal group composed of committee chairs to coordinate committee work and ensure efficiency of structure and activities. Meetings can be infrequent, and much can be accomplished through email and teleconferencing.
- A board leadership group consisting of board officers that provides guidance to the chief executive between board meetings, researches decision-making options, and focuses the work of the board. This group may only need to meet once or twice a year.

A word of caution: Proceed gently when considering the possibility of disbanding an executive committee that has existed for many years. Changing the way that the board's leadership has operated can cause difficulties for the rest of the board and result in turmoil. Place the issue in context and have the full board brainstorm the options.

## ROLES FOR THE EXECUTIVE COMMITTEE

No one-size-fits-all description can be applied to the executive committee. Yes, it is usually composed of the officers of the organization, and yes, it is the only committee that may have the right to make decisions on behalf of the full board. Beyond that, rarely are two executive committees completely alike. Three typical roles are

1. acting for the board between meetings or in urgent situations
2. supporting the chief executive
3. focusing and guiding the board's work

Some boards may also ask the executive committee to work on special projects.

Whatever duties the board decides on, the bylaws must always clearly state the purpose and limitations of the committee's authority, taking care to follow state laws. The bylaws should also specify who serves on the executive committee (for example, board officers and committee chairs) and what types of decisions the committee is and is not authorized to make.

An executive committee should not be authorized to make decisions that have a major impact on the organization or board, such as mergers, dissolution, election or removal of board members, hiring or firing of the chief executive, amending bylaws, approving or changing the budget, or eliminating or adding major programs. In fact, some state laws prohibit a board committee from making such decisions. An executive committee may be authorized to act for the full board in the case of an urgent situation, but the board must be informed of the decision within 24 hours and must ratify it at the next board meeting.

### QUALITIES OF A HIGH-PERFORMING EXECUTIVE COMMITTEE

- Knows its role and authorities and exercises them wisely
- Creates a high level of trust and respect among all the key players: board members, the chief executive, board committees, advisory groups, and others
- Acts sensitively and decisively in a crisis
- Is committed to the mission and vision of the organization and can set direction and smoothly coordinate the board's activities\*

Typically, the authority to act for the full board in an urgent situation enables the executive committee to take action on such matters as approving the emergency use of reserve funds, ordering an investigation concerning the chief executive, or making quick decisions in the aftermath of a natural disaster. But keep in mind that even in an emergency, the full board can be called into a special meeting, either in person or by teleconference or videoconference. It is not always necessary to bestow these decision-making powers on the executive committee.

\* Steve McKee, "The High-Performing Executive Committee," *Service Leader*, January 2011.

Under clearly defined circumstances, the executive committee can be authorized to make decisions on routine matters, such as signing or renewing contracts that the board has approved beforehand or endorsing standard, repetitive actions or documents on a regular basis. These decisions and documents can be included in the consent agenda for the next board meeting. Matters considered “routine” are those the full board is already familiar with and has included in the list of acceptable issues within the determining power of the executive committee.

## **Chief Executive Relations and Support**

An equally common set of duties for the executive committee, and one less fraught with controversy and complexity, is related to the chief executive. These functions include acting as a readily available sounding board and support system, coordinating performance and compensation matters, and making sure a succession plan is in place.

### **Providing a Sounding Board**

Leadership is personal work, and the chief executive’s job can be highly demanding. Often it is helpful to have a safe harbor where he or she can discuss the challenges of the job in depth and seek advice about tough problems. A full board meeting is not always the best place for these conversations. Expecting a chief executive to discuss a personal issue like “what keeps you awake at night?” in front of 20 board members may leave him or her uncomfortable. With an executive committee, the chief executive has a small group of key, trusted board members with whom to explore ideas or share potentially sensitive and personal information. This relationship supports leadership development, and it can be an enormous asset to both parties.

For a chief executive who is new to the job, having an effective executive committee can help him or her avoid potential perils that he or she may not be experienced enough to know. An executive committee that is there for the chief executive, providing good coaching, advice, and encouragement, could make the difference between a short tenure and a longer one. After all, three key reasons that chief executives leave their positions are burnout, a better employment opportunity, or board relations. A tuned-in executive committee might be able to mitigate these factors.

**COMMITTEE [ ]****SAMPLE EXECUTIVE COMMITTEE CHARTER**

The work of the committee revolves around five major areas:

**1. Perform policy work.**

- Carry out specific directions of the board, and take action on policies when they affect the work of the executive committee or when the full board directs the committee to do so.
- Act on behalf of the board on all issues related to [organization name] between board meetings, with responsibility to report actions to the board for ratification or further board action at the next board meeting.

**2. Act as liaison to the chief executive.**

- Nurture the chief executive by providing counsel, feedback, and support when needed.
- Plan and conduct an annual assessment of the chief executive and report the results of the assessment to the board and chief executive.
- Review compensation and benefits for the chief executive.

**3. Coordinate the development of a strategic planning process.**

- Initiate the board's involvement in establishing a strategic framework or direction.
- Approve and/or assist in strategic planning.
- Review the annual performance plan focusing on progress made, or the lack thereof, in accomplishing goals on a semi-annual basis and reporting to the board as warranted.

**4. Conduct executive searches.**

- Assume the lead in the search for a new chief executive or delegate the responsibility to a task force.
- Conduct the research necessary to determine an appropriate salary for the chief executive.
- Seek approval from the full board before terminating an existing chief executive or hiring a new chief executive.

**5. Handle urgent issues.**

- Resolve an emergency or organizational crisis (e.g., loss of funding or unexpected loss of chief executive).

**Coordinating Performance and Compensation Reviews**

The full board is responsible for ensuring both satisfactory chief executive performance and appropriate compensation. Because performance review in general and compensation adjustment in particular are sensitive matters, many organizations look to the executive committee, the governance committee, or a task force to serve in a coordinating role. These issues are often better discussed and negotiated in detail in a smaller forum and then shared and ratified by the full board in executive session.

Should your board choose to assign this responsibility to the executive committee, it can work with the chief executive to develop an individual performance plan for the year, including both institutional and personal goals and expectations. Executive committee members, if they also act as the sounding board for the chief executive, are in an excellent position to review this plan regularly with the chief executive, modify the existing job

description, and pay special attention to issues concerning the chief executive's relationship with the board. The executive committee — independently or in cooperation with the board chair and/or governance committee — can initiate and coordinate the actual performance review process, ensuring that each member of the board is aware of the process and approves the final outcome. Relying on a consultant to carry out the evaluation may not be the best way of using outside assistance. Too many internal, relationship-related, and intangible aspects feed into satisfactory and measurable performance.

It is also important that the board review the chief executive's compensation annually, adjusting it in a justifiable and reasonable manner. Many executives wait patiently for a salary review only to be placed in the uncomfortable position of having to ask for it — and ask for it again. No chief executive should be put in such an uncomfortable situation. Instead, the board should assign the responsibility for ensuring an annual salary review to the board chair, executive committee, or governance committee. Some boards decide on the executive or governance committee because the task can be time consuming and it wants more than one board member addressing this important issue.

Appropriate compensation is particularly important in light of intermediate sanctions rules that impose personal fines on board members whose chief executive received excessive compensation, whether or not the board member was involved in the decision-making process. If executive committee members cannot devote the necessary time to the detailed work behind the issue, it is perfectly acceptable to use a consultant to research compensation levels in similar organizations in the area. While the board may rely on expert guidance on this issue to relieve it from liability, it must keep the documentation that backs up its final decision. Every board member must be familiar with the details of the employment contract and the compensation package. Certain information about chief executive compensation is public knowledge and must be disclosed on the organization's annual IRS Form 990 (see Chapter 4). A nonprofit must provide information about the methods used to determine compensation, as well as the reportable compensation amount.

### **Succession Planning**

Succession planning is a proactive process that includes not only managing executive transitions but providing for ongoing leadership development. While many organizations appropriately task the governance committee with succession planning, the responsibility can fall to the executive committee.

An executive succession plan should allow for evaluating the organization's leadership needs, establishing search and transition committees, delegating interim management responsibilities, and communicating with stakeholders. Succession planning is connected to supporting and evaluating the performance of the chief executive, and it generally includes the following elements:

- An up-to-date job description for the chief executive
- Clear annual performance expectations for the chief executive
- Measurable indicators for the performance of the entire organization
- Determination at regular intervals whether the organization is going in the right direction and what the key qualities of the chief executive should be

- Assumption that the chief executive must be capable of taking the organization to its expected level of performance
- A process for hiring a new chief executive
- Options for managing the executive transition period
- Emergency measures for unexpected loss of the chief executive

### **Focusing and Guiding Board Work**

Time is precious, and all boards want to focus their attention on important work. Whether the board is discussing a new strategic direction, a capital campaign, or the search for a new chief executive, the executive committee can help steer the board's attention by formulating and presenting questions for discussion on issues the board needs to address. What should be the board's involvement? Why are we doing it? Should we hire a consultant? The executive committee can identify priorities and clarify the responsibilities that belong to the board. It can illustrate where the staff has authority to act and what responsibilities belong to staff as well. By doing so, it can help set a micromanaging board back on course and remind individual board members of their roles if they move too close to the chief executive's sphere.

Coordinating committee work is another important contribution that an executive committee can make. When a board has an active group of committees, it can be a struggle for the board chair to keep things organized. The executive committee can be an effective tool for convening committee chairs to bring order to a decentralized governance structure.

### **Working on Special Board Projects**

Some boards assign special projects to the executive committee. For example, the committee may become the task force to launch strategic planning. Because of its composition, it is in a good position to ensure that the full board understands the need for planning and becomes actively involved. With the chief executive as a member of the committee, the necessary operational side feeds into the process. In fact, in many organizations, the chief executive may actually alert the committee to the need for planning and engage the board's leadership and support for the endeavor.

## **WHO SERVES ON THE EXECUTIVE COMMITTEE?**

The composition of the executive committee depends largely on the duties and size of the board, although the typical committee usually includes all officers, the chief executive, and key committee chairs. Executive committee composition should be clearly outlined in the bylaws. The contemporary practice of non-board members serving on committees is unwise for executive committees because the issues the committee addresses are sensitive and confidential.

## The Role of the Chief Executive

The chief executive usually serves on the executive committee as an ex officio member. Because the committee addresses major issues, it is essential that the chief executive's point of view be heard by the board's leadership. If the chief executive is a nonvoting board member, he or she will not have the power to vote on executive committee decisions but can add value to the committee's discussions. The chief executive can use this time to update the committee on hot-button issues, share insights on topics up for discussion, or use the committee as a sounding board or professional coach.

### EXECUTIVE COMMITTEE MEMBERSHIP OPTIONS

Executive Committee Role	Composition
Acting for the board in emergency	Officers
Sounding board for the chief executive	Officers; committee chairs
Chief executive evaluation	Chair; board member with expertise in human resources
Guiding board work	Officers; committee chairs
Special projects	Chair; board members with relevant expertise

## SUPPORTING EXECUTIVE COMMITTEE SUCCESS

While every board should think carefully about its need for an executive committee, many boards find them valuable for the following reasons:

- A smaller group can make urgent, quick decisions more easily.
- The committee can study complex issues, bring its generative questions, findings, and recommendations to the full board, and help the board focus on decision making.
- A smaller group can save the board time by approving standard actions or documents.
- The chief executive has a structured sounding board.
- The committee can lead the chief executive's performance and salary review.
- The committee can ensure that momentum is not lost when the board's full attention is needed to move forward on a vital issue.

Ultimately, whether the executive committee is an asset or a liability to an organization depends upon a variety of factors, including the original rationale for the committee, the clarity of its duties and guidelines of conduct, its structure, and how well it keeps the full board informed. Clear expectations for any board committee are essential, but they are especially critical for an executive committee. Many boards have experienced some of the risks inherent in a small committee that is authorized to speak for the board.

How does the board know if the executive committee is doing more harm than good? The following warning signs should alert your board that its executive committee is overreaching to the point that it is inappropriately taking on the work of the full board:

- Board morale is low.
- Board members not on the executive committee fail to attend board meetings or otherwise become disengaged with the work of the board.
- A sense of secrecy surrounds the executive committee.
- The executive committee meets more frequently than the full board.
- Board meetings become routine and uninteresting.
- Issues brought to the board from the executive committee receive less and less debate and deliberation as members feel that decisions have already been made.

Every board member has a legal responsibility for all decisions made on behalf of the organization, so these warning signs should prompt board members to question the executive committee's practices, especially when they suspect that information is being withheld from the rest of the board.

### BEST PRACTICES FOR EXECUTIVE COMMITTEES

- **Make the committee intentional.** The full board determines if an executive committee is needed and what its role should be.
- **Clarify authority levels.** The full board agrees to the authority given to the committee, and the bylaws clearly state the committee's limitations.
- **Understand the special nature of this committee.** Unlike other board committees, the roles and boundaries of the executive committee should be defined in the board's bylaws.
- **Delegate cautiously.** The board should be judicious and specific about the powers that it delegates to the executive committee.
- **Separate the committee from the board.** Avoid having executive committee meetings act as dress rehearsals for full board meetings.
- **Communicate.** Establish policies and procedures for communications between the executive committee and the full board.

## PREVENTING THE "INNER BOARD" SYNDROME

The executive committees that seem to provoke the strongest negative reaction are those that assume the full board's authority and act as an "inner board."

What creates this inner board predicament? Is it the delegation of power to act alone? Will a board that authorizes an executive committee to act on its behalf live to regret it? In reality, not all executive committees with the authority to act on behalf of the full board suffer the consequences. For example, a national association with board members spread throughout the country may find an executive committee chartered to act for the full board — with clear guidelines — to be a real asset. But, as stated earlier, it is important to

be aware of the dangers. How the executive committee functions in relationship to the rest of the board and the chief executive determines whether it adds to or detracts from the work of the board.

To avoid inadvertently creating the inner board predicament, boards usually deal with this concern in the following ways:

- They limit the kinds of decisions that the committee has the power to make.
- They outline expected guidelines of conduct.
- They set up mechanisms for keeping the full board informed about the work of the executive committee.

### **Limiting Decisions**

A rare board confers authority on an executive committee without some sort of direction about the limits of the committee's powers. Because acting for the board is the most common duty of the executive committee, the most typical limitation relates to when the committee can exercise that authority — usually when the full board is not meeting or in the case of an emergency. Boards can limit the committee's authority by requiring any decisions to be subject to later ratification by the full board. This guarantees the board's actual involvement in all board decisions.

Many boards go into more detail and add covenants that restrict the kinds of decisions the executive committee can make. Some boards give the committee the power to act for the board on routine matters only but never for emergencies, while other boards do just the opposite, as in this job description:

The executive committee shall exercise the powers of the board in the interim between board meetings, except that it shall not have power to adopt the budget or to take any action that is contrary to or a substantial departure from the established direction of the board, or which represents major change in the affairs, business, or policy of the organization.

The bylaws should outline the committee's limits of authority.

### **Establishing Rules of Engagement**

It may be difficult, if not impossible, to legislate all of the particular situations and appropriate responses that an executive committee might confront. The committee can avoid difficulties by outlining guidelines of conduct for its members. There is a difference between board member duties and guidelines of conduct, which relate to board culture. For example, it may be a duty of the executive committee to act for the board, but it is a guideline of conduct not to undermine the board's authority. It may be a board member duty to attend meetings, but it is a guideline of conduct to respect the opinions of other board members during discussions that occur at those meetings.

Few boards take the time to discuss guidelines of conduct in depth, yet they are the source of many complaints. A frequent complaint about a board is often about the

behaviors of its members — its conduct or values — not about its duties. The most effective way to avoid these governance trouble spots is to spell out the desired expectations in advance. Once this is done, performance can be evaluated against these duties and guidelines of conduct on a regular basis.

For example, to make sure the full board doesn't become a body that simply rubber-stamps executive committee recommendations or decisions, the board can create a guideline that says any work done by the executive committee should always be brought to the board in the form of at least two alternatives. This gives the board the opportunity to make the final decision. For boards that look to an executive committee to address a crisis, the guideline might say that the executive committee has the authority to act on behalf of the full board in the case of an emergency, informing the board of the decision within 24 hours, with any decision to be ratified at the next board meeting.

The executive committee of a local chapter of a national organization set the following guidelines:

#### **Duties**

Ensure that the chapter chief executive is selected, supported, reviewed, and fairly compensated.

#### **Guidelines**

- Help the board do its job, not the professional staff members do their jobs.
- Respect the single-voice authority of the board.
- Ensure that the work of the board is never reduced to rubber stamping committee recommendations.
- Respect the chain of command between the board and the chapter chief executive and between the chapter chief executive and the professional staff.

Whether the board develops specific guidelines and then measures performance against them or uses a less formal approach is a matter of choice. The important thing is to encourage regular and frank discussion about how the executive committee interacts with and supports the work of the board. The board chair, the chief executive, or even a third party such as a consultant or former board member can initiate this discussion.

## HOW ONE ORGANIZATION DEVELOPED GUIDELINES OF CONDUCT

These executive committee guidelines were created at a board planning retreat. The retreat facilitator posed a series of questions that board members addressed in a brainstorming exercise. They then developed final guidelines.

Ideas	Guidelines of Conduct
<p><b>Question:</b> How should the committee's time be spent?  <b>Answer:</b> Do important work; support the mission; be productive; stay on subject; stay focused; use time effectively; start and end on time; don't waste time; keep meetings interesting.</p>	<p>Focus talent and time on important work.</p>
<p><b>Question:</b> What personal qualities should committee members bring to the committee?  <b>Answer:</b> Be proactive and engage in "give-and-take"; be an active board participant; be interactive; respect each other; be positive; be happy; don't bring personal agendas; avoid constant confrontation; be professional; make others feel valued; cooperate; be respectful of each other; be open and honest.</p>	<p>Be cooperative and value the diversity and strength of all members.</p>
<p><b>Question:</b> What should the committee's relationship be with the organization?  <b>Answer:</b> Do not meddle; remember the board's role; mind the board's job versus the staff's job; respect the chain of command; don't get involved in operations; value the chief executive's opinions; motivate the chief executive; follow up; hear what staff say; respect the staff's experience; be consistent; be fair; set clear expectations.</p>	<p>Govern the organization, don't manage it.</p>

## Keeping the Board Informed

The executive committee does its greatest disservice when it does not keep the rest of the board informed. Board members should not read about excessive chief executive compensation in the morning newspaper or learn that the chief executive was forced to resign only to find out later that the successor was waiting in the wings for three months. An exclusive and authoritative executive committee that makes a major decision without taking the counsel of the rest of the board — particularly when the full board does not agree with the decision — can cause serious damage.

Situations like these deny board members the very information they need to fulfill their legal responsibilities. In fact, if the executive committee assumes the decision-making role without board consultation and oversight, and a decision turns out to harm the organization or a third party, board members can be held legally liable. In addition to respecting the board's decision-making authority, the executive committee must give board members the information they need to remain connected and accountable and to provide proper oversight of the organization's activities. Some boards do this by providing minutes from executive committee meetings and discussing the issues the committee has confronted — either during a regular board meeting or in executive session if the issue so demands. In the case of emergency decisions, boards need a formal policy and procedure for communication between the committee and the board.

The discussion leading to a decision to form — or not to form — an executive committee is, in many ways, indicative of a board's decision-making process in general and provides an opportunity to examine that process. Is every member involved in the deliberation? Does a small group determine the outcome? Is the decision well justified, and are the committee's guidelines in place before the resolution is enacted? Every board also should be actively engaged in answering the questions raised in this chapter. After all, it is not the board's leadership that makes the decision to form the committee, but the full board. Think critically when making the decision. Consider the current culture of the board. Weigh the pros and cons. Can you justify the formation of this committee as a beneficial and constructive tool to improve the efficiency of your board? If so, a well-defined and well-steered committee can help elevate your board to the next level of effective governance.

## RECOMMENDED RESOURCES

Visit [BoardSource.org](https://www.boardsource.org) to view, download, or purchase resources.

[Chief Executive Succession Planning](#)

[Executive Committee](#)

[BoardSource Blog: Executive Committees: To Be or Not to Be?](#)

[Executive Evaluation and Compensation](#)

[Executive Transition](#)

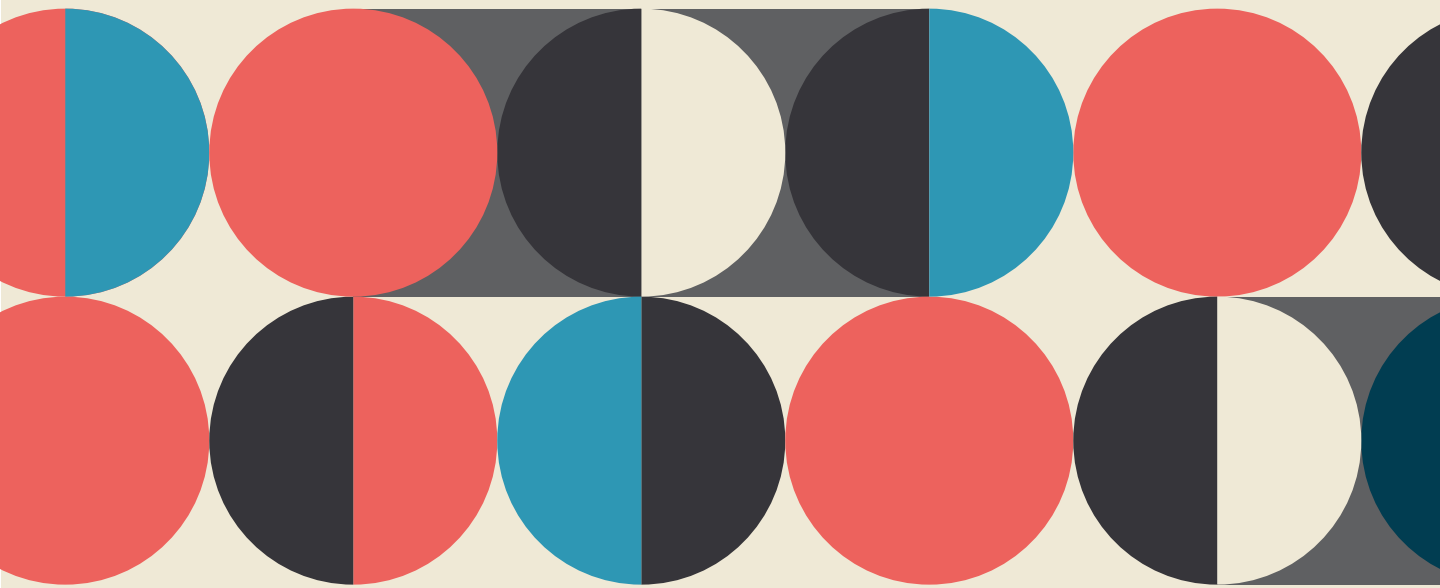
[Nonprofit Executive Compensation: Planning, Performance, and Pay](#)



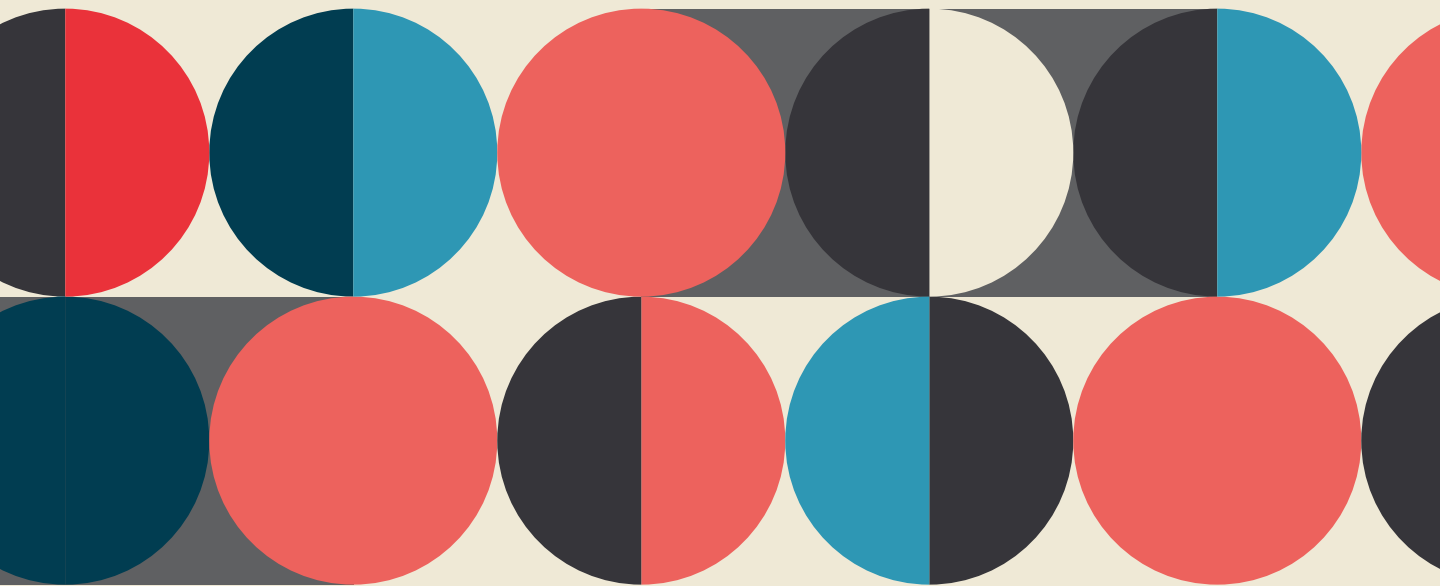


# Financial Committees

Nonprofit Board Committees // Chapter 4



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# INTRODUCTION

If you were to ask most members of a nonprofit board what they want their financial committees to accomplish, they would likely say: “To take over this area that we don’t understand and don’t want to spend time on, and make sure that we stay out of trouble.” Giving proper and focused attention to the responsibilities of your board’s financial committees can be complicated and presumes a reasonable amount of specialized knowledge. The challenge with respect to effective governance, however, is that each member of the board is a fiduciary, and transferring the full responsibility of overseeing the finances to a smaller group of people puts every board member, as well as the organization, at risk. Remaining willfully ignorant about what your board’s financial committees are doing is simply not an option. The full board always remains the responsible and liable body and cannot delegate this duty to anyone else.

Board members, regardless of their predisposition, have to be involved in answering these essential questions: What should the various financial committees do? What are their main duties, and what are their discretionary duties? When can one finance committee carry out all the duties, and when is it necessary to delegate the tasks to separate work groups or subgroups?

Most boards have a principal finance committee that oversees the financial planning and management of the organization by ensuring that all fiscal aspects of operations are in order. While there is no official list of mandatory activities, most advisors tend to agree about the core duties of a finance committee (see page 83).

Non-core duties are responsibilities that the finance committee must perform in the absence of other committees dealing with financial issues — notably a dedicated audit committee, which is charged with overseeing the independence of the organization’s audit functions and its compliance with legal and ethical standards. Non-core duties can also include responsibilities related to investment decisions when there is no separate committee devoted to this function.

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## QUESTIONS ANSWERED IN THIS CHAPTER

- How do we decide whether our board needs multiple financial committees?
- How do financial committees work with the organization’s financial staff?
- What are the basic responsibilities of the finance committee?
- Should our board have an audit committee or task force? An investment committee or task force?
- What are the basic responsibilities of the audit committee, and what is its relationship with the independent auditor?
- Are there viable ways to combine financial tasks with the work of other board committees?

## HOW TO CONFIGURE A BOARD'S FINANCIAL COMMITTEES

When a board separates its financial tasks among individual committees or task forces, it is in a better position to focus on the key aspects of each task. Segregation of duties allows the board to benefit from the specific skills of its members. It also provides for added accountability when oversight for financial management and the independent audit are fully detached.

Boards structure their financial committees in different ways. Some find a need for a finance committee, an audit committee, an investment committee, and a development committee. Some determine that they do not need so many work groups. Others choose to create task forces instead, which provide flexibility and efficiency for handling various demands in the financial context of an organization.

The size and complexity of an organization and its board will determine the configuration of financial committees. Smaller boards usually cover both core and non-core duties with a single finance committee (see page 103 for more about the challenges of combining responsibilities into one committee). Larger boards, on the other hand, have more people and resources to support additional committees. The test to determine when your board needs them is mostly experiential. When the task grows too big for a single finance committee to complete in an effective manner, it is time to have multiple committees.

### Why to Have Multiple Committees

In the interest of keeping committee structure lean and strategic, boards should think carefully before creating any committee or task force (see Chapter 1). Most boards have one or more financial committees, however, and there are good reasons to do so.

#### Scope of Financial Activity

As a nonprofit grows and its revenues increase, the scope of its financial activity changes. More revenue means not only more resources available to the organization, but also additional demands. The full board may need to diversify its oversight functions and divide the responsibilities among separate finance-related committees in order to accomplish its tasks more efficiently.

#### Nature of the Financial Management Challenge

The interplay among multiple or sophisticated revenue sources also imposes added complexity, as the organization has to navigate complicated and sometimes conflicting requirements. When an organization receives federal funding, it is often driven to the next level of sophistication. If a nonprofit organization spends (not receives) more than \$750,000 in federal funding in one fiscal year, the federal government requires what is commonly known as a single audit (previously called an A-133 audit), which combines the audit of the federal funds received with the financial statement audit. Overseeing this compliance may require a dedicated committee or work group.

The presence of an endowment can also increase the board's financial responsibilities, since it assumes additional fiduciary duties for safeguarding and nurturing those funds. Even if the endowment is held in the form of stocks managed by financial professionals, the board still has the responsibility to oversee that relationship. A substantial endowment often requires a dedicated investment committee to oversee it separately from the traditional finance or audit committees.

### **Degree of Regulatory Oversight**

Board members of organizations that receive government funds often underestimate the degree of administrative oversight required to operate in a heavily regulated environment. It is important to note, however, that government funders set regulations only for the use of the funds they provide, not for the nonprofit as a whole. This subtle but important distinction means that organizations must not rely on the funding source to supply most of the meaningful oversight but are responsible for doing it themselves.

As public policy, this restrained governmental role is sensible. It limits government involvement in the general internal affairs of the organization. Nonprofits are designed to be accountable to the community, and they are held to a high standard of ethical behavior and statutory regulation.

When a governmental agency does take regulatory actions, they are usually in response to some sign of trouble or improper use of funds. Careful, proactive analysis typically falls under the domain of board committees or task forces, meaning that there is extra pressure on the board to ensure that the organization is in full compliance with its public obligations.

### **Financial Committee Relationships**

Financial committees make recommendations to the full board rather than binding organizational decisions. For this reason, finance committee members are no more liable than any other board member.

The board treasurer is often closely affiliated with the finance committee and usually serves as its chair. This makes sense, as the treasurer should have the needed financial acumen and, as a board officer, is closely involved in leading the board in financial thinking. A highly regarded treasurer also has the skill of making complicated fiscal issues more understandable and palatable for other board members.

Financial committees are only a few of the groups that are involved in the organization's fiscal matters. So that no group misunderstands or oversteps its authority, it is helpful to outline the relationships. Job descriptions are highly advisable to define the needed boundaries.

## Financial Staff

The finance committee and the staff work most closely on aspects of financial reporting. Finance committee members collaborate with senior financial staff, notably the chief financial officer and, of course, the chief executive. If there is no chief financial officer, the chief executive serves that function. The chief financial officer oversees staff activities that relate to financial issues, is the key person to move the annual budget into the finance committee's hands, and ensures that accurate and timely financial statements reach the full board regularly. The finance committee should support the chief financial officer during planning and budget preparation, but it is important to draw a line between serving as useful advisors and getting too involved. Committee members need to distinguish their roles from the staff's to avoid micromanagement.

Members of the audit committee have the important role of communicating the need for high ethical standards for every board member and ensuring that the staff is following similar principles. The investment committee deals primarily with the outside investment manager and reports to the full board. Investment committee members are less likely to interact with staff on a regular basis (see page 102).

## FINANCE COMMITTEE

The finance committee concentrates on the following core duties, letting the other fiscal committees handle the rest of the financial issues on the board's agenda:

1. Oversee financial planning.
2. Ensure that assets are protected.
3. Draft organizational fiscal policies.
4. Anticipate financial problems.
5. Ensure the accuracy and efficiency of financial management.
6. Help the full board understand the organization's financial health.
7. Develop and sustain the finance committee.

If the board does not have a separate audit committee, the finance committee's core duties also include oversight for the independent audit and risk management (see pages 91-101).

## COMMITTEE TOOL

### SAMPLE FINANCE COMMITTEE CHARTER OR JOB DESCRIPTION

*This description applies when the board has a separate audit committee. If there is no audit committee, then those responsibilities are added to the finance committee's charter.*

The finance committee is responsible for assisting the board in ensuring the organization is in good fiscal health. The work of the committee revolves around six major areas.

1. Ensure that accurate and complete financial records are maintained.
  - Monitor income and expenditures against projections.
  - Review and recommend financial policies to the board, including ensuring adequate internal controls and maintaining financial records in accordance with standard accounting practices.
2. Ensure that accurate, timely, and meaningful financial statements are prepared and presented to the board.
  - Present quarterly or monthly financial statements to the board.
3. Oversee budget preparation and financial planning.
  - Propose for board approval a budget that reflects the organization's goals and board policies.
  - Ensure that the budget accurately reflects the needs, expenses, and revenue of the organization.
4. Safeguard the organization's assets.
  - Review proposed new funding for ongoing financial implications, recommending approval or disapproval to the board.
  - Ensure that the organization has the proper risk-management provisions in place (if there is a separate audit committee, it takes the lead in this area).
5. Help the full board understand the organization's financial affairs.
  - Ensure that the board as a whole is well informed about the organization's finances.
6. Ensure compliance with federal, state, and other requirements related to the organization's finances.
  - Ensure that the organization maintains adequate insurance coverage.
  - Ensure that the IRS Form 990, other forms, and employment and other required taxes are filed completely, correctly, and on time.

### Oversee Financial Planning

All financial opportunities and constraints must be addressed during the strategic planning process and in the resulting framework or plan, which drives all other organizational planning within a realistic financial context. The finance committee has a key role to play in the strategic planning process by participating in the analysis of the external and internal environment that determines the organization's future course.

During the annual budgeting period, the finance committee works closely with senior financial staff to ensure that the process is efficient, that key elements of the strategic framework or plan are addressed, and that previous decisions are properly interpreted in the budget. In carrying out this core duty, the board will find that there is a fine line between exercising oversight and execution. This working relationship will vary among organizations. Some finance committees review and approve the budget before it goes

to the full board for approval, while others are more involved in developing the budget. The organization's budget size, the size of the financial staff, and the sophistication of financial management tasks all affect how the committee-staff relationship works. Smaller organizations are more likely to involve board members in the development of the budget and the monitoring of internal financial systems.

Even if drafting the budget is generally a staff function, committee members can provide additional — and often welcomed — feedback to staff on the big-picture issues that relate to the strategic framework or plan. Collaboration with staff as the budget is being developed eliminates misunderstandings and wrong assumptions about the board's future directives. The board ultimately must approve the budget, so why not make sure that the key elements are included and that the budget figures are consistent with decisions the board has made?

By taking a bird's-eye view of the evolution of all activities — fundraising, other revenues, and all accrued expenses included — the committee can keep track of the bottom line as it monitors the regular financial statements it receives from the staff. The committee's duty is to spot the red flags and explain the variances to the rest of the board — after the staff has justified any discrepancies.

The importance of reliable financial information cannot be overstated. This list provides some indicators of a superior budget system:

- The organization has a defined yearly cycle of budget development and monitoring.
- Forecasts provide continuous information over the fiscal year about financial projections that differ from the approved budget.
- The budgeting process is linked explicitly to the overall strategic framework or plan.
- Budget development includes program managers' ideas.
- Managers distinguish between operating budgets and capital budgets for investments such as real estate, vehicles, and computer systems.
- All managers receive regular budget reports on their areas of responsibility.
- The finance committee receives its own set of regular budget reports.
- Managers are held accountable for their budget performance.

## **Ensure That Assets Are Protected**

The fiduciary duty of nonprofit boards to ensure that assets are protected, which is grounded in legal theories of accountability, prompts specific responsibilities that often fall to the finance committee. One of the most common is to oversee investment of the reserves or the endowment (depending on organization size, sometimes a separate investment committee or even the full board takes on this task). Maintaining oversight to ensure that a system of internal controls is in place is another way that the finance committee can protect a nonprofit's assets if the audit committee does not specifically oversee this important aspect of the organization's finances.

Paradoxically, however, some finance committees can be overzealous in the opposite direction, becoming so concerned with avoiding financial risk that they are unwilling to consider anything remotely resembling innovation. The board should determine and

maintain an appropriate level of reserves, not being afraid to use any surplus to support organizational endeavors or innovation.

### **Draft Organizational Fiscal Policies**

Fiscal policies serve as guidelines — and protection — for board and staff as they address the numerous complicated and routine questions related to the financial management and oversight that affect the organization. These policies are reference tools for appropriate action, ethical decision making, and dealing with potential or actual conflicts. Some of these policies can paraphrase a legal or accounting regulation, explain a procedure, clarify a principle, or express a desired goal. When properly used, they help diminish embarrassing or potentially harmful situations, improper behavior, and ineffective decision making.

The challenge for the finance committee is to know where to draw the line between everyday procedures and overall organizational policies. The committee should not get involved in defining processes for staff. It should let the staff determine its methods for routine processes and tasks. But it should draft policies for board approval that deal with acceptable reserves, investments, the board's involvement in signing major purchases or financial commitments, or appropriate use of board-designated funds.

### **Anticipate Financial Problems**

Being an educated clairvoyant is one of the most valued qualities of a competent finance committee. Committee members who see the connections between the organization and its external fiscal environment are in an advantageous position to guide the board's fiscal decision making. No organization functions in a vacuum. World economics, market fluctuations, political powers shaping the country's fiscal policies, regional issues affecting the financial viability of the communities, changing industry standards, or local demographic transformations can affect the money flow within an individual nonprofit.

Assessing internal structures and processes is just as important as knowing the external environment. The committee must be attuned to internal conditions that provide a breeding ground for financial mismanagement or fraud. Being farsighted and proactive is the best approach in avoiding financial disasters.

### **Ensure the Accuracy and Efficiency of Financial Management**

Finance committees have multiple oversight responsibilities in relation to financial management, but the first step is making sure that the information exists and that it is timely, accurate, complete, and useful. Committee members have two mandates: What does the information mean? How reliable is it? This chapter focuses mainly on the reliability of the information rather than its implications; for guidance in interpreting financial information, see Recommended Resources on page 106.

Fortunately, board members have many ways of assessing the reliability of the information produced by their organization's financial staff. Nothing is more important than the board's communication with the independent auditor. This information pathway is so essential that some boards form stand-alone audit committees. Here are some other ways to evaluate the information received by the finance committee.

**Does the information exist?**

The simple existence of financial reports is perhaps the single key indicator of the adequacy of a record-keeping system. When the staff consistently seems to have an excuse for the unavailability of financial data — the computer system went down, someone got sick, the bank was running late transmitting the records — that is a warning sign.

**Is it timely?**

At the end of every month, the staff must close the books and records. Shortly afterward, it should be prepared to produce reports for that month. Except in the very smallest nonprofits, complete records should be available within no more than 15 calendar days after the month ends. With today's financial accounting software, the staff should be able to produce accurate records at practically any time. Remember: The longer the board waits for financial information, the staler the information becomes, and the longer the board may take to notice and address problems.

**Is it helpful?**

Recordkeeping amounts to little if its output is not useful. If the board is not receiving what it needs, the finance committee must step in and clarify what specific reports it needs and which data must be included in what format.

Most accounting software has built-in standard reporting templates, but it may be worthwhile to create a set of customized reports — understandable to a nontechnical audience — that help monitor your organization's particular set of indicators. Though there are many traditional financial reporting models, there are no absolute standards for what a good system looks like; it depends on the organization's explicit needs.

**Does it hold up over time?**

Is the board reasonably sure that the numbers will not change and have to be restated? If so, you can probably assume that you are receiving accurate information through a high-quality system. The annual financial audit is a good checkpoint. Is the information in the last month's financial reports different from that in the audit? If so, by how much? The greater the discrepancy, the more likely it is that you have been receiving erroneous information all year and that the auditors found it necessary to make substantial corrections.

**Does it pass the “smell” test?**

For many people, financial matters seem shrouded in mystery. The knowledge required to understand and analyze financial matters is specialized and technical. Given the complexity, many board members naturally feel that they are working out of their depth in examining a balance sheet or monthly income statement. No one wants to venture into an area where he or she fears being revealed as ignorant or incapable. Yet some of the best insights about finance can come from old-fashioned common sense. If you are given financial information that does not seem to add up, question it. Even if the apparent discrepancy turns out to be completely innocuous, you have sent the important message that you are paying attention.

The finance committee is often in the best position to help the board confirm that all federal, state, and local reporting takes place. If the board has a separate audit committee, this group usually assumes that duty. Ultimately, it does not matter who takes the responsibility, as long as you avoid waiting until government officials, or even your auditor, bring negligence or misjudgment to your attention. (For more about the role of the audit committee, see pages 91-101.)

## Help the Full Board Understand the Organization's Financial Health

Many board members are uncomfortable overseeing finances and, for that reason, are happy to ask finance committee members to take on that responsibility. At the same time, the full board needs understandable financial information to carry out its duties properly. One of the most effective roles for the committee is as a communication channel to the rest of the board, translating financial data into meaningful and understandable terms:

- Speak to the board about financial matters in plain English with as little technical jargon as possible, and insist that the staff and outside advisors do the same.
- Be willing to answer any questions, no matter how seemingly simple or irrelevant.
- Use words and language, including short notes or inserts into financial material, to support whatever message the numbers are expected to convey.
- Use graphics, such as a dashboard, instead of or in addition to numbers or words. Visual elements often enhance understanding of complex or unfamiliar subjects.
- Talk about the implications of a financial report; do not just describe its contents.
- Explicitly link the financial health of the organization with its goals and strategy. Explain why finances will or will not allow the organization to accomplish what it has set out to do.
- Work with the governance committee to ensure new board members are educated during orientation on how to read and interpret financial statements.

## Develop and Sustain the Finance Committee

The demand for qualified and financially savvy board members is getting tougher. Even for-profit companies, now legally required to have at least one financial expert on their audit committees, are tapping into the available pool of candidates. Nonprofit boards must take recruitment seriously and reserve the necessary time for the hunt and subsequent training of new board members. If your new (or current) board members do not have the needed acumen, numerous training tools are available to start correcting this situation.

As is true with other board members, finance committee members should be recruited for what they can offer both now and in the future. For example, a nonprofit that is planning to purchase its first building would be well advised to seek finance committee members who are knowledgeable about real-estate financing. Larger institutions with complicated investments at the initial stages of an economic downturn might look for finance professionals with proven experience in conservative investment strategies, and so on.

It is good to remember that non-board member financial experts are also acceptable and useful candidates for the committee. A community leader or a business manager with suitable experience may be willing and interested in serving on the committee if he or she does not have to accept the rest of the board's responsibilities and liabilities.

## HOW TO KEEP THE FINANCE COMMITTEE ENGAGED

Finance committee members need clear goals and a deep understanding of the organization to do their best work. Kate Barr, president and CEO of Propel Nonprofits, lists some warning signs of a disengaged committee and recommends steps to make the best use of committee members' interest and expertise:

Common obstacles for finance committees include the following:

- The board doesn't carry out its financial responsibilities because it assumes the finance committee will take care of all financial matters.
- Finance committee meetings dwell on details with no higher-level analysis or discussion.
- The treasurer's and finance committee's responsibilities are unclear.
- The board treasurer and the staff financial manager have a poor working relationship.
- Finance committee members don't understand the organization's key financial factors.

After recruiting strong members to the finance committee, it's a waste to assign them low-level work the treasurer could complete without a committee. A sampling of agendas for a high-level finance committee includes the following:

- Develop key guidelines and assumptions before budget planning begins.
- Analyze trends in income sources.
- Discuss changes in the types and reliability of income.
- Hold in-depth discussions of factors that will influence budgets for the next three years.
- Review and discuss the organization's financial policies. Are these policies adequate in light of the organization's size, complexity, and lifecycle stage? This review requires more than applying simplistic "best practices" from another organization.
- Evaluate the pros and cons of buying vs. leasing a new facility and the impact on cash flow, capital campaign needs, depreciation, and costs of ownership.

For the committee to work well, the finance committee chair and chief executive or chief financial officer need to invest time in planning meetings, setting goals and expectations for the committee, and preparing good information for discussion. These activities will help committee members craft thoughtful recommendations for the board and inform board members when it comes time for them to make final financial decisions.\*

## The Finance Committee's Role in Maintaining Independence

Nonprofits are expected to adhere to a higher standard of moral and ethical behavior than just about any other sector. This is part of the implicit exchange that makes nonprofit public charities (also known as 501(c)(3) corporations) tax exempt. A central tenet of this higher standard is that all parties concerned must be independent of any undue external influence to act in their own self-interest. The finance committee has a responsibility to see that all parties involved in financial decision making and financial transactions adhere to these standards and act independently at all times on behalf of the nonprofit's best interest.

Two key groups must maintain a proper independence with respect to their involvement in the nonprofit's financial matters: the directors and officers, and the auditors. Each has the same responsibility but must go about it in different ways.

\* Source: Kate Barr, "Make Good Use of the Treasurer and Finance Committee," *Nonprofit World* 27, no. 2 (March/April 2009)

## Directors' and Officers' Independence

Directors and officers are the members of the board and those on staff who control transactions with outsiders. Typically, staff insiders are the chief executive, the chief financial officer, and other senior managers who can routinely enter into transactions on behalf of the organization.

An analogy with insider trading on Wall Street is instructive here. An example of illegal insider stock transactions are those in which company insiders sell their shares of the company upon learning bad news that has not been released to the public. The rough equivalents in the nonprofit sector are called excess benefit transactions and related-party transactions. These occur, for instance, when a nonprofit insider engages in a transaction that favors — or appears to favor — the interests of the insider at the expense of the nonprofit, with the benefit to the insider exceeding the value of the service rendered.

For example, a board chair who signs a lease on behalf of the nonprofit for a building that she and her husband own is engaging in a related-party transaction. She is on both sides of the transaction, helping to make a decision where she is also on the receiving end. In the actual consequences of the transaction, whether it is a good or bad deal for the organization doesn't matter; it is still a related-party transaction.

Here is the twist that brings the judgment of the board and the finance committee into play: Almost all economic transactions not involving national security are legal in the United States. The board chair example just noted is not a prohibited transaction, except in the case of a private foundation. But if not illegal, might it be unethical? Or, on the other hand, might it be a legitimate opportunity that the nonprofit is well advised to shrewdly seize? It is up to the finance or audit committee to take the lead in ensuring that such relevant facts are available.

Disclosure of the facts is the first and best line of defense for an organization in which a related-party transaction occurs. For this reason, such transactions will usually be made publicly known in the footnotes of the audited financial statement so that outsiders can make their own determination. The finance or audit committee should see that the board has written policies and procedures in place for defining and dealing with related-party transactions before they occur. To ensure compliance — and to remind board members of the policies — the committee should require each individual board member and corporate officer to sign a statement of independence each year. When related-party transactions are unavoidable, the board should follow a prescribed course of action, such as a thorough discussion of the possible transaction and its implications and recusal of the involved board member from all related votes. The appearance of secrecy and unacknowledged double dealing — not necessarily the impaired independence — will damage the nonprofit.

## AUDIT COMMITTEE

*When there is no separate audit committee, all of the responsibilities described in this section belong to the finance committee.*

In many small- to medium-sized organizations, the finance committee performs double duty as the audit committee. But when the complexity of the organization's financial framework increases, boards often create a separate audit committee to handle the added fiscal oversight. This work group selects an independent auditor and serves as a link between the auditor and the board.

It ensures that the auditor has full access to financial and related records, reviews the auditor's report and submits it to the board, and arranges for the full board to meet with the auditor. Ideally the finance and audit committees should not share members. If distinct memberships are not possible, at least the chair of each committee should not be the same person. For more about committee composition, see page 98. Some boards decide to form an audit task force instead of a standing committee. A task force can meet as needed and may be reconstituted and then disbanded every year according to the audit timeline.

A stand-alone, smaller audit committee has the advantage of bringing a deeper focus to the annual review of the organization's financial health — arguably one of the board's most important functions. This segregation of duties at the board level shows that the organization takes the independence of board members seriously and considers an independent audit to be the ultimate form of oversight. The committee's intensive work can ultimately strengthen your board's fiscal oversight, help the organization achieve better financial results, and ensure a higher level of quality and transparency in financial reporting. If audit and finance committee functions are combined, that committee needs to be especially attentive to its audit-related responsibilities.

Having an audit committee is not mandated by law. But many nonprofits have used the Sarbanes-Oxley Act of 2002 as an opportunity to adopt policies and governance practices that broaden board members' roles in overseeing financial transactions and auditing procedures — including the establishment of audit committees. Sarbanes-Oxley applies primarily to publicly traded companies, but some states have begun passing legislation containing elements of the act that must be applied to nonprofits.

## AUDIT COMMITTEE VS. FINANCE COMMITTEE — WHO DOES WHAT?\*

The finance committee monitors a nonprofit's financial practices, while the audit committee monitors the process by which the financial practices are carried out.

### Finance Committee Responsibilities

Oversees preparation of the budget and periodic financial statements

Monitors financial transactions

Provides guidance about what can be done to increase the effectiveness and efficiency of financial management activities

### Audit Committee Responsibilities

Reviews the budget process and ensures that financial reports are received, monitored, and disseminated

Examines financial management policies and practices to ensure that things are done according to policy and with adequate controls

Provides oversight of policies and practices and seeks and interprets the findings of independent auditors

## Audit Committee Responsibilities

An annual independent audit is a critical part of nonprofit financial oversight. Many organizational bylaws require such an audit, as do some states, based on the level of charitable contributions or revenue. The federal Office of Management and Budget requires nonprofits that expend \$750,000 or more in federal funds to have a financial statement audit conducted.

According to BoardSource's *Leading with Intent: 2017 Index of Nonprofit Board Practices*, 83 percent of all nonprofits conduct an annual independent audit. The audit committee's role centers on this process but extends beyond the actual audit period to include these core responsibilities:

1. Manage the audit relationship.
2. Oversee the external audit process, including meeting with the auditor without staff present.
3. Ensure accurate and transparent financial reporting in accordance with generally accepted accounting principles (U.S. GAAP).
4. Monitor risk management and internal controls.

\* This content was adapted with permission of the Nonprofit Risk Management Center. Learn more at [www.nonprofitrisk.org](http://www.nonprofitrisk.org).

**COMMITTEE TOOL****SAMPLE AUDIT COMMITTEE CHARTER OR JOB DESCRIPTION****Responsibilities**

- Review the adequacy of the organization's internal control structure
- Review the activities, organizational structure, and qualifications of the internal audit function (if applicable)
- Review the scope and approach of the audit proposed by the independent auditor
- Conduct a post-audit review of the financial statements and audit findings, including any significant suggestions for improvements provided to management by the independent auditor
- Review the performance of the independent auditor
- Review the independent auditor's fee arrangements
- Recommend appointment (or reappointment) of the independent auditor
- Monitor compliance with the organization's code of conduct and conflict-of-interest policy
- Review, with the organization's counsel, any legal matters that could have a significant effect on the organization's financial statements
- Review the findings of any examinations by regulatory agencies
- Review the policies and procedures in effect for the review of executive compensation and benefits
- If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist
- Perform other oversight functions as requested by the full board

**Reporting Responsibilities**

- Report to the full board
- Maintain lines of communication with management and the independent auditor

**Committee Organization**

- Committee size
- Qualifications for membership
- Suggested frequency of meeting

**Manage the Audit Relationship**

The board is responsible for financial oversight to ensure that the organization's financials are presented fairly and accurately and that proper financial controls are in place. The independent audit firm is the board's partner in that work. The firm reports directly to the board through the audit committee, which has explicit oversight as part of its role. The committee is responsible for the selection, appointment, compensation, oversight, and retention of the independent audit firm. While staff is likely to carry out the actual selection process, the committee should be closely involved in the process and should conduct an annual review of the auditor's performance and independence.

In practice, it may seem like the auditor reports to the financial staff, which inevitably spends more face-to-face time with the auditor. However, the board should assert its role as the link to the audit firm. Regular communication between staff and the audit committee can go a long way toward supporting appropriate relationships and responsibilities.

Engaging an independent auditor is no different than contracting for any other professional service. It involves assessing the qualifications, capacity, and professional style of the certified public accounting (CPA) firm, and of the specific auditor who will be assigned to your engagement. Though it is understandable to focus on cost, hiring an auditor on the basis of price alone may cause the organization to miss out on the kind of specialized sector knowledge that would help it function more effectively. Members should plan to interview several candidates in person. References from comparable organizations are invaluable.

The most suitable auditor will have these characteristics:

- Experience in the nonprofit sector
- Appropriate experience in nonprofit accounting and in government audits, if applicable
- Understanding of accounting concepts unique to nonprofits
- Understanding of the principal purpose of an audit — to assess and give an opinion on how accurately financial statements reflect reality and to determine that they are presented according to generally accepted accounting principles (U.S. GAAP).

BoardSource recommends that a nonprofit evaluate its relationship with the audit firm and its lead partner at least every five years and consider rotation of either.

### AUDIT OPINION TYPES

An organization hires a CPA firm to provide a level of attestation and express an opinion on the financial statements. The components of an audited financial statement include the audit opinion letter; the statement of financial position; the statement of activities; the statement of cash flows; the statement of functional expenses (required for many nonprofits, including but not limited to those considered voluntary health and welfare organizations); and notes to the financial statements.

An auditor can issue four types of audit opinion reports:

- **Unqualified** — An unqualified or clean opinion, which is the highest and best type of opinion, means that in the firm's view, the accounts and disclosures in the financial statements are fairly represented and can be relied on by users of the financial statements.
- **Qualified** — A qualified opinion means the auditor maintains that the financial statements conform to U.S. GAAP except in limited areas, meaning the audit firm was unable to provide the highest opinion level due to a specific reason.
- **Adverse** — An adverse opinion means in the auditor's judgment the financial statements are not presented fairly in accordance with U.S. GAAP, such an opinion reflects very poorly on the fiscal management, and possibly the integrity, of the organization.
- **Disclaimer** — If an auditor cannot issue an opinion on the financial information because it was not able to gather enough reliable evidence, it will issue a disclaimer report.

### Oversee the External Audit Process

Although staff routinely deals with most day-to-day issues relating to the audit, the audit committee must understand, review, and approve the scope of the audit. But the committee's relationship with staff extends beyond the limits of the actual audit, which should simply be a milestone in a sustained dialogue and ongoing oversight.

A planning meeting with the auditors before the audit begins will clarify the process for audit committee members and give the auditors insights into inherent risks that may exist in the organization's operations. When the audit is complete, the audit committee should receive a draft of the year's financial statements before they are given to the full board and meet with the auditors to be sure members understand the statements' meaning. It is important to hold this meeting without staff present. If the audit has been performed in accordance with government standards, members need to be fully aware of any reportable conditions and make sure that staff members have followed up on them. Other details unrelated to government funding may surface during these discussions and need committee attention. Committee members also have the responsibility for dealing with personnel issues or serious breaches of internal controls that may be uncovered.

The auditor should report to the committee about the following matters:

- All critical accounting policies and practices
- Strengths or weaknesses found in the internal control structure
- Alternative treatments of financial information within generally accepted accounting principles employed by management and the ramifications of their use over methods preferred by the profession and the auditor

The CPA firm should provide the required communication letter to the board. This letter (typically called the governance communication letter) reports on items related to audit matters, including difficulties the auditors encountered, estimates used in the financial statements, a proposed schedule of adjustments, and details of unadjusted differences, among other audit findings or issues. If the auditors have identified the need for improvement in internal controls and financial accounting and reporting processes, the board typically will receive what is commonly referred to as a management letter. The audit committee should be sure that the financial staff understands the recommendations and has a plan for carrying them out. (The accuracy and quality of the management letter is also, by implication, a way to gauge the quality of the audit firm itself.)

*Leading with Intent 2017* shows that boards fall short on one vital element of the audit process: the board's meeting with the auditor. Nearly one-quarter of boards that conduct independent audits do not meet with the auditors to discuss the results, and more than two-thirds do not meet with the auditor without staff present. This finding shows that boards are missing a critical opportunity to gain insights about the strengths and potential challenges of internal financial systems and controls.

It is essential that the board take time to meet with the auditors in executive session. Without staff in the room, the auditor can speak candidly about the financial health of the organization, the adequacy of the financial systems, and the competence of the financial staff. Staff members might understandably be anxious at the prospect of a board committee meeting without them, but if the audit committee makes this step a routine part of the audit, it will help ease undue fear that financial personnel are being singled out for criticism. Two additional meetings are recommended: with the auditors and the chief executive and with the auditors and the chief financial officer. These meetings are powerful tools and should be used wisely and with forethought and planning.

## WHAT GOES INTO THE MANAGEMENT LETTER?

An independent audit firm gathers a great deal of information about its client each year. Most findings and conclusions are reported in the audited financial statements, but some are essential for the board yet not necessarily appropriate for public disclosure. The management letter is a way to communicate this and other information. The audit committee and staff often review it before it goes to the full board. The letter typically covers two types of deficiencies:

1. **Material weaknesses** — Issues that auditors would identify as deficiencies in the processes, systems, and internal procedures that help to ensure that all financial transactions are recorded properly. Strong internal controls will help prevent errors and irregularities in financial operations. The auditors will identify any material internal control issues in the management letter so that the nonprofit can address them before the next audit.
2. **Significant deficiencies** — Management letters may identify issues that are or could become red flags — but are less severe than material weaknesses — and propose improvements to resolve problems and strengthen operations. Sometimes it takes an independent or outsider's eye to identify inefficiencies that could be addressed or new technologies that will improve operations. The auditor's letter to management may also point out operating procedures that are inefficient or unnecessary.

The audit committee should ask the auditor for periodic meetings or phone calls throughout the year. Most audit firms are more than willing to engage in this ongoing dialogue with the committee — or even the full board. The committee has much to gain from this kind of interaction.

In some very large nonprofits, the audit committee may consider requesting occasional internal audits. An internal audit examines the financial structure, internal controls, risk management, processes and procedures, communication channels, policies, staff roles and duties, and explicit and implicit efficiencies and effectiveness of systems. The goal is to assess the organization's overall framework for doing business, and the process unequivocally leads to better results with the external audit.

## Ensure Accurate and Transparent Financial Reporting in Accordance with U.S. GAAP

The audit committee — in partnership with the finance committee — should be vigilant about overseeing the financial reporting process throughout the year and ensuring that the organization's reporting requirements are being met. Monthly and quarterly financial statements are the board's primary tools for monitoring the organization's operations. The committee should be aware of the reporting methods, enforce reporting systems, and demand timely data. Financial statements should be discussed with key staff members, who should be prepared to give a thorough analysis of results and trends and talk about their expectations for the near future.

Detailed financial information about nonprofit organizations is easily accessible to the public through IRS Form 990, putting greater pressure on nonprofits to make sure this information is accurate. This form is considered an informational return, but the

board and financial staff members should not take it lightly. Erroneous, inaccurate, or late informational returns can lead to complications — including severe excise taxes — should there ever be a question about other aspects of the nonprofit's situation. Each board member should review the Form 990 before filing. More important, nonprofits are accountable to their stakeholders, including the taxpayers who indirectly subsidize them through their tax-exempt status. Remember, too, that donors and the media are paying more attention to nonprofit financial reports, especially for elements like executive compensation.

Funding sources, especially government agencies, often impose their own reporting requirements (see page 100). These reports can also be informational, but, in a significant percentage of cases, the quality and effectiveness of the reports can actually increase revenue or boost expenses. This increase is due to the fact that government funding demands a more disciplined approach to accountability than is sometimes possible to achieve in an entirely privately funded environment.

### **Provide Risk Management Oversight**

Because organization-wide risk management plans and policies are essential to organizational success, risk management is an overall board responsibility and not owned by a single committee. However, one committee should be charged with oversight of the implementation and adherence to these plans and policies. If the organization does not have a stand-alone audit committee, the finance committee is that group.

The lack of internal controls is the most common reason for fraud and error in nonprofits. Assessing these controls and processes to determine where a fraud can occur or an error can go undetected enables the board to understand risks that can threaten the very life of an organization. It is important to know that fraud is not just the theft of assets but also misreporting. Either one can do irreparable harm. Trusting management and the financial staff is not enough. Internal controls that segregate duties or provide supervisory checks keep honest people honest.

The audit committee should be aware of management's actions and attitudes toward improving internal controls and financial accounting and reporting processes. Is the auditor making the same recommendations in the management letter each year? Are interim financial reports or the audited annual statement untimely? Is the finance department understaffed, or is its infrastructure unable to support its financial reporting needs? Is there significant and frequent turnover? These situations are all indicators of inherent risk. They also can tell an audit committee about the tone and attitude at the highest levels of the organization regarding ethical and compliance behaviors of all employees. For an audit committee to be truly effective, it must influence this tone by ensuring that management clearly communicates to employees that financial misreporting is absolutely unacceptable. The committee should ask tough questions with the proper amount of skepticism and insist on receiving both bad news and good news promptly and fully. It then needs to react quickly to such issues, not only to resolve them but to take preventative measures.

The audit committee should establish specific procedures for handling complaints the organization receives about finance, accounting, internal accounting controls, and audit matters. The organization's whistleblower policy should allow for the confidential submission by employees of their concerns of questionable accounting, reporting, or auditing matters. And the audit committee should ensure that each employee receives a copy of the policy and is assured of confidentiality and protection.

Here are some good questions for the audit committee to ask:

- Is there detailed planning for internal control documentation and evaluation?
- Did this work identify any weaknesses in internal controls?
- Do we have sufficient resources to maintain the key controls?
- Is our staff adequately trained in such matters?

### **Who Should Serve on the Audit Committee?**

BoardSource advises that the board be thoughtful about the composition of the audit committee and ensure that it has enough independence from the finance committee to provide an additional layer of oversight above and beyond the regular review of financial statements that committee provides. This can be accomplished through a separate committee, a separate chair, or another mechanism to ensure that the audit committee has different members and leadership than the finance committee.

Audit committee members should be able to interpret financial statements, ask good questions about financial issues, evaluate accounting firm bids or proposals, and make sound financial decisions. If a board has a limited number of members with accounting and financial expertise, it is acceptable to appoint non-board members to the audit committee — as long as they do not participate in formal deliberation and voting. The committee chair should be a board member, however, and it is reasonable to expect that the majority of the committee members are also board members.

At least one committee member should be a financial expert who has the knowledge and experience to understand, analyze, and reasonably assess the financial statements of the organization and the competency of the auditing firm. This member ideally should have experience in accounting or auditing; be familiar with complex accounting issues; understand generally accepted accounting practices and financial statements; understand internal controls and financial reporting procedures; and have a good grasp of audit committee functions.

The committee should be composed of independent directors, meaning that they are not compensated for their service on the committee and do not have a financial interest in or any other conflict of interest with any entity doing business with the organization. Most nonprofits have volunteer board members. Those that do compensate board members should not compensate audit committee members for their additional service.

In addition, nonprofits should ensure that no current or former staff member or their family members serve on the audit committee, although it is reasonable to have the chief financial officer provide staff support. Likewise, no person who has had a business relationship with the organization for the past three years should be invited to join the committee.

## Using the Independent Auditor as an Advisor

It may sound obvious, but one of the most productive things an audit committee can do is to listen to the independent auditor it hired. Every year the audit team has a rare opportunity to spend some time inside the organization. They may look at just about anything they choose, examine operations and material in as much detail as they need, and work with the financial staff. The audit staff and lead audit partner develop a wealth of information, formal and informal, about how the organization really runs. Why not tap into it?

Beyond the yearly meeting to review the audit, periodic telephone calls with quick questions are an effective way to use the auditor. This practice is especially helpful when the organization faces new demands for the first time. It is also in the board's interest to work with the auditor before it makes any lasting financial decisions or commitments so that it can be assured of not making avoidable mistakes. At a minimum, the audit firm should keep the board updated on new regulations, reporting requirements, and government requirements.

Financial staff transitions are another opportunity to use the auditor's knowledge and experience. When the chief financial staff person leaves, the auditor can often provide worthwhile guidance on what to look for in a replacement, as well as suggest any necessary reorganization of duties.

### QUESTIONS TO ASK YOUR AUDITOR

1. Are there any individuals involved in the accounting process who wield excessive control or whose work is not subject to adequate review by another individual?
2. How would you characterize the morale, work environment, and professionalism of accounting personnel and senior management of our organization?
3. Overall, how would you rate our organization's systems of internal control, and how well we are protected against fraud?
  - Do we have sufficient internal controls in place to prevent an employee, officer, or outside agent from intercepting checks intended for our organization before they are recorded in our books?
  - Do we have sufficient controls in place to prevent the unauthorized disbursement of funds from our bank accounts (general and payroll) by an employee or officer?
  - Do we have sufficient controls in place to prevent one of our vendors from overbilling our organization?
4. What are the most important steps we could take to further protect our organization against fraud?
5. Are you aware of any forms of compensation or benefits received by our organization's officers, directors, or key employees that were not specifically approved by the board of directors?
6. Are you aware of any inappropriate or undisclosed relationships between officers, directors, key employees, vendors, or donors?
7. Are you aware of any relationships with vendors or contractors that appear to be less than ethical, warranting further inspection, or should otherwise be considered when requesting competitive bids (for example, relationships that have become too casual or close)?

## Auditor Independence

One thing the independent auditor should not do is to act in lieu of staff. In fact, auditors' independence is the most valuable asset they bring to their clients, even more than their knowledge. Everyone must understand that the auditor has no particular stake in how the organization operates. An outside audit firm should not do routine accounting functions, such as monthly closings and other record-keeping tasks, or do substantial work to keep the books up to date. This places the auditors in the position of auditing their own work — a clear-cut compromise of their independent status.

Two sets of federal regulations affect how outside auditors define independence and how they act on that definition: the General Accounting Office's (GAO) Government Auditing Standards and the Sarbanes-Oxley Act of 2002. The GAO standards are the most directly relevant to nonprofits because they affect organizations that receive government funding or contracts and therefore must draft reports and set in place procedures that meet government codes. But the Sarbanes-Oxley Act, which deals mainly with publicly held companies, has had a profound indirect impact on perceptions of auditors and audit committees in the nonprofit sector and led to the enactment of similar laws in some states related to nonprofits.

### GAO Independence Standards

Although the GAO's standards apply principally to nonprofit entities receiving federal funds, these standards have become a model for how to purchase auditing and consulting services. They are based on principles rather than rules, so as to cover scenarios that might not be explicitly prohibited by a rule but that virtually any reasonable person would recognize as questionable. For example, the independence standard reads as follows:

In all matters relating to the audit work, the audit organization, and the individual auditor, whether government or public, must be independent.

Independence comprises:

(a) Independence of Mind: The state of mind that permits the performance of an audit without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

(b) Independence in Appearance: The absence of circumstances that would cause a reasonable and informed third party, having knowledge of the relevant information, to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the audit team had been compromised.

This language sets general yet actionable parameters without being overly specific in what it allows or prohibits. The regulation goes on to say that the independence standards are based on two overarching principles:

1. Auditors should not perform management functions or make management decisions.
2. Auditors should not audit their own work or provide non-audit services in situations where the amounts or services involved are significant or material to the subject matter of the audit.

Audit services that do not violate these standards must meet additional tests. Individuals performing the non-audit services should not work on the related audit; an audit organization's work must not be artificially reduced; and services must be documented and meet certain quality assurance safeguards.

Many audit firms have followed these standards, or something very similar, for years. But some have not. The problem of auditor independence is particularly acute in areas with few financial advisors and with small or unsophisticated nonprofits. Audit committees of nonprofits subject to the GAO standards should be aware of the possibility of violating them given the current legal context.

A nonprofit receiving any public funding must be ready to be subjected to a battery of requirements that sometimes may even turn the money into a burden rather than a blessing. Government and state agencies that contract with or provide straightforward financial assistance to nonprofits usually require conscientious reporting from the recipient that extends beyond GAO standards. To be able to respond to an agency's requirements, the organization may have to redesign its accounting processes, start keeping different data that it did not need before, disclose information that was not available to outsiders, increase its technological capacity, or hire additional staff to report to funders and keep them informed.

### **Sarbanes-Oxley Act**

Nonprofit organizations should look carefully at the provisions of Sarbanes-Oxley (see Recommended Resources), as well as their state laws, to determine whether they should voluntarily adopt the following audit-related best practices even if not mandated by law:

- Audit committees must include financially literate members who are well familiar with the organization's activities.
- The committee has hands-on responsibility for hiring and overseeing the performance of the external auditor.
- Members of the committee must be independent directors without any compensation.
- External auditors cannot provide most other business services to the organization.
- Individual auditors or the lead audit partner — not necessarily the CPA firm should be rotated regularly (As mentioned earlier in this chapter, BoardSource recommends evaluating the relationship with the firm and the auditor at least every five years and considering the rotation of either.)
- Chief executives and financial officers must certify that financial reports are accurate and compliant.

It is prudent for the audit committee to be conversant with these principles because nothing replaces good practices and self-regulation.

## INVESTMENT COMMITTEE

Boards create investment committees when the organization accumulates sizable reserves, manages an important planned giving program, or has built an endowment that needs special attention. An investment committee is not necessary if the organization's major asset is its bank account. Until the board creates such a committee, the finance committee will most likely handle all investment-related issues.

Under most state corporation laws, a board can delegate its authority to properly constituted committees, so an investment committee can largely serve in the board's place in supervising the investment process. In fact, BoardSource advises that board members should supervise and not actually manage funds themselves. This committee may include both board members and non-board members. The chief financial officer or the chief executive should serve as an *ex officio* (non-voting) member. He or she must ensure that staff members are present in meetings if they are responsible for implementing committee decisions. In some cases, the chief financial officer may chair the committee and serve as the link to the outside investment manager.

The investment committee's primary tasks are to propose investment policies to the board and hire an independent professional investment manager who reports to the committee. Committee members must understand the organization's general investment framework: what constitutes risk, how to assess the risk the organization is ready to take, how various investment vehicles relate to the accepted risk tolerance, and how the overall economic climate accommodates fiscal needs. The committee must also be able to translate the organization's sensitivity to social responsibility within the investment guidelines and avoid ethically or morally objectionable choices. As the investment manager's supervisor, the committee is better equipped to monitor portfolio performance if its members have actual experience and knowledge about the realities that impact investment decisions.

The committee receives and reviews the performance reports submitted by staff and outside advisors, meets quarterly (or at least annually) with the investment manager, and participates in other meetings or reviews as needed. How active the committee is will depend on the size of the organization, the complexity of the investments, and the presence or absence of internal staff available to assist. In doing this work, the investment committee is satisfying the prudent-investor requirement of ongoing supervision of outside advisors and is thereby protecting both the organization and the individual board members from liability.

### SAMPLE INVESTMENT COMMITTEE CHARTER OR JOB DESCRIPTION

- Draft investment policies for the organization.
- Hire and oversee the performance of an outside investment manager.
- Set performance goals for the portfolio.
- Follow the markets closely.
- Be familiar with new regulations affecting the invested assets.
- Report investment developments to the rest of the board.

Service on an investment committee requires highly specialized skills. Committee members are charged to define the processes and procedures for safeguarding the organization's investment assets. This assumes a capacity to place the organization within a global market economy, provide a design for continuous and secure financial backing, evaluate ways to maximize returns and minimize losses, and communicate the objectives and the results to the rest of the board.

### **GUIDELINES FOR DEVELOPING AN INVESTMENT POLICY**

An investment policy guides the investment manager's decisions by defining the overall objectives of the investment approach and performance expectations. It also helps the committee determine whether it needs to intervene. If long-term growth is more important than immediate return, the committee must have patience. Reacting to every sudden market fluctuation is not wise financial oversight.

- Clarify objectives relating to preservation and growth of the funds.
- Determine a desirable asset mix to reflect return expectations.
- Define acceptable asset quality for each portfolio category.
- Ensure adequate diversification to help avoid sudden major losses.
- Include guidelines for the investment manager's accountability and reporting requirements.
- Include an opinion or brief from an attorney on the prudent investor rule, which requires ongoing supervision of outside advisors.
- Define tolerance for loss when the investment principal is affected.
- Plan scenarios for handling unforeseen situations, such as substantial losses in main assets or overall financial stress within the organization that would require review of present investment objectives.

## **CHALLENGES OF COMBINING FINANCIAL COMMITTEES**

The creation of separate financial committees often occurs in organizations that have multidisciplinary or multitiered structures and relatively complicated financial systems as well as a board that can sustain different subgroups. But this structure is more the exception than the rule. Many nonprofits are modest grassroots organizations with small, task-oriented boards and simple financial structures. Many are in transition toward a more complicated and multifaceted financial structure but not yet able to diversify the skill sets of their boards as needed to sustain separate committees. The full board may still act as a committee of the whole, or a single finance committee may be responsible for all aspects of fiscal oversight. This situation forces the board to accept new challenges and react to internal and external demands with heightened sensitivity.

## CORE AND NON-CORE DUTIES OF FINANCIAL COMMITTEES

<b>Core Duties Finance Committee</b>	<b>Non-Core Duties When the Finance Committee Is Also the Audit Committee</b>	<b>Non-Core Duties When the Finance Committee Is Also the Investment Committee</b>
Oversee organizational financial planning.	Hire the independent auditor.	Draft investment policies.
Safeguard organizational assets.	Review the audit report with the auditor.	Review the audit report with the auditor.
Draft organizational fiscal policies.	Ensure that appropriate internal controls are in place.	Set performance goals for the portfolio.
Monitor that adequate funds are available for the organizational plan.	Request an internal audit from time to time.	Follow closely the markets and their development.
Anticipate financial problems.	Help the board adopt a conflict-of-interest policy.	Follow new regulations and judicial interpretation of investment-related rules.
Ensure that accurate and complete records are kept.	Assure the board that the financial statements reflect the organization's financial condition.	Plan scenarios for unforeseen situations affecting invested assets.
See that the board receives accurate and timely reports and help other board members understand financial statements and the organization's general financial situation.	See that all laws and regulations are respected.	Consider all morally responsible investment concerns.
Make sure that federal, state, and local reporting takes place.	See that all affairs in the organization are conducted ethically.	Report to the rest of the board.

### When the Finance and Audit Committees Are Combined

In today's environment of increased accountability, a finance committee that also is required to fulfill the duties of an audit committee is placed in a position of contradictions. Oversight of fiscal planning and operations is directly linked but hierarchically unequal to ensuring independent audits and proper segregation of duties. Separating audit functions from all operational functions provides the premise for the most valued accountability the board can offer.

Committee members who serve in both capacities — finance and audit — must show exceptional diligence in their roles. They must be able to acknowledge and separate

the different hats they are wearing at different times. They must be cognizant of their operations oversight functions but able to shift gears when they get involved in communicating with the outside auditors. In reality, the auditors ultimately assess operations oversight as part of the full evaluation of an organization's financial management performance. An impartial committee member must learn to accept possible critique and implement suggested improvements.

### **When the Executive Committee Absorbs the Finance Committee's Tasks**

The executive committee — which may act as a communication channel to the chief executive and usually has special authority to act on behalf of the full board between meetings or in urgent circumstances (see Chapter 3) — occasionally is asked to take on the responsibilities and roles of the finance or finance-audit committee. This situation can potentially jeopardize the independence that is so important to sound financial oversight. With this committee structure, the audit function often recedes, muting a key voice of independence and making it harder for the organization to recognize and correct deficiencies in its financial management. The board can also become isolated from the financial issues that impact the organization.

If the board does not have a finance or finance-audit committee, board members must be alert to the risks of giving the executive committee these responsibilities. It may also be possible to find one or more individuals for key executive committee roles whose expertise and personalities incline toward the kind of independence typically exhibited by a good audit committee member. In general, however, combining the roles of the executive committee and the finance-audit committee undermines the tenets of segregation of duties.

### **When the Finance Committee Is Also the Development Committee**

The finance committee occasionally also assumes responsibility for fundraising. The intent is to create a single committee that is responsible for all facets of money management. But this combination of duties is problematic. The demands are quite different, and each process attracts people with very different types of personalities and skills. It is close to impossible to reconcile these differences. Finance committee members need knowledge and expertise in financial planning and management, while fundraising primarily relies on people skills, the ability to communicate the organization's mission to funders, and connections to a network of potential donors.

If an organization finds it necessary to combine the finance and development committees, the resolution of the contradiction may occur naturally, as certain people gravitate to one function or the other. In effect, the larger committee may become two distinct subcommittees of the larger committee that simply coordinates their work.

A slightly more common variation on this theme is for the finance committee to oversee endowment management. When the gift is substantial but not large enough to justify professional management, the finance committee might take on the job. Here, too, individuals are likely to self-identify with either fundraising or fund management.

## RECOMMENDED RESOURCES

Visit [BoardSource.org](https://www.boardsource.org) to view, download, or purchase resources.

### General

[Fiduciary Responsibilities](#)

[Finance Committee Fundamentals](#)

[The Nonprofit Board Member's Go-To Glossary of Financial Terms](#)

[Oversight and Accountability](#)

[The Pursuit of Sustainability](#)

[Red Flags, Yellow Flags: Are Your Financial Statements Trying to Tell You Something?](#)

[Six Steps to Improve Board Financial Oversight](#)

[Welcome to Your Financial Statements: A Primer for Nonprofit Board Members](#)

### Audit Committee

[Auditing Your Nonprofit](#)

[The Board's Role in Reviewing Form 990: A Checklist](#)

[Three Audit Committee Must-Dos](#)

### Investment Committee

[The Board's Role in Supervising Investments: Three Must-Dos](#)

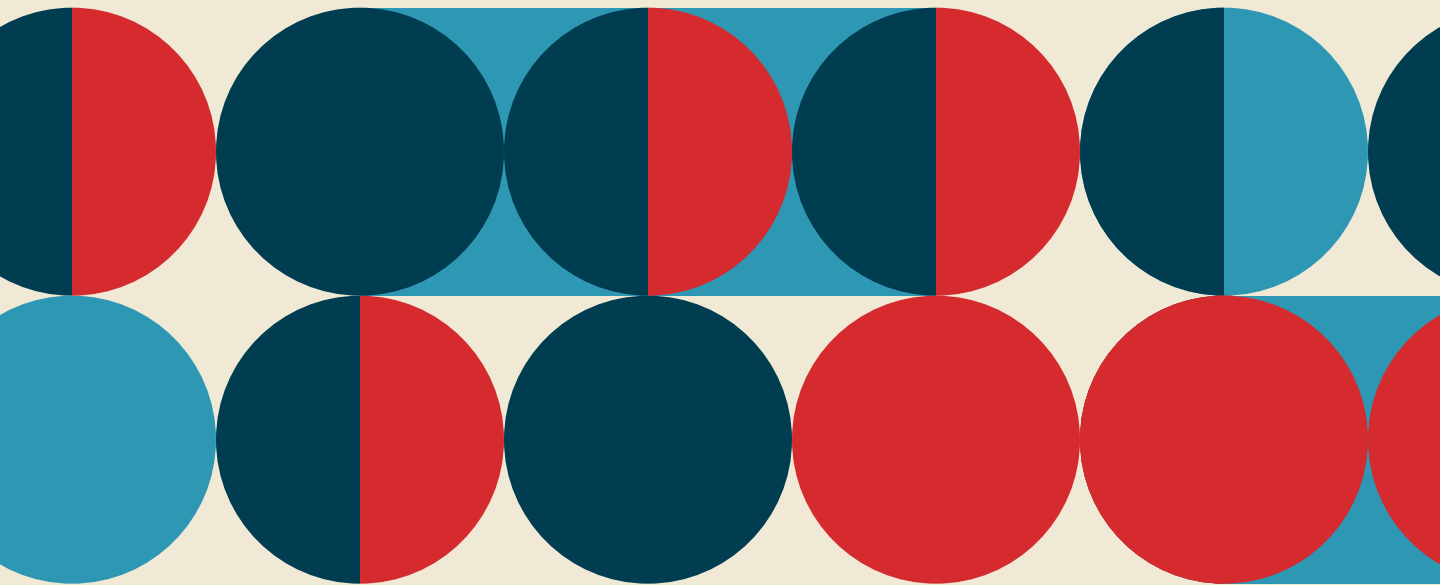
[Managing and Pursuing Your Investment Program's Long-Term Goals](#)



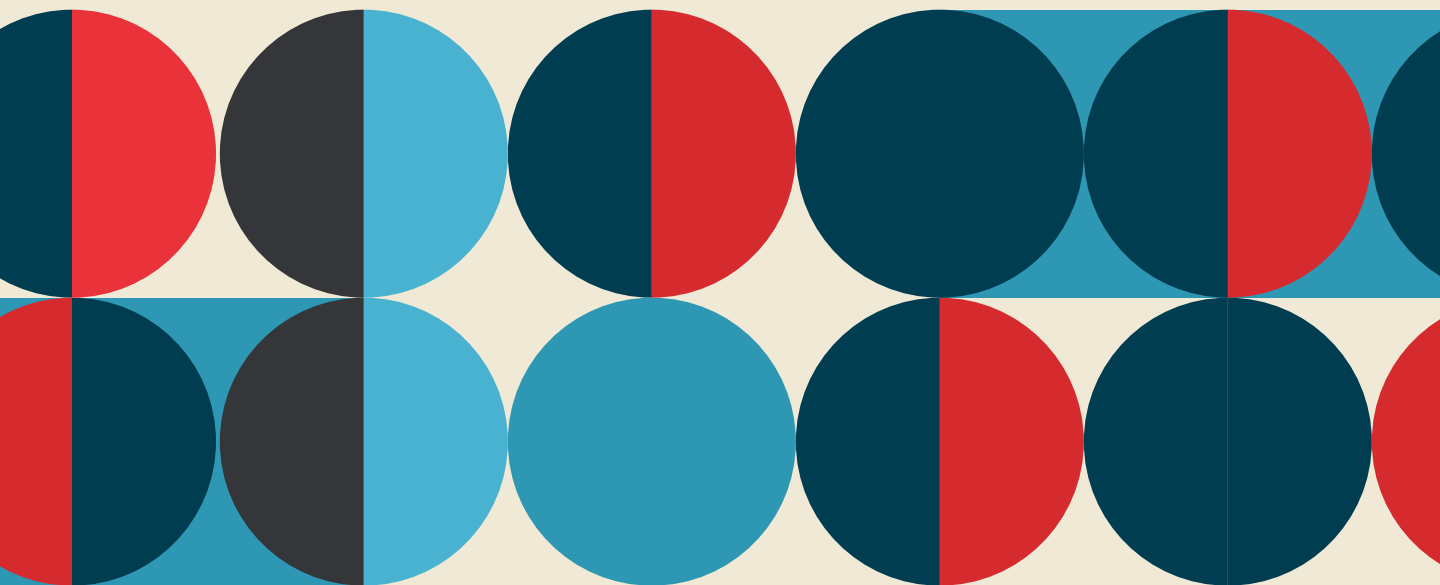


# Development Committee

Nonprofit Board Committees // Chapter 5



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## INTRODUCTION

Successful fundraising requires the full engagement of the board, starting with a personal commitment of support from every board member and extending to its active involvement in encouraging others to support the organization. As overseers, advocates, and vested donors, board members have the knowledge, integrity, credibility, and trust to make the case for financial support to their peers, corporate and foundation leaders, and others who care about the cause.

A nonprofit board's fundraising responsibilities begin with the *full board*, which sets fundraising policies and approves the organization's budget and the fundraising strategy that supports it. *Individual board members* act as donors, solicitors, and volunteers. As donors, they make individually significant personal contributions. As solicitors, they reach out within their spheres of influence to introduce the organization. And as volunteers, they engage and steward donors, reporting to staff and relying on them for guidance and support.

The development committee supports the board and individual board members in their fundraising roles. Perhaps more so than other board committees, it has a combination of strategic and implementation responsibilities. This is especially true when an organization is small and does not have a fundraising or development staff. Tasked with engaging the entire board in fundraising, the committee's members help shape development strategies and plans, monitor results against the development plan, and ensure that the organization's fundraising program is appropriately resourced.

Unlike members of other board committees, whose main responsibilities most often revolve around oversight, development committee members have a unique relationship with both staff and donors. They work closely with development staff — if present — and are often asked to engage directly with the community. While this latter role can intimidate those who are new to fundraising, it can be rewarding work when the funds come in.

The ultimate responsibility for the financial state of the organization, including fundraising, rests with the *entire* board. When the board has a development committee, board members sometimes assume that it will take care of all the board's fundraising work. The chief executive, development staff, and committee must educate the board to guard against this expectation. The committee should never be used as a way to “outsource” the board's fundraising responsibilities to a small group and neglect the board's essential leadership and involvement. Such a situation is comparable to the board that pays little attention to financial information because it assumes that is the finance committee's job (see Chapter 4). An effective development committee drives the full board's engagement in fundraising; it does not relieve the full board of this responsibility.

The scope of the development's committee's work depends on the presence and size of a staff development team. If the organization has a staff team, the committee usually works with the board chair, the chief executive, the lead development professional, and other development staff to provide valuable input for creating fundraising policies, strategies, and plans and for involving the entire board in fundraising. In a small organization with no

fundraising staff, the committee usually works most closely with the board chair and chief executive on policy, strategy, planning, and implementation.\* Committee members may also work closely with other work groups, such as special events and capital campaign task forces, and advisory groups (see Chapter 6). These work groups often include non-board members who deepen involvement from community leaders and major donors.

In supporting the board and individual board members, the committee's responsibilities may include the following:

### **Supporting the Full Board's Role**

#### *Policy*

- Clarify the roles and expectations of the board — and individual board members — in creating and sustaining strong, resilient fundraising that will support the organization's mission.
- Verify that financial practices ensure the proper separation and accounting of donor-restricted gifts.
- Establish and communicate expectations for personal financial contributions from board members, provide leadership by giving, and ensure that all board members make a contribution.
- Ensure that the board has adopted a gift acceptance policy that defines for donors, board, and staff the types of gifts that the organization will accept.

#### *Strategy and Planning*

- Cultivate an understanding of the organization's business model — including its relative strengths and vulnerabilities — and the role that fundraising plays in supporting the organization's mission.
- Ensure that fundraising goals and expectations are realistic and reflect a thoughtful analysis of past trends and future opportunities.
- In partnership with staff, help identify priority approaches and strategies for strengthening fundraising results.
- Monitor progress and flag when adjustments to fundraising strategy may be warranted.
- Ensure that overall fundraising efforts net the funds needed to support the mission and appropriately balance the need for efficiency with the need for resilience.

See pages 117-125 for more about how the development committee supports the full board.

### **Supporting Individual Board Members' Role**

#### *Cultivation, Solicitation, and Stewardship*

- Work with staff to ensure that board members have education, training, and other resources to support effective fundraising.
- Highlight the need for board members to be involved with specific fundraising tactics and strategies, and model that role with active engagement themselves.

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\* In this chapter, the term "lead development professional" refers to the lead member of the development staff team. The term "staff" refers to the chief executive and, if present, development staff.

### Personal Giving

- Encourage all board members to make a personal gift in keeping with the board's policy and expectations, and work with the governance committee and officers if they do not.

See pages 125-128 for more about how the development committee supports individual board members.

### QUESTIONS ANSWERED IN THIS CHAPTER

- What are the essential roles and responsibilities of a development committee?
- How do we go about forming a development committee?
- What do we need to know about creating fundraising policies?
- What responsibilities belong to the staff, what responsibilities belong to the committee, and how do we work well together?
- How do we involve board members in fundraising and help them succeed?
- What role does the committee have in strategy and planning?
- What can the committee do to ensure that the organization is investing strategically and appropriately in its fundraising program?
- What ethical standards apply to the committee? How do we help ensure organizational accountability?

## CREATING A DEVELOPMENT COMMITTEE

If your board decides to have a development committee — and some boards do not — it can take several forms: a board development committee, a board development committee of the whole, an organizational development committee, or a combination.

Members of a *board development committee* are active in supporting an organization's fundraising efforts. The group works closely with the chief executive and development staff (if present) to engage the full board in fundraising. This type of development committee is very common in fundraising nonprofits.

Some boards choose to act as a *development committee of the whole*. The entire board shares the duties and carries the load. Eliminating a separate development committee of the board is sometimes a deliberate effort to stress each board member's duty to participate in fundraising and not simply leave it to a development committee.

Other boards form an *organizational committee*, reinforcing the concept that successful fundraising is a team effort that involves many stakeholders. These committees work directly with and report to development staff. Members may include community leaders, fundraising specialists, volunteers who want to be involved and who have special skills, and board members who have particular expertise and aptitude in representing the organization to funders.

Boards that have a zero-based committee structure (see Chapter 1) re-evaluate the need for a development committee each year. They may choose to form a committee when the

board sees that it is necessary for organizational effectiveness or when they anticipate a specific need — a capital campaign or the need to fund a strategic plan or more flexible strategic framework, for example.

Organizations with more complex fundraising programs may also want to use subcommittees or task forces to help with specialized fundraising activities. Volunteers from outside the board can serve on task forces. If the task force reports to the development committee, the task force chair should be a development committee member. Boards sometimes form a task force to engage key leaders in the initial planning for a capital campaign, for example. Or a task force might be created in lieu of a committee to organize special fundraising events. (For more about task forces, see Chapter 1).

### Committee Job Description

The development committee's job description varies based on whether a staff development team helps coordinate and implement the organization's fundraising efforts, as well as on the types of fundraising the organization engages in.

Each board must clarify the committee's role and relationship with the full board and staff. In some organizations, the staff focuses on guiding and assisting board members in their solicitation work; in many others, staff are involved in — and may actually lead — planning and strategy development. Stewardship of donors also is often an important staff responsibility. In all cases, a development committee should work with staff to ensure that fundraising is based on good information and planning, receives the attention it deserves, and reaches its full potential.

Individual development committee members participate in and support the process of cultivating, soliciting, and providing stewardship for gifts:

1. **Identification** — Help identify potential donors based on their own personal knowledge of linkage, ability, and interest.
2. **Qualification** — Help the organization determine how likely a prospective donor might be to make a gift and at what level.
3. **Strategy** — Help determine specific strategies for potential donors based on their knowledge of the prospective donor's level of engagement and interests.
4. **Cultivation** — Help involve prospective donors more closely with the organization, inform them of potential projects, and determine approaches for solicitation.
5. **Solicitation** — Join teams with other volunteers or organizational representatives in making personal calls to ask for gifts and negotiate gift amounts and terms.
6. **Acknowledgment** — Express gratitude directly to donors they have solicited, and make certain that the organization has processes for acknowledging all gifts.
7. **Stewardship** — Ensure that gifts are used for intended purposes, and report to donors on the impact of their gifts.
8. **Renewal** — Help determine when it might be appropriate to approach a donor for another gift.

## COMMITTEE (10)

### THREE SAMPLE DEVELOPMENT COMMITTEE CHARGES

**Sample 1** *This charge is applicable to organizations that do not have a staff development team or a board that operates as a development committee of the whole.*

The role of the development committee is to ensure that the organization's total development program is in concert with its strategic direction and needs. The committee is the mechanism by which board members and other volunteers are involved in the fundraising process.

The development committee is charged with focusing the organization and its board on fundraising. This includes constant attention to the strength of the mission and case for support, organizational accountability, constituents' involvement with the institution, resources required to carry out the mission, plans for soliciting the needed private funds, fundraising involvement, and demonstration of good stewardship.

**Sample 2** *This charge is more viable in an organization with a strong staff development team. The function of this committee is not as operational as the first sample in terms of fundraising.*

The development committee ensures that the organization has appropriate policies and guidelines for accepting gifts and donor solicitation. Its role is to encourage individual board members to participate in fundraising activities. It works closely with the development staff to build board members' capacities and to identify suitable involvement opportunities.

**Sample 3** *This sample applies to an organizational development committee.*

The organizational development committee serves as the tool for the development staff to implement the fundraising plan. The committee is actively involved in the various fundraising programs that the staff has outlined and organized. The organizational development committee consists of key board members, other volunteers, donors, and development staff. Key program staff also can help plan and implement the total development program. Responsibilities include direct involvement in fundraising.

### Who Serves on the Development Committee?

The size and composition of a development committee also will depend on the breadth and variety of fundraising activities and the board, staff, and volunteer resources available to oversee and support the committee's work. Most committees primarily consist of board members; some involve volunteers from outside the board and organization. An organizational committee tends to be larger than a board committee, as its tasks usually are multifaceted and more hands-on. Having more committee members allows for better distribution of duties and inclusion of various skills.

Development committee members join with other volunteers and staff in a dedicated team effort. They should be passionate about the organization's work and ideally have access to networks of potential donors that they are willing to share. Committee members typically have some of the following qualities and skills:

- Engaging personal style, articulate about the organization, and comfortable with seeking out prospects
- Capacity to radiate confidence and trust as representatives of the organization
- Comfortable discussing finances with others
- Access to individual, corporate, or foundation resources
- Successful experience with and commitment to aspects of volunteer fundraising
- Track record of making personally significant gifts or contributions to the organization

Just as boards recruit members strategically to meet the current needs of the board and the organization, a development committee should evaluate its composition regularly and work with the board to identify nominees with the requisite diversity, skills, and backgrounds. Variables such as the presence and size of development staff and current fundraising priorities may cause membership requirements to shift.

Along with a core group of board members, the development committee may include people who are not board members. Often, volunteers with community connections can increase the potential for fundraising success and add valuable time and capacity. This approach can also be a good way to involve prospective board members.

Development committee members should participate in an orientation to fundraising and receive training in every aspect of their work. In addition to learning skills in fundraising methods and donor cultivation, they may benefit from mentoring, role-playing exercises, or other practical guidance on how to involve their fellow board members in the activities the development team needs to accomplish. Staff members should explain the support that the organization can offer, including access to the donor database and other technical resources.

Committee members should gain a clear understanding of their roles and responsibilities during the orientation and training process. They should, for example, be knowledgeable about the organization's gift acceptance policy, which prohibits gifts that do not fit the mission and manages donor expectations for the use of gifts. The more training board members and other fundraising volunteers have, the more likely they are to avoid costly mistakes and channel their knowledge and enthusiasm in productive directions.

## **The Committee Chair**

The development committee chair should be a board member who is committed to supporting the organization's mission and work through a strong development strategy and to actively engaging board members in those efforts. The chair sets an example in making gifts and taking on fundraising tasks, both for the development committee and for the entire board. If the organization has specialized fundraising staff — such as special events, annual fund, or major gifts staff members — the chair partners closely with those staff members to deepen the overall partnership between the board and staff. See the next section for an in-depth discussion of responsibilities and communication between board and committee members and staff.

**COMMITTEE TOOL****SAMPLE JOB DESCRIPTION — DEVELOPMENT COMMITTEE CHAIR**

The development committee chair provides leadership for involving the development committee and the rest of the board in the organization's fundraising process. The committee chair reports directly to the board chair and works closely with the lead development professional. The chair serves as a member of the organization's leadership development team along with the board chair, the chief executive, and the lead development professional.

The chair has the following duties and responsibilities:

- With the lead development professional, schedules and prepares agendas for regular meetings of the development committee; develops potential task forces or subcommittees to carry out the committee's work; and establishes reporting structures for ensuring that tasks are completed.
- On behalf of the development committee, reports to the board on progress toward meeting fundraising goals.
- On behalf of the organization, reviews and evaluates the performance of the development committee.
- Engages actively in prioritized fundraising efforts.
- Supports individual board members in their fundraising roles.
- Makes a gift to the organization that will be understood to be significant in terms of his or her personal resources.

The chair should have a history of involvement with the organization that generates respect from other board members, the organizational skills to help the development staff involve board volunteers, and the leadership stature to motivate board volunteers.

**WORKING WITH STAFF**

Board members often find tension between fulfilling their governance roles and serving as good stewards without becoming deeply involved in operations. When it comes to fundraising, the tension increases. Board members, whose chief role is usually oversight and setting policy, are asked to invert that role by taking on staff-type functions as they become engaged in fundraising. They must take direction from the development staff and depend on them for guidance and support. On occasion, they must be willing to set aside their governance roles and work directly with staff in carrying out their fundraising tasks. Relying on the staff and the board orientation process, members of the development committee and the board should learn about their distinctly different functions as overseers and policy makers and as fundraisers.

In a small organization with no fundraising staff, the development committee usually works most closely with the chief executive. In a larger organization, the lead or chief development professional guides and gives direction to the committee, working with its chair. Though staff responsibilities will be tailored to the organization, they may include providing information, generating background materials, and scheduling fundraising appointments with the committee. Some organizations also have specialized staff for such functions as the annual fund or planned giving. In these cases, staff members should engage board members and other volunteers in those efforts.

A productive team approach to fundraising centers on a shared culture of philanthropy and a strong fundraising partnership. The transition from oversight and policy-setting responsibilities to more hands-on work with staff and donors can be difficult for some board members, but it is absolutely necessary. A constructive relationship requires a certain degree of interdependence, with continuous communication and role sharing among staff and board.

In a team approach, there is mutual support. The staff shares its in-depth knowledge of the organization and its needs with the board, and supports the committee's and the board's efforts to use their skills, contacts, and passion for the mission. Staff members should be adept at anticipating the board's and the committee's fundraising needs, assigning tasks, and knowing how to give gentle reminders to the board. In turn, committee and board members should understand their responsibility to carry out the tasks they accept and to stay in touch with staff throughout the fundraising process.

With intentional training, tensions that can occur between board members and staff over fundraising assignments and activities can be kept to a minimum as each group understands the other's role and as they learn to see each other as partners, not individuals with separate tasks. To ensure a good working relationship, board members should be introduced to what staff members have to offer, including fundraising expertise, knowledge of the community and the organization's donors and prospective donors, and understanding of the details of the organization's programs. Just as important, staff members should also be mindful of the importance of respecting the peer relationships board members often have with donors and prospective donors as well as the credibility they bring to the process.

Both board and staff should be careful not to use the fundraising partnership for other purposes — for example, to advance their own agendas or to lobby for priorities different from those being promoted by the chief executive. Doing so can erode relationships, cause distrust, and undermine the integrity of the organization. Board members should be wary of staff who go beyond the fundraising partnership to seek advice on other organizational matters. Similarly, committee members should not approach staff to perform functions that are outside the scope of the development committee.

## **HOW THE DEVELOPMENT COMMITTEE SUPPORTS THE FULL BOARD**

Policies, plans, and strategies established by the board form a framework for fundraising in support of the organization's mission. The development committee's relationship with the full board centers on putting these important elements of fundraising in place.

### **Setting Fundraising Policies**

Fundraising policies help to shape and clarify the board's hands-on role in fundraising. But perhaps even more important, they support positive donor relations and ensure transparent and ethical fundraising practices that promote public trust and confidence.

## Personal Giving

To become a committed fundraiser, a board member must make a personal contribution guided by the board's personal giving policy. This requirement is the cornerstone of individual fundraising because each board member becomes an example of someone who enthusiastically supports the organization. Since many boards consider gifts board members have successfully solicited to be part of their personal giving, these policies are sometimes referred to as “give or get” policies.

The personal giving policy should encourage each board member to make the organization a priority in his or her personal giving plan or to make what, for that person, is a substantial financial contribution. BoardSource's Recommended Governance Practices emphasize the importance of seeking full board participation rather than setting a specific or minimum contribution, which may exclude some individuals with valuable insights, perspectives, and networks from board service. A board should be a strong fundraising body, but fundraising should not be the only thing it is well positioned to do.

## Board Member Fundraising

Every board should establish written expectations for board members about how they will be asked to engage in fundraising. *Leading with Intent: 2017 National Index of Nonprofit Board Practices* found that sharing these expectations with prospective board members before they are invited to join the board leads to stronger overall board involvement in fundraising. The policy should embrace individual strengths, offering examples of various ways to participate rather than setting a list of tasks that every board member must accomplish. Examples include providing names of potential donors, writing or signing fundraising letters, thanking donors personally, accompanying the chief executive on donor and foundation visits, or making the ask themselves. Some organizations use a special pledge form that explains the array of fundraising activities taking place throughout the year and asks each board member to make an annual fundraising commitment. If the organization has a separate fundraising body, such as a foundation or supporting organization, it is still important to outline the role for board members and how they relate to this body — and vice versa.

One of the legal obligations of a nonprofit board member is the duty of loyalty, so board members should not use their relationship with one organization to solicit gifts for another. While individual board members may be comfortable in representing more than one organization to a potential donor who may have interest in both, the development committee should be aware of board members' other commitments and potential conflicts, and should coordinate assignments accordingly.

To complement the board member fundraising policy, written guidelines should clarify the roles of the board, the development committee, individual board members, staff, and all those who participate in cultivation and solicitation activities — and which tasks are shared. Confusion over roles can cause discord. Without a true understanding of fundraising as part of the overall financial plan and without appropriate division of labor, it is difficult to secure a strong fiscal base for the organization. The board and the chief executive need to be on the same page about this issue before planning moves into action.

## Other Fundraising Policies

Relations with donors require close coordination between board members and staff. The development committee works with the chief executive and staff to create policies for board approval that include, but are not limited to, the following:

- **Gift acceptance** — Most organizations at some point are offered contributions that are not related to their mission and priorities — or may even compromise their reputation. Sometimes a donor or corporate sponsor wants to impose too many restrictions on the use of a gift or offers a bequest that the organization would not have the capacity to administer. A clear gift acceptance policy will guide decision making and help avoid regrettable decisions.
- **Specific types of gifts** — Organizations need to decide on policies covering specific types of gifts — securities or personal property, for example — as well as policies about restricted gifts, endowments, and planned gifts.
- **Donor relations** — Treating donors with respect, gratitude, and consideration not only makes sense but is also the only way a charitable organization will keep donors coming back. A donor relations policy provides guidance for recognizing donors and letting them know that their contributions have been put to good use.
- **Sponsorship and endorsement** — Sometimes a nonprofit will enter into mutually beneficial business relationship with a commercial enterprise in which the business provides funds, products, or services and, in return, the organization provides recognition and marketing opportunities. A sponsorship and endorsement policy defines the relationship. There are many variations, but a typical policy will specify the terms, scope, and restrictions for sponsorship activities and clarify the process for approving contracts. Board members usually are not involved in the approval process if an agreement is within the parameters of the policy, but policies may identify if there are special circumstances under which the board or development committee should be consulted.

**COMMITTEE (C)****FUNDRAISING RESPONSIBILITIES FOR BOARD MEMBERS**

Adapt this policy to explain your board's expectations for board members' active participation in fundraising. It refers to three areas of responsibility — leadership, personal action, and advocacy — and is also intended as a guide for evaluating board members' fundraising performance.

**Board Member Duties**

- Board members must identify and evaluate prospects, cultivate and solicit gifts, actively support fundraising programs by their presence, and offer personal acknowledgments to donors and volunteers.
- Board members are obliged to provide leadership and actively advocate for the organization's priorities and the necessity of its fundraising efforts.
- Board members must engage in personal gift support to their level of ability.

**Board Duties**

- The board is responsible for ensuring the organization has the financial resources needed to carry out its programs and services.
- The board is responsible for ensuring the organization has a strategic resource development plan to deliver programs and services and to attract public support.
- The board must deliberate on and approve fundraising plans that ensure that the organization is investing strategically in fundraising efforts in a way that will position it for strong and sustainable support of programs.
- As a part of an essential team, the board must work with staff and volunteers to deliver strong fundraising results.
- The board must select and evaluate the chief executive, rating performance as a key team member on the fundraising team.
- The board must take responsibility for guidance and direction on ethical and professional practices — including use of budget allocated for fundraising activities.
- The board must ensure that the budget appropriations for fundraising are evaluated as an investment strategy designed for reliable long-term results from faithful donors, committed volunteers, and reliable net revenue that meets organizational priorities.
- The board must review the results and evaluate the performance of fundraising activities at all levels to its satisfaction, in accordance with established goals and objectives.

**COMMITTEE TOOL****PERSONAL GIVING POLICY/PLEDGE OPTIONS**

**Option 1:** Make it clear that board members are required to make a personal donation, but do not set a dollar amount:

Each member of the board shall make an annual cash donation to the organization. Board members will be expected to give to the best of their means, at a level they consider generous.

**Option 2:** Establish a minimum sum each member is responsible for either raising or contributing, noting that some board members may not be in a position to contribute at this level:

Board members will each give a minimum of \$\_\_ annually, an amount they may give from their own resources, or will raise from others. If this amount is deemed too substantial for some members, they will give or raise whatever financial donation they can, as approved by the board chair.

**Option 3:** Establish a minimum amount for personal contributions, but separate fundraising obligations from personal giving:

Each board member is expected to

- support [name of organization] by making a meaningful financial gift of at least \$\_\_ each calendar year
- solicit the financial, in-kind, and political support of others and obtain at least \$\_\_ in contributions to [name of organization] each fiscal year ,in addition to his or her personal contribution

**Option 4:** Ask board members to determine and then pledge to meet their own level of contribution, level of participation in fundraising activities, and ability to donate or identify in-kind giving sources.

[Name of organization] recognizes that board members contribute in many valuable ways — not only funds, but information, professional guidance, and in-kind resources. Therefore, each board member is asked to complete the following pledge form, which will facilitate the organization's fiscal planning and eliminate repetitive requests.

For the fiscal year \_\_ my personal financial contribution toward the support of the organization will be:

Personal contribution: ( ) \$100 ( ) \$250 ( ) \$500 ( ) \$1,000 ( ) Other \$ \_\_\_\_\_

My company will match: \$\_\_\_\_\_ Other contributions (art/stock/planned giving): \_\_\_\_\_

I can assist with fundraising outreach to the following foundations, corporations, and individuals:

\_\_\_\_\_

I can provide/identify in-kind resources/services (computer equipment, office supplies, furniture, volunteers, vehicles, professional services [public relations, legal, financial, etc.]

Signature of Board Member \_\_\_\_\_ Date \_\_\_\_\_

Signature of the Chief Executive \_\_\_\_\_ Date \_\_\_\_\_

## Participating in Development Strategy and Planning

Whether as a full board or a structured resource development or fundraising committee, the board has a role to play in development strategy and planning. In some organizations — most often those with large and sophisticated fundraising teams — its main role is to provide oversight, with board members asking questions and challenging assumptions in a way that ensures a sound strategy. In other organizations, the board may be much more involved in the creation of a strategy, helping to identify priorities and plans for the future. No development effort is effective without a comprehensive plan that delineates a development strategy.

### Questions to Ask about Fundraising Strategy

Fundraising strategy should be informed by the unique characteristics of your organization. *Measuring Fundraising Effectiveness* (see sidebar and Recommended Resources at the end of this chapter) describes the factors that could lead toward — or away from — certain types of fundraising strategies:

- **Type of organization** — Are you a 501(c)(3)? Are you a 501(c)(4) or political action committee (PAC)? Do you have an endowment or other permanent funds? These factors are important because they can create parameters in terms of the types of support you want — or are allowed — to solicit.
- **Mission and “natural audience”** — Your organization’s mission may help establish who your key stakeholders are, which has significant overlap with who you will be reaching out to for support. Funding is most likely to come from individuals or groups that are directly impacted by your work, or care about those who are directly impacted by your work.
- **Organizational history** — An organization’s history of fundraising success (or lack thereof) is an important factor. Smart fundraising strategies work to build on past successes and learn from past challenges or mistakes.
- **Organizational values and policies** — Some organizations have strong feelings about what kind of donations they will accept and from whom. These are typically codified as a part of a board-approved gift acceptance policy, and may create clear guidelines for certain types of donations.
- **Access to unique tools and resources** — Some organizations have access to unique resources that could enable them to be successful with fundraising strategies that would not work for others.

## MEASURING FUNDRAISING EFFECTIVENESS

BoardSource — with GuideStar, BBB Wise Giving Alliance, and the Association of Fundraising Professionals — has developed a framework that helps nonprofit organizations evaluate the effectiveness of their fundraising strategy. It includes three primary measures of fundraising effectiveness for both internal and external use, which together, provide a balanced approach emphasizing the importance of investing in strong and sustainable fundraising strategies:

1. **Total fundraising net** — The amount of money available to spend on an organization's mission as a result of its fundraising efforts. This is the bottom-line measure of fundraising success. If it is not enough to fund the organization's work, then the other two measures are irrelevant.
2. **Dependency quotient** — The extent to which an organization is dependent on its top five donors to fund its work. This measures how vulnerable the organization could be in the face of changed priorities among its top five donors or funders.
3. **Cost of fundraising net** — The average amount that it costs to net one dollar. This measures the overall fundraising efficiency and rate of return on the organization's fundraising efforts.

For more about the framework, see *Understanding and Evaluating Your Fundraising Strategy: A Toolkit and Conversation Guide for Boards and Leadership Teams* on [boardsource.org](http://boardsource.org).

## Creating a Development Plan

A development plan ensures that your organization meets its financial goals. It takes a comprehensive look at what needs to be accomplished so that the organization's work is completed successfully. The plan must analyze and choose the appropriate strategies to meet these goals. What are potentially the most productive methods of bringing in revenue? Who are the donors? What is a cost-effective approach to reach them and build a relationship that encourages long-term support?

While staff members usually are in the best position to draft the plan, the development committee can participate in valuable ways:

- Provide insights into the resource issues that the organization must confront in planning
- Help to set financial goals
- Analyze and choose appropriate strategies to meet those goals
- Determine where board involvement can be best leveraged
- Develop criteria to evaluate results and then monitor performance to determine if strategic adjustment is needed.

Involving the development committee in these aspects of planning for fundraising ensures a good fundraising plan and a viable organizational mission. It also stimulates successful fundraising by creating ownership among the organization's front-line volunteer fundraisers.

The plan, which should be approved by the board, typically as a part of the annual budget, outlines the time frame for various development activities and assigns responsibilities for participants. It should set priorities among programs and determine how the operating budget will be covered through effective fundraising methods.

A development plan must also recognize that raising funds requires an investment in strong strategic fundraising efforts. The master budget must include fundraising expenses, including the allocation of staff time necessary to support those efforts.

## ELEMENTS OF A DEVELOPMENT PLAN

A development plan should include the following elements. The development committee should look for and discuss these elements when reviewing and providing input on a plan.

- **A compelling case** for support that provides the rationale for your fundraising efforts.
- **Solid data** — not just assumptions — that document gift history, donor history, donor prospect base, volunteer base, fundraising vehicles, market studies, public relations resources, and technical and production support, as well as income and expenses for prior, current, and coming years.
- **Specific needs** that can and should be met — program and operational needs, special purpose needs, minor and major capital needs, and endowment needs.
- **Analysis of past fundraising efforts** to determine which strategies generate the most revenue, which have growth potential, and which have not worked and why.
- **Assessment of available human and financial resources.**
- **Target markets** — individuals, businesses, foundations, and government.
- **Fundraising goals and tactics** — reasonable levels of philanthropic support to be sought, with approaches for attracting new donors, re-engaging current donors, and generating larger gifts from current donors.
- **Plans for measuring fundraising effectiveness**

## Determining Goals and Tactics

Organizations often determine fundraising goals based on projected deficits. While this approach is very tempting because it is simple and straightforward, it can be a formula for failure. Generally, internal financial needs are only one factor in the amount of funds that can be raised. Responsible planning starts with realistic expectations. The overall financial plan should address unexpected (or sometimes temporarily calculated) deficits.

The development committee and development staff can use their expertise to determine fundraising goals and tactics based on the following factors:

- History of fundraising success
- Potential for upgraded gifts
- Potential for acquiring new donors
- Financial and human resources (staff and volunteer) available to invest
- Knowledge of the external environment, including economic conditions
- Other fundraising efforts that might be used for approaching the organization's donors
- Strength of the case for support (including the financial resources required to fulfill the mission)

By concentrating on the most appropriate methods and defining the most reasonable and reachable goals for fundraising, the development committee and staff can manage to eliminate activities that are less effective or inappropriate for the scope or mission of

the organization. Unattainable goals temper motivation and momentum and may even put the organization at financial risk. This does not mean goals should be set at the easily attainable levels established in the annual budget. Instead, reasonable “stretch” goals should provide some incentive to exceed expectations.

### COMMON FUNDRAISING TACTICS

Some fundraising tactics are designed to cultivate a broad base of support, and others leverage opportunities for high-dollar commitments. Some tactics are better for bringing new donors into the organization, and others are effective ways to steward and renew existing donors. *Measuring Fundraising Effectiveness* (see Recommended Resources) lists some of the most common forms of fundraising and the role that each plays in an overall fundraising program:

**Direct marketing** — Broad outreach to donors or potential donors, often done in partnership with an outside firm

**Special events** — A wide range of event types that bring donors and potential donors together in support of the organization

**Annual giving** — Focuses on renewing and increasing support from a large group of donors who give in response to a mail, phone, or email campaign

**Sponsorship** — Support from corporations and others interested in supporting your organization in a way that creates visibility and recognition for them

**Grants** — Support from a foundation, corporation, or public entity to fully or partially underwrite a specific program or the organization as a whole

**Major gifts** — Large-scale support from individual donors solicited via personal cultivation and outreach

**Planned giving** — Gifts made to an organization as a part of a donor’s estate plan

## HOW THE DEVELOPMENT COMMITTEE SUPPORTS INDIVIDUAL BOARD MEMBERS

An essential role for the development committee is to engage board members in their collective responsibility for ensuring the organization’s financial strength and resilience and to encourage them in their individual fundraising roles. But fully leveraging the board in fundraising can be difficult, and board chairs and chief executives consistently report that board involvement in fundraising needs improvement (*Leading with Intent 2017*). One way nonprofit leaders can help is to create an environment in which board members can be successful. For the development committee, this means recognizing and appreciating what individual board members have to offer the organization, taking the time to discuss the organization’s fundraising program and the board’s role in it, and offering multiple ways for board members to participate. Nonprofit executive Kathy Hedge says the goal is for board members “to engage in fundraising activities because they themselves see the value in it, have a commitment to it, and can be successful at it — not because we induce them to.”\* In most organizations, this relationship building is a collaborative effort of the development committee, the chief executive, and development staff.

\* Kathy Hedge, *Engaging Your Board in Fundraising: A Staff’s Guide* (BoardSource, 2014).

## Matching Board Members with Fundraising Tasks

Board members bring individual skills and experience to their board responsibilities — including fundraising. An excellent way to capitalize on what they have to offer is to explore the strengths, capacities, and comfort level of each board member and develop an individualized approach to engaging them in fundraising. Some board members will be skilled at soliciting gifts from current or new donors, while some will prefer researching prospective donors, crafting fundraising messages, or planning or hosting special events.

Development committee members should talk with each board member to learn about his or her strengths, skills, and readiness to raise funds, as well as his or her preferences and level of comfort with various fundraising activities. Then the committee can work with staff to assign achievable tasks that will help each board member gain confidence. One way to start the conversation is to suggest specific options and ask each board member for his or her own ideas. Hedge suggests adapting the following list and sharing it with your prospective or current board members so they can choose fundraising activities that match their interests, skills, and experience:

- **Introduce the chief executive to community or business leaders who might be interested in learning more about the work of your organization.** Your personal introduction will serve as a strong first impression.
- **Arrange for a speaking opportunity for the chief executive that introduces the organization to new potential donors.** Board members in a community-based organization might arrange for the chief executive to speak to groups in their workplaces, community service organizations, or local university alumni clubs. In a nonprofit with a broader scope, the chief executive might travel to meet prospective donors known for their interest in the organization's mission area.
- **Accompany the chief executive on a major donor visit.** Board members accompany the chief executive on visits with prospective donors — individuals, foundation leaders, and corporate donors. Your presence at a meeting sends an important message that board members are actively involved in your organization.
- **Serve as a board greeter and/or invite guests to attend a tour of your facility.** Some organizations offer monthly tours to give community members an up-close view of the services they provide every day.
- **Host a dinner or reception in your home.** This event can be as small or large, as casual or fancy, as you'd like to make it. The main objective is to introduce new potential supporters to the organization.
- **I have another idea. Let's discuss.** Feel free to add your own thoughts on how you can help.

## Preparing Board Members for Solicitation

Working in partnership with the chief executive and staff, the development committee trains board members in the practice of soliciting gifts. Board members need to become comfortable with articulating the reason the organization exists, expressed in terms of values that the organization and the donor share. The case for support must provide a rationale for the programs that the organization provides to meet important public needs.

Coaching and mentoring are good ways to motivate and prepare board members. Many people risk failing at fundraising without training and orientation. Some will fear rejection, others will see fundraising activities as imposing on personal relationships, and some simply will not know how to ask for a gift. The idea of “training” can have a negative connotation, conjuring up ideas of boring and unproductive sessions that may not be helpful. But one-on-one preparation and then ongoing feedback and support from an experienced colleague can be quite effective. Any board member who lacks experience will need opportunities for observing others, making joint calls, and essentially learning by starting slowly on tasks where he or she is likely to succeed.

Practical tools like checklists, a sample “elevator pitch,” and steps for approaching a potential donor can help each board member gradually assume more responsibility. These and other resource materials can be included in a fundraising communications toolkit that may be useful for new and experienced board members alike.

## WHAT TO INCLUDE IN A FUNDRAISING COMMUNICATIONS TOOLKIT

A fundraising communications toolkit featuring key strategies and practical resources may help board members become more confident fundraisers.

### Talking Points

- Script for a one- to two-minute “elevator pitch”
- Simple rationale for why someone should give to your organization
- One-sentence statement of the need the organization addresses
- Demonstration of impact or change as a result of the organization's work
- Brief overview of programs and services
- Description of the people and communities the organization serves
- Evaluation results showing outcomes achieved, preferably in measurable terms
- Data about demand for your services

### Impressive Facts

- Public recognition of impact and service to the community and/or awards received
- Number of people served
- Growth or accomplishments in recent history
- Notable supporters, partners, or beneficiaries (provided they are not confidential)
- Indispensable programs that only your organization provides

### Stories and Testimonials

- Inspiring examples of your organization's impact (be sure that no stories encroach upon confidentiality agreements with clients)

### How Your Organization Is Financed

- Sources of income
- Useful comparisons, such as earned income vs. contributions as a percentage of budget

### Other Details

- Fact sheets on primary programs and services
- Individual giving program or recognition
- Sponsorship opportunities
- Synopsis of the current strategic framework or direction
- List of donors and supporters
- Organizational history

## Working with Reluctant Board Members

Some board members may be experienced and enthusiastic about fundraising. Others may be reluctant to get involved. Fundraising can be intimidating, regardless of a person's experience level or passion for the organization's mission. The development committee can be helpful in facilitating the involvement of these less-enthusiastic board members, starting with an explanation of the rationale for fundraising and the role it plays in making needed programs possible. New board members also need to understand the reasons why the board itself needs to be involved in fundraising.

Unfortunately, in many organizations, fundraising occurs as the result of projected budget deficits. As a last resort, a board agrees (sometimes with hesitation) that fundraising might be necessary to maintain current programs. The organization then sets out to raise funds to meet those immediate financial obligations. This default approach can have two consequences. First, it may leave the board less than enthusiastic about fundraising. Instead of focusing on fundraising for the fulfillment of the mission or vision of the organization, board members are focused on meeting immediate internal needs. Potential donors will not be impressed. Second, donors are sophisticated enough to know when solicitors are asking because they are excited about an organization's current work and future potential rather than because they are under pressure to secure desperately needed resources.

The Fund Raising School at Indiana University outlines five steps for working with reluctant board members:

1. Find one board member who is willing to be an example, and work with him or her to encourage other board members to follow.
2. Bring in an outside consultant to train the board on the fundraising process, including board members' roles.
3. Encourage hesitant board members to take part in less intimidating aspects of fundraising, including writing gift acknowledgments and appeal letters.
4. Develop board member job descriptions that include fundraising, and seek board members comfortable with fundraising and who have experience in that area.
5. Take small steps in the evolution of a reluctant board into a fundraising board.\*

## ETHICS FOR THE DEVELOPMENT COMMITTEE

Every board member has a responsibility to act ethically in serving the organization. There are unique ethical responsibilities related to the work of fundraising. Through dialogue between staff and members of the development committee, the ethical issues that the development team will confront in its work remain in the open and serve as a foundation for ethical behavior. Staff members must inform development committee and board members who are involved in fundraising about applicable ethical standards, which include the key issues discussed here.

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\* The Fund Raising School, *Principles and Techniques of Fund Raising* (The Fund Raising School, 2003).

## Obedience to the Law

Development committee members should understand all the legal aspects of soliciting a gift. For example, if premiums or other benefits are involved in a gift, the value of the donor's tax deduction will be affected. The development committee should pay special attention to state laws relating to solicitation and registration. Some states regulate the solicitation of a gift even by volunteers. Other state laws require the disclosure of fundraising costs and audited financial statements at the point of solicitation.

## Confidentiality

Development committee members must keep all information about donors obtained through the prospect identification and evaluation processes confidential. Information learned through one organization cannot be shared with another. Ask donors for permission if you wish to share donor lists with other organizations.

## Respect for Donors

Development committee members must understand the mission and goals of the organization and ask for gifts based on the case for support. Committee and board members must not use relationships of power to obtain gifts. They must respect a prospective donor's right to decide freely whether or not to make a gift and at what level. Each board member should be familiar with the Donor Bill of Rights and ensure that organizational policies and practices adhere to its ethical standards.

### DONOR BILL OF RIGHTS

Philanthropy is based on voluntary action for the common good. It is a tradition of giving and sharing that is primary to the quality of life. To assure that philanthropy merits the respect and trust of the general public, and that donors and prospective donors can have full confidence in the not-for-profit organizations and causes they are asked to support, we declare that all donors have these rights:

- To be informed of the organization's mission, of the way the organization intends to use donated resources, and of its capacity to use donations effectively for intended purposes.
- To be informed of the identity of those serving on the organization's governing board, and to expect the board to exercise prudent judgment in its stewardship responsibilities.
- To have access to the organization's most recent financial statements.
- To be assured their gifts will be used for the purposes for which they were given.
- To receive appropriate acknowledgment and recognition.
- To be assured that information about their donations is handled with respect and with confidentiality to the extent provided by law.
- To expect that all relationships with individuals representing organizations of interest to the donor will be professional in nature.
- To be informed whether those seeking donations are volunteers, employees of the organization, or hired solicitors.
- To have the opportunity for their names to be deleted from mailing lists that an organization may intend to share.
- To feel free to ask questions when making a donation and to receive prompt, truthful and forthright answers.\*

\* This statement, adopted in November 1993, was developed by the American Association of Fund-Raising Counsel, Association for Healthcare Philanthropy, Council for Advancement and Support of Education, and the Association of Fundraising Professionals.

## Preventing Self-Dealing and Conflicts of Interest

Section 501(c)(3) of the Internal Revenue Code, which allows for deductibility of gifts to charitable organizations, specifies that no person associated with a nonprofit organization can benefit directly from the resources of the organization. Donors and board members should not expect preferential treatment for organizational business. Further, the board and staff members must avoid even the appearance of impropriety in all transactions. Therefore, it is essential to have an open bid process for all business and to be able to explain to the public any transactions with board members or donors.

## Assure That Funds Raised Are Used for Stated Purposes

The key to earning donors' trust is to show that their funds are used for the intended purpose and to keep them up to date on the outcomes of their generosity. According to generally accepted accounting principles (U.S. GAAP; see Chapter 4), donations must be recorded in the financial books as net assets with donor restrictions or net assets without donor restrictions. Board members must be able to track expenditures so donors can see that funds for a particular purpose have been used that way. In addition, development committee members and staff should update donors regularly on the evolution of the program or activity that they have supported.

## Relying on Outside Consultants

If the organization hires outside fundraising consultants, the committee ensures that guidelines for appropriate compensation practices are in place. Percentage-based compensation is considered to be unethical according to the Association of Fundraising Professionals Code of Ethical Standards and should be avoided.

# RECOMMENDED RESOURCES

Visit [BoardSource.org](https://www.boardsource.org) to view, download, or purchase resources.

[Board Fundraising Policy: Key Elements, Practical Tips, and Sample Policy](#)

[Checklist for a Top-Level Board Development/Fundraising Committee](#)

[Engaging Your Board in Fundraising: A Staff's Guide](#)

[Fundraising Communications Toolkit for Board Members](#)

[Measuring Fundraising Effectiveness: Why Cost of Fundraising Isn't Enough](#)

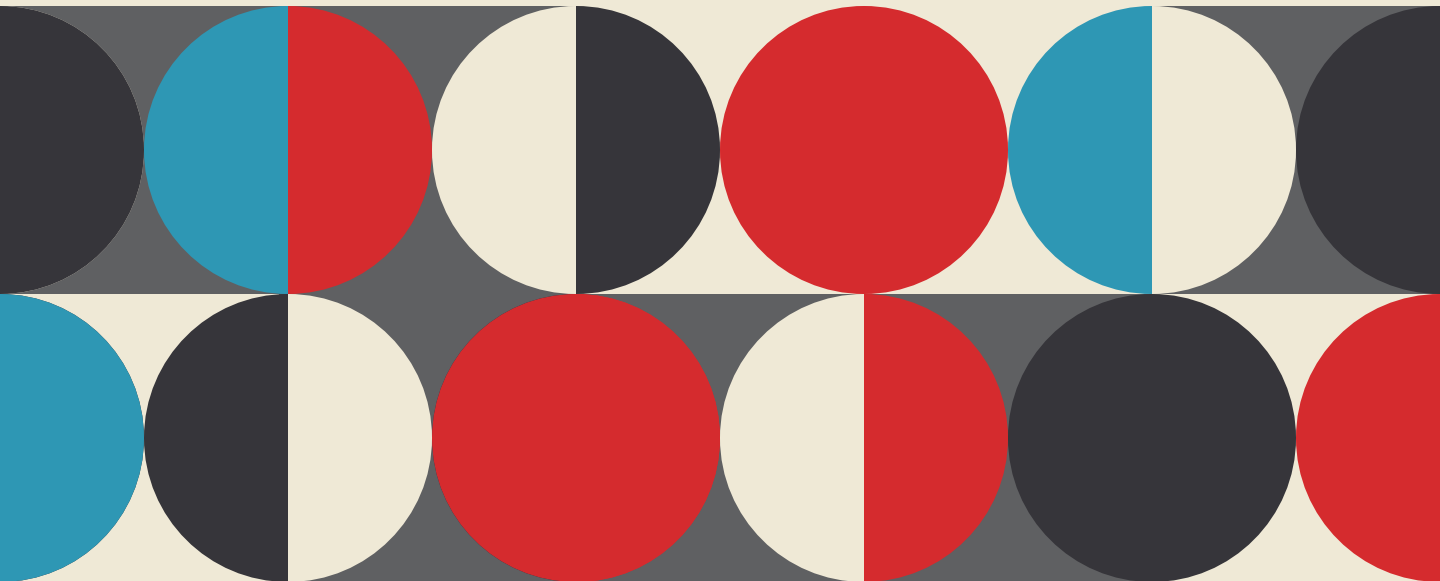
[Understanding and Evaluating Your Fundraising Strategy: A Toolkit and Conversation Guide for Boards and Leadership Teams](#)





# Advisory Groups

Nonprofit Board Committees // Chapter 6



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## INTRODUCTION

A successful nonprofit that delivers services to victims of domestic abuse identified a need to grow from a single-site organization that houses a few women each night to a group of community residences serving a larger metropolitan area. Board and staff members had deep expertise in the multiple facets of serving their clients, and they were highly knowledgeable about complex legal issues, fundraising, and public policy advocacy. But real estate? When it came to acquiring and managing properties, the board needed help.

The answer was an advisory group — a voluntary group of individuals who advise and support the governance work of the board or the management tasks carried out by staff. Members of advisory groups have valuable perspectives, knowledge, and skills that may be missing from the board or staff — in this case, local real estate agents, city planners, and government officials familiar with zoning, contracting, and construction regulations. While advisory group members are interested in advising and supporting the organization, they do not necessarily want to become board members — at least not now. They supplement and complement the board's and staff's work, but they do not duplicate or intrude upon it. The group has few legal responsibilities and, most often, no real organizational decision-making power.

Some advisory groups perform jobs that are central to an organization's activities, such as surveying the need for new programs, reviewing applications for funding, making resource allocation recommendations, raising funds, and conducting evaluation and oversight activities. Many nonprofits form advisory groups to resolve a particular problem or stimulate change. Building or improving relationships with an external constituency, strengthening advocacy for the organization's mission, or exploring the feasibility of an expanded facility are examples of complex challenges that an advisory group with particular expertise and connections can help the board address.

Although more than one-third of nonprofits employ advisory groups, many are not using them to their full potential. Often, they are formed because they seem like a good way to boost an organization's professional qualifications or engage key community leaders in the organization's work. Neither of these reasons is wrong — but both are incomplete.

A well-conceived advisory group must be formed with a purpose and in a way that benefits both the individuals who serve on the advisory group and the nonprofit. An advisory group can open many doors: It can bolster your impact on your constituency; it can add vital support and expertise to your organization; it can bring intellectual, social, and political capital to your nonprofit; and it can perform tasks that are crucial to your mission. But first, nonprofit leaders must be clear about why they are forming an advisory group and what it should do.

## QUESTIONS ANSWERED IN THIS CHAPTER

- What's the difference between a governing board and an advisory group?
- What are some typical functions for advisory groups?
- How can we be sure we're forming an advisory group for the right reasons?
- What structure and practices help advisory groups succeed?
- How will we know that we should disband an advisory group that has met its goals or outlived its usefulness?

## UNDERSTANDING SOME BASIC PRINCIPLES

When an advisory group is well organized and given a clear sense of its goals, it can do much to help an organization fulfill its mission. On the other hand, when it is born without a real purpose, it can end up wasting everyone's time. Board and staff leaders must take a hard look at what an advisory group is, why it should be established, and what the organization intends to do with it.

The word "advisory" is generic and often ambiguous. While most advisory groups are not given decision-making powers, some are empowered with significant responsibilities and even a quasi-governing charge. For example, some higher education institutions and public radio or television stations have advisory bodies that are entrusted with decisions related to resource allocation and hiring of staff. Also, advisory groups at community health care agencies and other organizations that receive government contracts are sometimes mandated by local, regional, or federal government agencies to provide oversight for institutional services.

Nonprofits refer to their advisory groups by different names, including advisory committee, advisory council, auxiliary council, council of experts, or friends of the organization. Any of these names can suit a group's purpose. But nonprofits should avoid the term advisory boards, which can lead to confusion over which entity actually is responsible for the organization. In all cases, the governing board is the ultimate authority.

### Differences between Governing Boards and Advisory Groups

By law, every nonprofit that has been granted tax-exempt status by the Internal Revenue Service must have a governing board that creates the vision, mission, values, and policies for the organization and makes sure that they are properly implemented and respected. Financial oversight is also one of the key responsibilities of a nonprofit board.

Advisory groups are not boards. They are not legal bodies and cannot assume responsibility for governance. Advisory group members usually have no legal responsibilities. They have no vested right to serve and no immunity from removal. As the following chart details, the roles and responsibilities of governing boards and advisory groups are vastly different.

Governing boards are . . .	Advisory groups are . . .
required by state statute to discharge legal and ethical responsibilities that cannot be delegated	sometimes mandated by government and foundation funders, but typically established at the discretion of a nonprofit organization
typically responsible for the governance of incorporated entities	typically subgroups of incorporated entities, reporting to governing boards or the chief executive
composed of members who are legally required to serve as fiduciaries charged with accountability for advancing and overseeing assets of the entire organization	composed of members who usually serve as advisors to supplement the work of board members, staff members, and/or direct-service volunteers in a particular program or service area. In some cases, they are charged with certain fiduciary responsibilities, such as overseeing assets or selecting personnel.
composed of members who are entrusted to meet certain standards of conduct in carrying out their duties to the organization under well-established principles of nonprofit corporation law and are expected to adhere to the duties of care, loyalty, and obedience	composed of members who are assigned multiple tasks, depending on the purpose of the advisory group and charge to members, and are expected to follow the same ethical guidelines and values as anyone affiliated with the organization
composed of members who are accountable to multiple stakeholders, including the public interest, government agencies, regulatory groups, and funders	composed of members who are accountable to the organization they advise, the external agencies that authorize the advisory group, or other parties as specified
composed of members who are personally liable for breaches of duty or third-party actions and often are covered by indemnification and/or directors' and officers' liability insurance	composed of members who represent the organization and should be included in the organization's liability insurance. Certain advisory groups (for example, those with authority for personnel decisions and contractual matters) assume greater personal liability.
authorized to serve as policy makers	sometimes authorized to provide oversight and make policy decisions, but usually charged with making recommendations, providing consultation, and/or giving advice

### Strive for Flexibility, Not Ambiguity

Mastering the art of creating a successful advisory group means coming to terms with what seems like a few inherent contradictions. Advisory groups should be formed for specific goals, but they also should be given the freedom to operate independently. They should be composed of the most informed people in your community — those with expertise, skills, and experience.

Advisory groups are formed to be flexible without a specific legal mandate. This can be liberating, allowing the group to cover a range of activities without being anchored to strict fiduciary obligations. But that flexibility cannot deteriorate into ambiguity. Effective advisory groups do not form and guide themselves, no matter how experienced or talented the individuals are who have been recruited as members.

Nonprofit leaders must know what they want the group to accomplish and what it will take to ensure success. It is important to clearly articulate the specific purpose of the advisory group (and its alignment with the organization's strategic priorities) before establishing or renewing it. The next section reviews the critical preliminary work an organization must do to decide whether forming an advisory group is the right step to take.

## **IS AN ADVISORY GROUP RIGHT FOR YOUR ORGANIZATION?**

Advisory groups exist in organizations of all sizes and mission areas. Larger nonprofits with more complex structures may form advisory groups to increase their access to expertise and inform their decision making without changing their board structure or composition. Smaller organizations may use them because their own infrastructure doesn't provide enough options. In many organizations, staff activities can benefit from feedback or assistance from people who are experts in a particular field or who have a special access to services the staff needs. Here are a few examples:

- An art museum creates a community advisory group to help it understand the community's needs and interests and to inform its programming.
- A health care organization forms an advisory group of stakeholders and clients for feedback as they plan a major expansion project.
- A youth services nonprofit needs to evaluate and improve its technology infrastructure so it starts an advisory group of experts and stakeholders.

A successful advisory group is created to serve a particular function. It is a mistake to form one merely to flatter local leaders, attract potential funders, or find a use for former board members. Those potential members may well be the kind of people you are seeking, but the need for the advisory group must come first, followed by finding the right people to fill that need. Often, advisory groups are formed backwards, with a list of prominent potential members preceding a clearly defined function for the group. Use the checklist on page 138 to help educate your organization on the actual functions of an advisory group.

## COMMITTEE TOOLS

### ADVISORY GROUP FUNCTIONS

Advisory groups have been established to serve many functions by nonprofits with a variety of missions. Check the functions that apply to your needs:

- Provide oversight and accountability for projects, programs, and services funded by government agencies or foundations.
- Raise money for unrestricted use or for a specific program.
- Serve as advocates, facilitate access to policymakers, and help shape public policy that benefits the organization.
- Serve as ambassadors for the organization to the community.
- Review, monitor, or assess a specific program.
- Evaluate the performance of the organization as a whole.
- Provide a means for involving people who are willing to give critical assistance but have limited time, such as public officials, local celebrities, influential business leaders, or individuals with access to potential large donors.
- Enlist help from others without enlarging the governing board.
- Create an oversight mechanism when an organization launches a new initiative or converts to national or international scope before the composition of the governing board changes.
- Provide technical expertise.
- Gather input from or serve as a liaison with key constituencies.
- Build a corps of outside, experienced experts whose interest and support are important, including possible future board members or former board members who can continue to make a contribution to the organization.
- Provide an independent, unbiased sounding board for brainstorming, creating new ventures, or identifying institutional strengths and weaknesses as well as external opportunities and threats.
- Review applications for funding.
- Incorporate additional layers of diversity and new perspectives within the organization.

### Committing Time and Resources

Like governing boards, advisory groups require care and feeding to be effective. The chief executive or senior staff member who works with the group will play a key role in guiding, coaching, engaging, and providing the orientation, ongoing education, and motivation the group needs to carry out its responsibilities. The advisory group should not be expected to staff itself or rely on only its chair for the resources to carry out its work.

Many nonprofits that want to establish advisory groups overlook the staff time and expenses required to inform, educate, and nurture them. While there is no generic formula for the amount of time to put into advisory group development, the costs (particularly in staff time) should be projected in advance. Advisory group development should be viewed as an ongoing process that must be established and maintained, rather than as a single event that produces transformation.

If the organization's staff is short on time and resources, think twice before forming an advisory group. It could end up being a frustrating experience for the staff and a poor use of members' time and expertise. Instead, explore other options, such as working individually with external leaders to get the job done without creating a structured group.

In fact, some tasks and challenges are better suited to individuals with particular expertise than to a formal advisory group. A committed community member or a volunteer who is willing to work with an organization when a sudden need arises is an invaluable asset.

## 12 Questions to Answer Before Creating or Renewing an Advisory Group

If you are thinking about creating an advisory group — or deciding whether to renew an existing group — ask yourself and your board the following questions. If you are unclear about your answers, you may need to reconsider.

1. What is the purpose of the advisory group? What does the organization want it to accomplish? What role will it play in the organization?
2. What does the organization expect the individual members of the group to do to achieve the group's purpose?
3. To whom will this group report?
4. Who will have the authority to select its members?
5. Who will provide the staff support to orient, educate, and work with the group? How much time will this take? Whose responsibility is it?
6. How will the organization recruit group members?
7. How large should the group be to carry out its purpose?
8. Will it need subgroups?
9. What is the nature of the relationship among the governing board, the staff, and the advisory group?
10. What are the annual financial costs of the advisory group to the organization — for example, travel, meals, materials, and staff support?
11. To what extent are the chief executive and board officers in favor of the advisory group?
12. Will group members need liability insurance?

## When Not to Form an Advisory Group

Many advisory groups make substantial contributions to the organizations they serve. Others never have a meaningful impact on an organization. An unsuccessful advisory group may well have been formed for the wrong reason, such as a “parking lot” for former board members who have served their maximum terms. The fervor with which these groups are established can ebb quickly as they suffer from a gap between expectations and performance.

Nonprofits also should not mistakenly believe that an advisory group is the answer to addressing the organization's need to build stakeholder or constituent diversity. Forming an advisory group for this reason does little to promote change, and it may even be detrimental. Diversity, inclusion, and equity require board-level leadership to advance the organization and bring about culture change, not isolated attempts like an advisory group.

## Special Cases: Advisory Groups in Yet-to-Be-Incorporated or Expanding Nonprofits

Advisory groups that act as a de facto governing board for a new program can have considerable authority. Consider this scenario: An organization creates a powerful program that has the potential to someday stand on its own. Until then, the organization acts as a fiscal sponsor for the program, which has its own advisory group that assumes all the roles

of a normal governing body, except the fiduciary responsibility and legal liability. It still reports to a higher authority. When the time comes to cut the cord with the fiscal sponsor, this advisory group is disbanded and a true governing board is formed. Often several advisory group members will continue as board members.

Organizations that are expanding their scope can also benefit from the use of advisory groups. If an organization plans to evolve into a regional service provider or extend its reach to global markets, for example, an advisory group can help it be sensitive to the needs of its new constituents without complicating its governing board structure. A well-formed advisory group can help build engagement and support by involving community stakeholders in planning from the start.

## A FRAMEWORK FOR SUCCESS

The operating structure of an advisory group varies from organization to organization and from advisory group to advisory group. The essential common feature, however, is a carefully crafted statement of purpose. From that starting point, the operational framework — board and staff relationships, time frame, size, membership, meeting frequency, and communication mechanisms — can be established.

### A Clear Statement of Purpose

When there is a compelling case for an advisory group, and when an organization is willing to invest enough resources in creating a high-performing group, advisory groups are worth doing — and worth doing well.

It is important to have a written statement of purpose that addresses the following topics:

- Reason for the advisory group to exist — its goals and objectives
- Relationship of the advisory group to the governing board
- Relationship of the staff to the advisory group
- Criteria for membership
- Description of the selection process and to whom the advisory group reports
- Length of term of service and duration of the group
- Job description that identifies the specific responsibilities or expectations of individual members
- Titles and duties of officers
- Number and frequency of meetings

An advisory group's purpose and goals should determine its size, meeting frequency, and credentials for membership. The statement of purpose becomes an important tool for recruiting and orienting new members and for monitoring the group's performance. A well-formulated statement of purpose will not transform a mediocre advisory group into a strong one, but it is hard to imagine a group succeeding without one.

Advisory groups are not static. The statement of purpose can be revised as the function and structure of the group evolve. If the group is temporary, the statement should note

when it will dissolve. If it is not, the nonprofit has a greater obligation to determine when it has outlived its usefulness. An annual review of the statement of purpose — which can be part of an annual self-assessment of the group's performance — gives the group, staff, and governing board an opportunity to clarify their respective roles.

See below for a sample statement of organization and purpose for an advisory group established specifically for fundraising purposes.

## COMMITTEES

### SAMPLE STATEMENT OF PURPOSE, FUNDRAISING ADVISORY GROUP, [NAME OF ORGANIZATION]

#### **Purpose**

To help the board of directors and chief executive solicit gifts and grants from individuals, corporations, and foundations.

#### **Membership**

The group shall have no more than 20 members. The chief executive and board chair shall serve as members.

#### **Selection**

During the first year, members should be elected by the board of directors and, thereafter, by the established membership of the group.

#### **Term of Office**

A member serves a three-year term. To enable new people to join, a member typically is elected to a maximum of two consecutive three-year terms but is eligible to serve successive terms after the second term at the discretion of the electing body. To ensure continuity in the group's work, terms will be staggered, requiring that in the initial advisory group, one-third of the members will serve one-year terms, one-third will serve two-year terms, and one-third will serve three-year terms. One- and two-year terms will not be counted in limiting consecutive group service to two three-year terms.

#### **Member Responsibilities**

Each member is expected to

- attend a minimum of two meetings per year
- actively participate in the functioning of the advisory group
- be available for individual consultation with the chief executive
- occasionally accompany a director, officer, or staff member for personal solicitation of selected prospects
- write or sign letters endorsing the organization's solicitations

#### **Officers**

A chair, a vice-chair, and a secretary shall be the officers of the group. The chair shall preside at all meetings of the group. The chair shall also be invited to attend regular meetings of the governing board.

#### **Staff Support**

The chief executive shall act as executive secretary to the group.

## Relationship with the Board

Note that the statement of purpose should establish a formal relationship with the governing board. The chief executive should participate in the work of the advisory group, and a representative of the group — depending on its purpose — should be present during the board meetings. To avoid misleading implications that the advisory body has a power to make policy, it is wise to limit its actions to making recommendations, providing background for board decisions, furnishing pros and cons for issues, and even listing questions that are appropriate for the situation. Its minutes should also reflect minority opinions. Its advice does not have to be accepted, but it needs to be recognized if proper respect and consideration is to be given to its members.

## Legal and Ethical Questions

Advisory group members, unlike the members of governing boards, have no legal or formal responsibilities. Corporate law does not give them a specific status: They have no vested right to serve, no immunity from removal, and no right to renewal or appointment. Likewise, an advisory group rarely presents legal conflict-of-interest dilemmas. Because an advisory group makes no binding decisions, it is less likely to affect an organization's overall accountability.

Still, murky conflict issues can arise from a group's de facto influence. If an advisory group is formed around strong personalities and influence rather than function, it can become a channel for a well-connected elite to have significant access to the organization. Strong leadership — from the chief executive, board members, and the advisory group chair — should ensure that the group stays focused on its task, not on promoting its own agenda within the organization. Because they are so closely affiliated with the organization, advisory group members should be familiar with the duty of loyalty, which requires that they always act in the best interest of the nonprofit. Advisory group members also should be included in the organization's indemnification clauses and liability insurance.

Most nonprofits include a clause in their bylaws giving the board the option to form committees, task forces, and advisory groups at its discretion. For advisory groups, the language should not spell out all the conditions under which a group might be created, because that may paint you into a corner when an unforeseen incident arises, leading to the laborious task of rewriting your bylaws. (See Chapter 1 for more about committees and bylaws.)

## Temporary or Permanent?

Some advisory groups are ongoing bodies, while others have a limited term of existence defined by their charge. It is important for the organization to determine an advisory group's time frame before it is created. Sometimes an organization creates an advisory group to help develop a potential program or to address a specific issue, such as a capital campaign. In other cases, a new venture might begin with an advisory group before evolving into an independent entity with its own governing board.

## **An Appropriate Size**

An advisory group needs to be as large or as small as necessary to accomplish its task. A group could have five members, 10 members, 50 members, or more. There is no limit to the size as long as the group's members are active, the staff can support its work, and the chair can keep the process and the meetings running smoothly. Fundraising advisory groups often are larger so as to increase the organization's reach. But a group designed to provide technical expertise — evaluating an organization's technology infrastructure, for example — might be smaller. The advisory group chair should pay attention to the group dynamics in determining whether an existing group is effective in size and structure.

How the advisory group is organized and the way it conducts its meetings will influence its overall performance. The larger the group, the more formal is the division of labor among members.

Inefficient advisory groups that are too large may need to be downsized to a number that the staff can adequately support. If a very large advisory group chooses to maintain its size, it might consider keeping a few seats open for unexpected candidates rather than filling them to immediately reach its recommended size (if the membership size is specified in its organizational documents). It also could consider forming subgroups charged with key tasks to help the group discharge its work. Be careful, however, not to allow the structure to become too cumbersome or labor intensive for the staff. Advisory groups with fewer than 10 members are unlikely to need subgroups, but all advisory groups should try to assign individual members specific tasks that match their expertise and time constraints.

## **The Right Members**

Forming and sustaining an effective advisory group requires serious matchmaking to find the right members. The quality and commitment of those selected to join an advisory group will influence its success and its value to the organization. Seek out the skill sets, expertise, diversity, and insights that you need to meet the group's goals. Explain to prospective members why you would like them to serve and what will be expected of them. For more about cultivating and selecting members, see pages 146-149.

The organization can determine how the members will be elected or appointed. The most common method is appointment by the board, chief executive, and/or staff of the organization. Also, it is wise to clarify whether the recruitment focuses on the individuals or the professional positions they hold: Should individuals stay if they leave their professional position, or will a replacement step in?

## **Well-Planned Meetings**

Meeting frequency, like group size, depends entirely on the purpose of the group and its dynamics. Groups designed to promote special events might need to meet frequently during the height of planning. Others may meet only once a year, perhaps because the issues they address are only pertinent at the end of the fiscal year. The advisory group may also consist of smaller subgroups that meet regularly to focus on particular areas of their charge.

When meetings are required, they clearly should be more than ceremonial. Effective meetings are a result of a well-developed agenda, adequate supporting materials that are sent to advisory group members before the meeting, and a skilled chair facilitating the discussion. In this aspect, effective advisory group meetings follow the example of well-planned governing board meetings. Good discussion notes will help members draft key recommendations or proposed actions. For some groups, consensus is not essential; if they are helpful, differing opinions can be included in the communication documents.

## Communications

Because the advisory group exists to share expertise that supports board decision making, it is necessary to create mechanisms for communication and opportunities for dialogue between the governing board and the advisory group. Ask the group's chair to contribute a report to each board meeting's consent agenda, and consider inviting the advisory group chair to serve as a nonvoting member of the board or on a board committee related to the group's purpose. There will be times when the advisory group chair and perhaps selected group members should participate in board meetings or retreats.

## How to Recognize Problems

Advisory group members and professional staff who have worked with them point to problems that can impede these groups' work, cause internal disarray, and ultimately even prevent them from achieving their goals (see next page). Any diagnosis of advisory group dysfunction needs to distinguish the symptoms from the underlying causes. Much of this responsibility will ultimately fall on the chief executive or senior staff member charged with staffing the advisory group.

The rest of this chapter recommends ways to prevent these problems by

- establishing an effective structure that supports the purpose and operations of the advisory group
- finding the right members and equipping them with tools for success through orientation, continuing education, and assessment
- defining and nurturing positive relationships between the advisory group and the board and staff

## DYSFUNCTIONAL ADVISORY GROUPS: SYMPTOMS AND SOLUTIONS

Symptom	Solution
Lack of clarity in purpose, role, or scope	Establish a purpose statement when the advisory group is formed, and revise it as needed.
Ignorance about or lack of commitment to the mission of the organization	Focus on mission during advisory group member orientation. Continue to put mission front and center during group discussion.
Unclear expectations of individual members	Develop a formal job description outlining responsibilities and expectations. Discuss them when cultivating prospective members, and review them thoroughly during orientation.
Lack of leadership and support from the chief executive or other key staff members	Ensure that establishing an advisory group is not a unilateral decision by a few board members or the chief executive. Obtain buy-in from staff and the entire board.
Improper or inappropriate composition	Think through the ideal composition of the group, and work from a written profile when identifying prospective members.
Haphazard selection process	Form a nominating committee, develop a recruitment plan, and involve the chief executive.
Weak organization and structure	Think and plan carefully to arrive at an effective operating structure and plan.
Lack of interaction with and feedback from the governing board or appointing authority	Require ongoing communication with the board, involving the advisory group chair, the board chair, and the chief executive.
Underutilizing advisory group members	Know the specific expertise each member brings to the group, and appoint a chair who is skilled at engaging and involving group members.
Overstepping advisory role	Reinforce the group's statement of purpose and goals. Establish close communication among board, staff, and advisory group.
Absence of orientation and/or continuing education programs	Develop a required orientation for new members, and find regular opportunities for continued learning.
Outlived its original purpose or was formed to "fix" an organization in crisis	Disband the group.

### When and How to Disband an Advisory Group

An organization may choose to disband an advisory group for any number of reasons — lack of funds, disappointing results, or simply because a group has achieved its goals and its work is done. Sometimes, a group may have been highly successful, but the purpose for which it was formed is no longer relevant. Or an advisory group may be terminated because the cause it serves makes the transition to independent nonprofit status with a governing board superseding the advisory group. It is not uncommon for advisory groups to be created with great fanfare, but eventually dissipate or quietly be discontinued altogether.

In all of these cases, the organization must show its gratitude to the group for the time and effort each member contributed. Some of these group members are valuable community leaders, and you will want them to continue their association with your nonprofit. Members who have demonstrated the competencies and attributes that are valued for service on the governing board are likely to become excellent board candidates.

But even members of a weak or inactive advisory group deserve to be acknowledged for their work both during their term of service and when they complete their terms. Like governing board members, they tend to be busy people who are donating time away from their jobs, families, and other voluntary activities to contribute in this manner. Consider these suggestions for showing your appreciation for an advisory group's contributions:

- Award a special recognition plaque or gift.
- Make a formal presentation at an individual member's last meeting.
- Send a letter of thanks signed by the board chair and chief executive officer.
- Coordinate a special ceremony (such as a luncheon, dinner, or reception).
- Acknowledge service through the organization's newsletter.

Methods of recognition should be suited to the culture (as well as the budget) of the organization.

## FINDING AND SUPPORTING ADVISORY GROUP MEMBERS

Advisory group members are the people in your community who can add value — intellectual, political, social, or financial — to your nonprofit. While that can mean different things to different organizations, members must provide real benefit and be engaged in meeting clear goals. To do so, they need the tools for success: thorough orientation, ongoing educational opportunities, and periodic feedback and education to assess strengths and areas that need improvement.

An advisory group's goals should determine its membership, not the other way around. For a group that is designed to highlight a nonprofit's standing in the community, perhaps a membership packed with luminaries is appropriate. For a group that provides technical expertise, the credentials may be quite different. When it comes to advisory groups, form must follow function, or the group will not function well.

The criteria for joining an advisory group need not be as rigorous as the qualifications for becoming a board member, as advisory group members are not engaged in all aspects of board service and have few legal responsibilities and generally no organizational decision-making power. Still, advisory group members usually have highly sought-after skill sets and expertise. They are often the exact kind of people that you would want to sit on your governing board. Why, then, don't you invite them to be board members instead of advisory group members? Often, they are not currently interested in full board service. They value your organization and the good work it does, and they want to be affiliated in some way. But they may be wary of the responsibilities, the fiduciary duties, and the legal

liability that come with board service.. More often, they simply do not have the time to commit themselves to the rigors of full board service.

In some cases, an advisory group can be a board service “try-out” — for both potential board members and the board itself. As part of an advisory group, people get an inside look at what your organization is truly about. At a later date, they can decide whether they want to continue their affiliation with your organization and take their commitment deeper into board service.

For the board, an advisory group can be an effective way to identify new leaders who might later become board members. The board sees prospective board members in action before they are considered for nomination. They can observe a person’s energy and enthusiasm firsthand. If, for example, someone does not come to advisory group meetings, will he or she diligently attend board meetings?

### **Who Selects Advisory Group Members?**

Most advisory groups are formed when a chief executive or board members (or both) have identified a gap in knowledge or service that could best be remedied with the assistance of outside participants. But who actually selects the people to fill that gap? The board might initially choose the members of a new advisory group. Board members may already know qualified people whom they would like to involve in the organization. They may ask the program staff to recommend highly respected community or nationally recognized leaders. The board may even appoint a task force to identify prospective advisory group members.

In some cases, the board places much of the responsibility for selecting the group in the hands of the group’s chair. As with other committees, the chair wields considerable power. Good leadership is a key component for keeping an advisory group organized and focused on its objective. A strong, knowledgeable chair must understand the group’s purpose, be committed to giving more time than others, and be skilled at conducting meetings. The chair’s first job may be to find the people with whom he or she can work best.

The quality and commitment of those selected to serve on an advisory group will have an impact on its effectiveness. Advisory groups authorized to fill their own vacancies should take advantage of this power to strengthen their membership. Those who do not have the authority can develop creative ways to influence the selection. They can, for example, provide the selectors with names of candidates or with criteria that describe the qualifications of ideal candidates.

It is not unusual for the governing board or even an external group (such as a local government that funds an organization) to select the members of the advisory group. Nor is it unusual for the chief executive to oversee the membership selection. Regardless of who controls the process, nominations can be solicited from the advisory group’s current members and other individuals and groups who are in a position to identify the most qualified candidates.

Some organizations may lack a concrete process for choosing individual advisory group members. Compare your process to the information in the list below, which can help you target potential members more efficiently, help clarify their roles, and prepare them for a successful term on your advisory group.

## TOOLS FOR IDENTIFYING, CULTIVATING, AND SELECTING ADVISORY GROUP MEMBERS

- **A nominating committee or task force** composed of able and influential leaders of the advisory group, if it already exists, or of the governing board. The chief executive should be a member.
- **A formal job description** for the advisory group and a statement of the responsibilities to be used in recruitment and orientation
- **A written profile** that identifies the ideal composition of the advisory group and compares current composition against that ideal knowledge, skills, and experience of members. An advisory group profile also helps the group build diversity into its membership.
- **A plan for identifying prospects** by reaching out to other constituencies to help the nominating task force — for example, the existing advisory group, the governing board, the staff, and constituencies such as funders or community leaders
- **A process for cultivating prospective members** to educate them about their potential role and to increase the chances of their willingness to serve
- **A strategy for inviting new members to serve**, such as a personal visit from the advisory group chair or the chief executive
- **An orientation program for new members** that sets the stage for them to learn about the mission, vision, and values of the organization as well as the role of the advisory group
- **A plan for helping new advisory group members** feel a part of the organization as soon as possible

## Board Members as Advisory Group Members

Many advisory groups do include at least one board member who can provide the group with greater insight into organizational operations. He or she can be a bridge to the board, making communication simpler and more direct. But the board member must be careful not to compromise the group's independence by attempting to exert the governing board's method of operation on the advisory group. As indicated earlier, it is also common to invite the advisory group chair to attend board meetings as a nonvoting advisor. This gesture often validates the group as a useful entity.

Involving board members whose terms have expired is a more delicate issue. If the advisory group serves only as a parking lot for former board members, it adds very little value to an organization. But, properly guided and recognized, these groups can help the organization hold on to valuable former board members who can continue to make meaningful contributions. Former board members can be an organization's second most valued asset — after the active board. Never let go of a person if he or she is committed to your cause and willing to help. Some organizations create an honorary group to keep selected former board members in their fold. If these honorary groups have a defined purpose and a solid structure — and if they are used to their potential — they can be exemplary advisory groups.

Be careful whom you invite on to your group. Membership should not be automatic. Do not include board members who feel they have done their share and want to move on or members who never exhibited exceptional activism. If they were poor board members, chances are they will not perform any better as advisory group members.

## **ORIENTATION, CONTINUING EDUCATION, AND EVALUATION**

Much like orientation for governing board members, an orientation program is the launching pad for productive advisory group work. Design it to teach new members about your organization's mission, vision, strategic framework or plan, programs, and constituencies. Orientation will also introduce them to the current work of the advisory group so they are able to engage and contribute quickly without a steep learning curve.

The advisory group chair, along with the chief executive or staff who work with the group, should lead the orientation. Consider it an informal learning session with ample time for absorbing information and asking questions about the advisory group and the organization as a whole. Use the opportunity to clarify working relationships with staff and explain communication and interaction with the governing board. Provide a calendar of upcoming meetings, and give members an idea of the kind of advance preparation and information they can expect.

Continuing education supports the work and commitment of the entire advisory group by keeping it well informed. By maintaining a reasonable level of communication between meetings, you can let it know about key organizational activities. To deepen engagement, find ways for members to observe the way the organization works by experiencing its programs and services firsthand. Build relationships with the governing board by inviting board members to make presentations at advisory group meetings. Plan an occasional retreat or special group meeting to give advisors the opportunity to review their responsibilities, identify priorities to strengthen their performance, and get to know each other. Invite group members to organizational social events so they can meet informally with constituents and stakeholders.

Periodically assess the group's performance to identify its strengths and weaknesses or determine if it has outlived its initial purpose. You can approach evaluation through self-assessment, internal review by an ad hoc committee, or third-party review by an external consultant. The organization and group should define the criteria by which the group's work can be judged. Possible questions to ask group members include:

- What are our strengths and successes as a group?
- In what areas could we improve our performance?
- What would this organization be missing if we did not exist?
- In what ways could we add greater value as an advisory group?

Regardless of the method, advisory group members should have regular opportunities to review their roles and responsibilities, identify areas that need improvement, and define

the criteria by which their work as a collective body and as individual members can be judged. Sometimes evaluation will lead an advisory group to determine that it has fulfilled its goals and should disband.

For more about when and how to bring a group's work to a close, see page 145.

## **CONFLICTS AND COMPROMISES: ADVISORY GROUP, BOARD, AND STAFF**

Every advisory group needs a clear and consistent relationship with the governing board and staff. Relationships with boards range from mutually respectful or even close to hostile or distant. The board and the chief executive must demonstrate their commitment to the advisory group by defining the parameters of the relationship, clarifying what the advisory group is authorized to do and what it is not charged to do, providing adequate resources to support the advisory group's work, and creating mechanisms for dialogue between the governing board and the advisory group.

### **Duplicating Board or Staff Work**

Advisory groups are formed to supplement or complement an organization's work. But they must also beware that they do not duplicate board or staff work or, more likely, intrude on the staff. Advisory groups, even when working on similar programs as staff, should carve out their own niche of activities. They should provide a much-needed helping hand rather than interference. Sometimes, both the board and an advisory group will be charged with fundraising. To differentiate responsibilities, the board may consist of community notables and well-connected people who solicit major gifts, while the advisory group might be more grassroots-based and able to tap into a wider audience that makes smaller gifts.

The chief executive can minimize the risk of an intrusive advisory group member by clarifying the role of the group (as well as the staff who work with it). Advisory group members will be less likely to intrude into management's domain if they are clear about where their jurisdiction ends. At the same time, staff members should not expect advisory group members to march in lockstep whenever they give advice. Like governing boards, advisory groups are human and democratic enterprises. If they are successful in drawing intelligent, experienced people into their mix, they are likely to include members with diverse backgrounds, special expertise, and multiple perspectives. Senior staff and volunteer leaders must be willing to listen to different points of view. They should be prepared for debate and a healthy dose of creative tension from time to time.

### **Taking Advice**

A well-formed and -maintained advisory group is only as good as its advice. While a governing board is under no obligation to follow the group's counsel, it should be prepared to hear news that it may not like — just as it should be prepared to celebrate an advisory group's accomplishments. If an advisory group feels that its advice is continually ignored or unappreciated, the group will question its benefit to the organization and may fizzle out altogether.

## QUALITIES OF A HIGH-FUNCTIONING ADVISORY GROUP

Advisory groups can be a difficult concept for many nonprofits to grasp. They have a great deal of responsibility but little authority. They grapple with issues that are central to the organization, yet their membership may well consist of people who have no formal connection with the nonprofit. Their charge should be well defined, but they should have the flexibility to perform their assignments as they see fit. No wonder so many nonprofits are confused about how to create and maintain advisory groups. Some are not even sure what to call them.

The issue is further complicated because advisory groups are as different as the organizations they serve. There is no one correct recipe for success. They can be almost any size and perform almost any task that a nonprofit sees fit. The only generalization that can accurately be tied to thriving advisory groups is that each should meet the expectations of both the nonprofit and the group itself.

Nevertheless, highly functioning groups often have similar traits:

- The group is guided by a clearly written statement of purpose that explains its goal and notes the size of the membership, the process for selecting members and their terms of office, and the responsibilities each member shares.
- The organization's chief executive is committed to the purpose of the advisory group and willing to support its work. Most advisory groups will depend on at least one staff member to guide their work and provide the tools that enable their members to understand and discharge their responsibilities. Large advisory groups may require the involvement of more than one staff member.
- The group has a strong and knowledgeable chair who understands the group's purpose, is committed to giving more time than others, and is skilled at conducting meetings. As with other board committees, an advisory group's chair wields significant power. His or her leadership will go a long way toward keeping the group organized and focused on its mission.
- Communication between the board and the advisory group is clear and consistent. While the board should not micromanage, it should not ignore the group, either. The board should be apprised of developments and should check that the group is not duplicating staff or board work. Good communication can also help identify group members who might make strong candidates for future board seats. Even after a group disbands, the board should continue to show gratitude for its members' hard work.

Finally, it would seem counterintuitive for a nonprofit to create an advisory group only to ignore its advice. Unfortunately, this happens frequently. There is usually no maliciousness involved. Instead, it is a byproduct of poor organization and structure. When an advisory group is created without a specific purpose, it can become diffuse and inefficient — and its advice often is not worth hearing.

That scenario is truly an opportunity lost. Advisory groups can provide a nonprofit with good ideas, good community relations, good program concepts and management — even good board members. In return, a nonprofit must provide good structure and organization. Above all, it must be willing to listen.

## RECOMMENDED RESOURCES

Visit [BoardSource.org](https://www.boardsource.org) to view, download, or purchase resources.

[Advisory Board vs. Governing Board: Is There a Difference?](#)

[Advisory Councils: Nine Keys to Success](#)

[Advisory Groups](#)

# Nonprofit Board Committees

Transforming Committee Structure // Governance Committee // Executive Committee  
Financial Committees // Development Committee // Advisory Groups

