Essential Practices for an Effective Board of Directors

Jennifer M. Rutledge
A board is an organized group of people with the collective authority to control and foster an institution that is usually administered by a qualified executive and staff.

Governance is the act, process or power of governing.

Jeremy Barlow
Director of Digital Marketing at BoardEffect.
The Legal and Ethical Framework
**Accountability**
- Federal & State Law
- Organization’s Documents
- Licensing Entities
- Funders, partners, and Donors
- Tenants, Clients, Other Stakeholders

**Liability**
- Violation of the Law or bylaws
- Gross negligence
- Unpaid payroll taxes
- Unsatisfied debt
- Concurrence with actions that injure the corporation

**Protection**
- State Law
- Indemnification clause
- C&O Liability Insurance
The Legal and Ethical Framework

Duty of Care

Exercise care. Act as an ordinary, prudent person would in like circumstances. This requires diligent, attentive, informed participation.

Duty of Loyalty

Act in good faith, in the best interest of the organization. Put in place procedures and policies that safeguard these interests when a conflict of interest arises; when there is a director on both sides of a transaction; or when a director and the organization are in competition.

Duty of Obedience

Act to ensure that the organization operates in keeping with laws and rules governing its formation and status and in accordance with its own mission and bylaws.
Governance

The exercise of **legitimate authority, direction, oversight and control** of an organization in order to ensure that its purpose is achieved and that there is a **proper accounting** for the ethical conduct of its affairs and the results of its activities.

*Mel Gill, President - Synergy Associates
CharityVillage.com*

The **establishment of policies, and continuous monitoring of their proper implementation**, by the members of the governing body of an organization. It includes the **mechanisms required to balance the powers of the members (with the associated accountability)**, and their primary duty of enhancing the prosperity and viability of the organization.

*http://www.businessdictionary.com/*
Governance v. Management: Seven Guiding Questions

Adapted from “Distinguishing Governance from Management by Barry Bader

• Is it big?
• Is it core to the mission?
• Is a high-level policy decision?
• Is it about the future?
• Is a red flag flying?
• Is a watchdog watching?
• Does the Executive Director/CEO want and need the board's support?
Governance Modes

- Fiduciary
- Strategic
- Generative
# Modes of Governance

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<thead>
<tr>
<th>Governing Modes</th>
<th>Fiduciary</th>
<th>Strategic</th>
<th>Generative</th>
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<tr>
<td><strong>The Functions</strong></td>
<td>Stewardship of tangible assets. Establish and monitors internal controls to ensure legality, accountability, and ethical processes and practices are in place and are being used.</td>
<td>Strategic Thinking, Positioning, and Planning - Partner with senior staff to shape direction and strategy</td>
<td>Problem Solving - Discern, frame, and control challenges, problems, and concerns</td>
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| **Carrying Out the Functions** | Financial Oversight – Regular Monitoring & Reporting  
Clean Audit – Insights from the Auditor  
Risk Management - Are safeguards in place?  
Alignment of Resources – Consolidated Budget; Budget reflects priorities; Budget is balanced  
Fund Development – Ensuring that the organization has adequate resources to achieve its mission and meet its promises and obligations  
How New Programs Serve Mission | Strategic, Long Range Plans with Performance Indicators/Milestones, etc.  
Multi-Year Financing Plan  
Annual Operating Plan  
Annual Budget | Board Meetings  
Committee Meetings  
Board Retreats  
Technical Assistance |
| **Questions** | How are we doing now?  
How will we be doing in the future?  
What’s going right?  
What’s going wrong?  
What do we need to do going forward? | How are we positioned now?  
How do we want to be positioned now and going forward?  
What’s the plan? | What are the issues, concerns, and major problems?  
What is important for us to maintain or enhance?  
What should we stop doing? |
Board Roles & Responsibilities
Board Roles & Responsibilities

1. Establish the broad-based policies that govern the operations of the organization.

2. Develop a long-range, strategic plan for the organization.

3. Select, hire, evaluate, and support the Chief Executive Officer of the organization
   • Delegate to the Executive Director the responsibility and authority to manage the organization, develop and implement annual operating plans and budgets that are consistent with the strategic plan and broad-based board policies; and
   • Support and advise the Executive Director.
Board Roles & Responsibilities

4. Share the responsibility for the financial well-being of the organization, including
   • Providing appropriate and timely financial oversight;
   • Oversight for the management of investments, endowments, etc.; and
   • Sharing responsibility in raising necessary income.

5. Develop and maintain communications links and beneficial relationships with various communities, funders, and other stakeholders in the organization’s success.

6. Ensure evaluation of progress against plan on an ongoing basis.
Board Roles & Responsibilities

7. Provide for the continuous self-evaluation and renewal of the board itself.
   • Quality of the board’s planning, fiscal management, fundraising, external relations, and policy development practices.
   • Scope and depth of the composition of the board’s members, e.g., skills, experience, connections, financial contribution ability, and demographics.
   • Effectiveness of recruitment and orientation of new board members.
   • Our culture (e.g., how we communicate; how we treat one another, how decisions get made and are communicated, etc.)
   • Quality of our meetings that are forums for the board’s work.
   • Effectiveness of the board’s structure (including the appropriateness and contributions of various committees).
   • Conscious development of board members as future leaders of the board.
How We Carry Out These Responsibilities

- Clarity
  - Mission
  - Priorities and Plans
  - Policies and Procedures
  - Who Does What
  - Expectations

- Assignments/Tasks
  - Individuals
  - Committees/Work Groups

- Information & Education
  (Documents & Processes)
  - Tools & Materials
  - Retreats
  - Workshops
  - Assessment

- Meetings
  - Board
  - Committees/Work Groups
Tools to Carry Out Our Role

- Bylaws
- Policies & Procedures
- Plans and Assessments
- Orientation, Training, Board Education, and Transition Processes
- Board Member Portal, E-Handbook and Materials
- Committees, Work Groups, and Individuals
- Board and Committee Meetings
- Minutes
- Reports (Financials, Executive Director, Committee, Work Groups, Individuals)
- Annual Audits
- Self-Assessment Processes
- Annual Board Retreat
Carrying Out Finance and Asset Management Related Roles

• Making certain that the board has an adequate number of Board members with a strong knowledge of real estate practices, financial and accounting practices, asset and property management.

• Formulating policies (e.g., authority, investment, operating reserves, lines of credit, etc.) and ensuring that there are financial controls in place to provide adequate financial oversight (procedures, reports, consolidated audits, 990 review, etc.)

• Ensuring that there are adequate safeguards in place to: (1) protect the organization’s assets; and (2) assess and manage risks.

• Establishing a Finance Committee to ensure that internal financial controls are adequate and to review and discuss financial reports prior to board meetings.
Carrying Out Finance and Asset Management Related Roles

- There is a Real Estate and/or Asset Management and/or Property Management committee and that the CFO or Director of Finance and the Treasurer of the Board sit on that committee.
- Ensuring that the format and number of reports that the Board reviews adequately reflect the organization’s current financial condition and the management of the organization’s assets.
- Making sure that every board member is educated on how to read and interpret these reports and ask questions.
Individual Board Members/Directors

What does/should your organization expect from individual board members?
## Expectations of Individual Board Members

1. Fiduciary oversight.

2. Always act with integrity and in the best interest of the organization.

3. Prepare for and participate in board orientation, board meetings, retreats, annual commitment conversations, etc.

4. Serve on and occasionally lead board committees.

5. Make the organization their philanthropic priority.

6. Serve as well-informed ambassadors, leveraging their networks and connecting the organization to those who can be helpful.

7. Attend major organizational events

8. Participate in the organization’s board recruitment process by identifying and cultivating potential board members.

9. Provide ongoing strategic counsel and advice but “stay in role” - Not micromanage or undermine the Executive Director/CEO.

10. Participate in organizational and board assessment and planning processes.

11. Contact the Board Chair if they are not able to carry out their responsibilities.
Individual Board Member Commitment

Annual Review and Sign-Off

• Conflict of Interest
• Code of Ethics and Conduct
• Confidentiality Policy
• Board Member Agreement
• Annual Commitment
Board & Staff Relationship: The Essential Partnership
# Board-Executive Director/CEO Relationship

*Adapted from “Distinguishing Governance from Management by Barry Bader*

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<tr>
<th>The Board’s Roles</th>
<th>Executive Director/CEO/Management’s Roles</th>
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<td>Select, evaluate, and support the ED/CEO.</td>
<td>• Run the organization in line with board direction and policy.</td>
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<td>• Keep the board educated and informed.</td>
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<td>• Seek the board’s counsel.</td>
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<td>Approve organizational policies and goals.</td>
<td>• Provide background information for informed decision making.</td>
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<tr>
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<td>• Recommend goals and policies.</td>
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<td>Make major decisions.</td>
<td>• Frame decisions in the context of the mission, strategic direction, and priorities.</td>
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<td>• Bring the board well-documented recommendations.</td>
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<td>Oversee organizational, ED/CEO, and board performance.</td>
<td>• Bring the board timely information in concise, contextual, or comparative formats.</td>
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<td>• Communicate with candor and transparency.</td>
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<td>• Be responsive to reasonable requests for additional information.</td>
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<td>• Lead analysis of organizational performance and participate in the analysis of the board’s performance.</td>
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<td>Act as external advocates and informed ambassadors in</td>
<td>• Keep the board informed.</td>
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<td>public policy, fundraising, community and other stakeholder relations.</td>
<td>• Bring recommendations.</td>
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<td>• Provide board education and tools and mobilize board members to leverage their external connections to support the organization.</td>
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Board/Executive Director Partnership

- Shared Vision and Goals
- Cooperation and Communication
- Mutual Respect and Feedback

- Clarity and Understanding of:
  - Expectations
  - Our Direction
  - Why - Mission, Policy, Impact, etc.
  - What We Expect to Achieve
  - Ways in Which We Will Achieve This
  - Roles and Responsibilities
Questions?
Additional Resources

- BoardSource  [www.boardsource.org](http://www.boardsource.org)
- Blue Avocado  [www.blueavocado.org](http://www.blueavocado.org)
- Fieldstone Alliance  [www.fieldstonealliance.org](http://www.fieldstonealliance.org)
- Free Management Library  [www.managementhelp.org](http://www.managementhelp.org)
- GuideStar  [www.guidestar.org](http://www.guidestar.org)
- Idealist Nonprofit FAQ  [www.nonprofits.org](http://www.nonprofits.org)
- Montana Nonprofit Association  [www.mtnonprofit.org](http://www.mtnonprofit.org)
- National Council of Nonprofits  [https://www.councilofnonprofits.org](https://www.councilofnonprofits.org)
- Nonprofit Quarterly  [https://nonprofitquarterly.org/](https://nonprofitquarterly.org/)
- Nonprofit Times  [www.thenonprofittimes.com](http://www.thenonprofittimes.com)
Thank You!

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