

Board Basics 101

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Session Objectives

- To provide non-profit leaders with basic working knowledge about boards;
- To understand how boards function differently based on organizational life-cycle;
- To understand the three duties and three hats of a non-profit board member; and
- To share a basic framework for focusing a governance board.



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Poll #1

- How many years has your NPO served in a formal capacity?
 - 1-3 years
 - 3-6 years
 - 7-9 years
 - 10 years or more



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Poll #2

- How many board members do you have?
 - 5 or fewer
 - 6-10
 - 10-15
 - 15-20
 - 20 or more



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Poll #3

- How often does your board meet?
 - Monthly
 - 6-8 times per year
 - Quarterly
 - Semi-Annually
 - As needed



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Four Types of Boards

- Fundraising Board
- Management Board
- Representative Board
- Governance Board



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Fundraising Board

- Ability to write big checks
- Relationship to big check writers
- Relationships to Foundations / Grant-making entities
- Symphony / museum boards
- Not really looking for guidance or industry expertise
- **Jim Collins reference:** Buy the boat or the bus



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Management Board

- Make day-to-day operational decisions
- Minimal professional staff
- Meet frequently
- Homeowners associations, local religious communities, Youth Sports Clubs
- Limit the organization's size by the function of the board
- **Jim Collins reference:** Control the bus or boat



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Representative Board

- Diverse make-up and large size
- Elected and empowered by "sections" of the membership
- Decision making is influenced by lines of accountability
- Accountability is to the electorate not total membership
- Board work-audit tends to be "receive, review, refer"
- Tension between management vs. governance
- Trend is a lot of committees, task forces and working groups subject to approval by the larger body
- Means to engage multiple stakeholders in a pre-digital era
- **Jim Collins:** Aircraft carrier



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Governance Board

- Empowered and elected by the total membership (owners)
- Actions are in the best interest of owners and stakeholders
- Focus on policy creation and accountability
- Written guidelines and clear objectives for 2-3 meetings per year
- Goal is to empower the "doers / staff"
- Transfer of authority from board to staff
- Focus on policy compliance and strategic thinking
- Board only has committees that it needs to do its work: Finance, Personnel, Executive
- **Jim Collins:** Bus with a focus on right people / seats



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Poll #4

- How many have a
 - Fundraising Board
 - Management Board
 - Representative Board
 - Governance Board



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Poll #5

- How many believe the board is currently functioning well?
 - Functioning well
 - We're okay but need help
 - Not functioning at all



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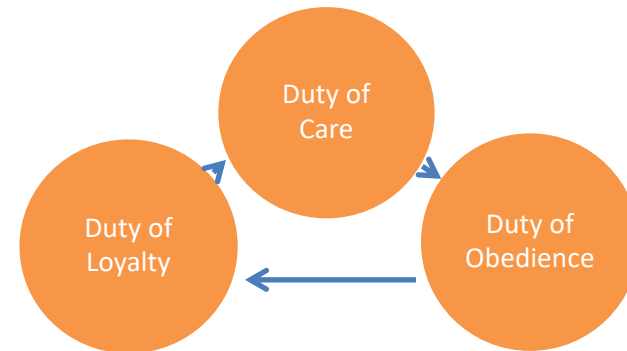
Policy Governance / Boundaries



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Three Fiduciary Duties of a Director



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Duty of Care

- The **duty of care** is to stay informed, actively participate, and exercise ordinary care and prudence in management of the organization, by acting:
 - in good faith,
 - with ordinary care, *e.g.* the degree of diligence, care and skill that a person of ordinary prudence would exercise in the same or similar circumstances,
 - in a manner the director reasonably believes to be in the best interest of the organization.



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Duty of Care

- The director should be **reasonably informed** with respect to the decisions he is required to make.
 - Regularly attend board meetings.
 - Request materials and ask questions to ensure adequate information before taking board action.
 - Review materials provided at board meetings.
 - Be familiar with the organization, its legal structure, finances, governing documents, and exempt purposes.
 - Be familiar with general laws.



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Duty of Care

- The director should **exercise independent judgment** about whether an action is needed.
 - Consider all views before making a decision.
 - May rely on information, opinions, reports or statements of:
 - the staff,
 - independent experts (counsel, accountants, etc.), or
 - other board committees,

If the director reasonably believes that the provider of the information or opinion is competent and reliable with respect to such information, he will then make an informed decision.



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Duty of Care

- The board can **delegate management** to the officers and staff, but cannot delegate its oversight responsibility. The board must:
 - Prudently select Senior Minister.
 - Clearly define delegations of authority.
 - Monitor policies and procedures to ensure legal compliance and prudent use of organizational resources, for example:
 - *Employee Handbook *Technology Use
 - *Crisis Management *Conflict of Interest
 - *Investment/Endowment *Active Shooter



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Duty of Care

- Examples of breach of duty of care:
 - Purchase of building for more than fair market value
 - Failure to conduct annual audits
 - Excessive staff compensation
 - Failure to follow terms of investment documents, donor restricted gifts, etc.



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Duty of Loyalty

- The **duty of loyalty** requires the director to act always in good faith and in the best and undivided interests of the organization, and not for personal gain.
 - Avoid or fully disclose conflict of interests.
 - Do not usurp corporate opportunity for personal gain.
 - Maintain confidentiality of the organization's private information.



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Duty of Loyalty

- A **conflict of interest** exists when a director (or the director's family member) has a personal material interest in a proposed transaction to which the organization may be a party.
 - Not prohibited by state law and transaction may be in the best interest of the organization.
 - Conflicts should either be avoided or fully disclosed to the board.
 - Any transaction involving a conflict must be approved in good faith by a majority of disinterested directors. The conflicted director must abstain from the vote.
 - *See Conflicts of Interest Policy.*



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Duty of Obedience

- Under the **duty of obedience**, a director must ensure that the organization:
 - Complies with all applicable laws and regulations.
 - Adheres to its own articles, bylaws, and policies.
 - Remains committed to its established mission.
- Non-profits are defined by their specific objectives, and the duty of obedience is intended to reinforce that the director's principal concern should be the effective performance of the organization's mission.



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Duty of Obedience

- Duty of obedience requires the director to:
 - Follow the governing documents
 - Ensure compliance with the laws – particularly the tax laws to maintain tax exempt status



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Poll #6

- How many of you include the three duties in your board member orientation?
 - Every time
 - Most of the time
 - Never heard of this before



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Three Hats

- Three Hats
 - Board member
 - Ambassador
 - Volunteer



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Poll #7

- How many board members make an financial gift?
 - 100%
 - 80-99%
 - 60-80%
 - Few than 59%



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Policy Governance / Boundaries



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Board Role 1: Mission, Vision, and Core Values

Mission: What need exists (existed) that calls your organization into being?

Vision: How will the world be different because your organization exists?

Core Values: How do we want to be described by our members / what are the characteristics by which we will be known?

End Statements: Board direction (what / ends) to the staff (how / means)



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Sample

Mission:

Teaching excellence through swimming for life

Vision:

A community club with a national presence

Core Values:

Courage, perseverance and For the Team (FTT)



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Sample Ends Statements

Carmel Swim Club

Serves the residents of Hamilton County and Central Indiana through competitive swim programs and water safety instruction;

Teaches leadership development and life skills to young people;

Coaches athletes to their highest level of athletic and academic potential; and

Fosters community and loyalty among our members and constituents.



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PFCC Sample

Mission: *For the Support of Ministry*

Vision: *Stone-Campbell pastors and lay employees will enjoy a Strong, Smart, and Secure retirement.*

Core Values: Integrity, Security, and Compassion

Integrity: the quality of being honest, making membership-oriented decisions

Security: the state of stability, providing freedom from worry or fear

Compassion: the ability to help others in times of need or distress

Guiding Scripture: Matthew 25:20-21



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Sample

Ends Statements: In service to our members, Pension Fund will:

- Partner with employers to offer financially secure retirement savings options and education for pastors and lay employees of the Stone-Campbell movement, including financial support of surviving family members and provisions for those who become disabled;
- Invest and manage prudently the resources of our members - maximizing risk adjusted returns, minimizing costs, and assuming the burden of market risk;
- Engage members with compassionate care and personalized attention;
- Steward the assets and programs of Ministerial Relief and Assistance; and
- Utilize current and compliant processes.



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Poll #8

- How many of your boarding meeting agendas have the mission, vision, and core values on the agenda or somewhere in the meeting materials?
 - Every meeting
 - Most meetings
 - We don't have one (mission statement, board book, agenda)



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Best Practices for a Mature Board / Organization

- Board's role often described as "policy-making" while staff's is "management"
- Board is the what / Staff is the how
- Board is the ends / Staff is the means
- Policies:
 - A policy is a "guiding principle"
 - Staff is critical in shaping and implementing policies
 - Staff is empowered by policies to do the work



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Best Practices: Executive Committee and Session

- Executive Committee
 - Should only meet in an advisory capacity to the Executive;
 - When the board cannot be called into session;
 - Where the bylaws or rules specifically states such as to process the ED's evaluation; and
 - Have any actions reported to the full board.
- Executive Session
 - Limited use
 - Open Meetings Policy <http://disciples.org/wp-content/uploads/2014/08/GA1321-OpenMeetingsPolicy-Final.pdf>
 - Should include ED, unless the meeting is about her/him (compensation, performance) etc.



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Basic Blocking and Tackling

- Identify resources needed to properly operate the organization.
- Establish policies for how these resources will be acquired.
- Plan strategically for the future, especially around Capital needs.
- Determine how board members will participate in resource development.
- Contribute – this room should be filled with lead givers (not defined by the most but relative percentage / capacity-based)



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Basic Blocking and Tackling

- Annual approval of budget(s)
- Annual Audit and conversation with Auditors
- Endowment investment guidelines and spending policy
- Wills, estate gifts, and memorial funds policy
- Internal controls – how do we handle the money, counting, securing



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Internal Controls



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Internal Controls



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Primary Internal Controls...

Trust

- Assured reliance on the character, ability, strength, or truth of someone or something
- One / a person in which / in whom confidence is placed
 - Transactions
 - Paperwork processes
 - Human contact with the system
 - Opportunity to catch and correct errors



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Primary Internal Controls

Accountability:

An obligation or willingness to accept responsibility;
The state of being accountable

Accountable:

Something one can measure and explain
Documented process, paper trail / documents



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Trust is not an internal control!



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List of the 10 Responsibilities

Section One:

1. Determine the Organization's Mission and Purpose

Section Two:

2. Provide Proper Financial Oversight
3. Ensure Adequate Resources and Participate

Section Three:

4. Determine, Monitor, and Strengthen Programs and Services
5. Ensure Effective Organizational Planning

Section Four:

6. Ensure Legal and Ethical Integrity and Maintain Accountability
7. Enhance the Organization's Public Standing
8. Recruit/Nominate and Orient New Members

Section Five:

9. Support the Senior Minister
10. Participate in the selection of the Senior Minister



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*"A good board is a victory,
not a gift."*

~ Cyril O. Houle
Governing Boards



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