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Effective board management

Keys for not-for-profit organization success

Each year, philanthropy continues to take on a more leading role in solving society's biggest challenges.

In current dollars, total charitable giving increased 9.4% between 2019 and 2020, and increased 4.0% between 2020 and 2021. But between 2021 and 2022, charitable giving declined for the first time since the record-breaking generosity that occurred during the pandemic era.[1] Despite the best intentions, converging market factors—from a changing regulatory environment and economic volatility to the unpredictability of collections and fluctuating cash flow, to unforeseen global crises and environmental issues—can be impediments to overcoming these challenges.

Whether fundraising levels are at an all-time high or we are experiencing times of elevated uncertainty, well-governed not-for-profits (NFPs) that have strong leaders in place and continual oversight have proven to be more effective and more likely to succeed in fulfilling their missions. Developed staff and boards can help organizations:

- Respond to expectations of stakeholders in a complex operating environment
- Ensure strong governance policies are in place to manage the organization
- Identify, recruit, engage and retain dedicated board members
- Fundraise in a highly competitive arena

For more information on how to recruit, build and sustain a successful board, below are the five areas of focus to assist you in maximizing the impact of your not-for-profit.

[1] Giving USA 2023: The Annual Report on Philanthropy for the Year 2022, Giving USA.

Know your organization

> "Board members are the fiduciaries who steer the organization towards a sustainable future by adopting sound, ethical, and legal governance and financial management policies, as well as making sure the nonprofit has adequate resources to advance its mission."[2]

The board's primary role is stewardship: overseeing management and ensuring the organization's affairs are being conducted in an ethical manner that achieves its objectives. This includes ensuring sustainability, while overseeing management and upholding a high standard that all affairs are being conducted to successfully achieve its objectives. A snapshot of board responsibilities[2] includes, but is not limited to:

- Establishing a mission and purpose
- Setting policies and ensuring effective planning
- Selecting, supporting and evaluating the organization's senior team
- Monitoring and strengthening programs and services
- Protecting assets and providing proper financial oversight
- Ensuring legal and ethical integrity
- Enhancing the organization's brand image and standing in the community

Recruiting your board

Serving as a board member requires a mix of intellectual passion, professionalism and desire to improve a community or organization in need. By being clear on the roles and responsibilities of your organization's board, your members can not only be trusted partners, but key advisors for years to come.

While having a board is a legal requirement for every NFP, it is essential to have one that is both well informed and well trained so it can provide an ample mix of oversight, expertise, support, connections to stakeholders and long-term perspective. Due diligence should begin with a thorough assessment of your organization's greatest needs.

For example, would your organization benefit most by adding a board member with financial expertise, or one with strong relationships in the community, or someone familiar with the individuals served by the organization? Once specific skill sets and levels of expertise have been identified, the new board member search can move forward.

Then, as you begin to recruit new board members, it is always important to know and/or ask prospective individuals:

- Are they inspired by philanthropic goals?
- Do their passions align with your organization's values and mission?
- Do they either have extensive experience in the social issue area your organization serves and/or can contribute an element of human capital that will benefit the organization (e.g., personal network, area of professional expertise, personal time, etc.)?
- Do they have clear expectations of what your membership on the board will entail?
- Do they serve in any other roles with a nonprofit that might be a conflict of interest?
- If applicable, are you confident that the individual understands the financial commitment of board membership?

Recruiting and retaining qualified, independent board members can be challenging—even more so when directors serve as volunteers. Regardless, NFPs need balanced, inclusive and fully committed boards. A board that functions at a high level doesn't always agree, but should collectively promote diversity, community, and a strong commitment to achieve organizational and mission success over individual goals. These tips can make that happen:

- Target diversity: Building a heterogeneous board composed of people with a variety of skill sets, perspectives, backgrounds and resources promotes creativity and innovation. Inclusive boards are more likely to attract diverse donors, and grant sources are increasingly focused on diversity as a criterion for disseminating funds
- Target professionals as potential board members—individuals who reflect the population served and who provide a broader perspective on challenges and solutions

[2] National Council of Nonprofits.

- Cultivate the prospective member's interest until they are ready to accept your invitation to join and take on the role of ambassador for your NFP
- Some NFPs employ a "trial period" for their potential candidates by asking them to serve on a task force or committee, or to volunteer in some other capacity to see if both parties are compatible

It is also important to know that qualified board candidates who possess the skills, community relationships, insight and perspective are hard to come by. Identifying and recruiting them, therefore, becomes an inclusive responsibility—from the board to the search committee, to other stakeholders within the organization. It is always important to know who will be involved in both recruiting and training new board members. One of the best tools at an organization's disposal is its current and/or emeritus members, as they know the roles and positions best. Once the Nominating Committee has fully vetted the list of candidates pooled from the full board, the board then decides who should be invited to join and who's the best person to extend the formal offer. In many cases, the individual who asks often makes a difference in whether the prospect says "yes."

Developing and retaining your board

Nonprofit organizations are only as healthy and strong as the boards that govern them. While an effective board is characterized by its ability to function cohesively at a high level, a dysfunctional one can distract an organization from its mission by limiting its productivity, stunting growth, weakening fundraising efforts, and causing confusion and frustration among members and staff alike.

There is, however, a roadmap for successful board development that can have a positive influence on the board's culture and create a more cooperative environment. It's based on a series of tactics and techniques that help recruit, cultivate, educate, assess and rotate board members.

1) **Bring new members on board with heightened enthusiasm.** Make sure new board members become engaged in the work of the board and feel that their time is well spent. Finding the right committee for the new member can help ensure engagement early on.

   - Actively involving and motivating new board members is an effective strategy for building long-term loyalty and retention
   - Assigning more experienced board members as "partners" or "mentors" can help assimilate new members into the unique culture of the organization. These mentors have knowledge and expertise that can be shared to bring new members up to speed with the board's procedures, policies and protocols
   - Make ongoing education a priority, since expectations are high for board members, many of whom arrive in their new roles with minimal or no experience in the NFP sector

2) **Spell out the financial expectations.** Boards of directors often have a policy asking members to make a financial commitment to the organization, with the board choosing the amount. It's called the give-get, whereby prospective board members agree to either donate (the give) a certain amount of money every year, paid from their own personal resources, or to raise the equivalent amount from other sources (the get). These funds could come from a company match, fundraising events they organize or through personal outreach efforts. Give-get policy terms should be clearly defined and discussed during the vetting process so that candidates understand their financial obligation is a prerequisite to being offered a seat on the board.

   Fundraising

   The board is responsible for assisting the financial health of the organization it serves, making it logical for board members to be actively engaged in the fundraising mission. Many boards have committees tasked with raising the non-grant funds needed to meet their budget goals, along with:

   - Developing the annual strategic fundraising plan, including the marketing and media strategies and tactics required to execute it and generate measurable results
   - Creating sub-committees to successfully carry out the fundraising events and activities that make up the fundraising plan
   - Investigating new projects, activities and ideas for potential use in the future
   - Submitting objectives each year as part of the planning and budgeting process
   - Conducting annual evaluations of committee performance and presenting results to the full board

Getting board members involved at the planning stage will clarify their fundraising responsibilities, build excitement toward implementation, and increase the likelihood of participation in the fundraising process. If you sense resistance, try meeting with the board—and if warranted, with individual members—to discuss any reluctance they may have to the process. This will help uncover the source and address it through initiatives such as outside training in fundraising strategies.

3) **Allow board members to resign when ready.** Use annual letters of commitment to give every board member the chance to re-evaluate and affirm their ability to serve and/or to make their annual financial contribution. An escape clause should also be included that allows the board chair to accept the resignation of anyone who does not sign the annual commitment letter.

Term limits

Nonprofit boards have been debating the pros and cons of term limits for many years. According to the most recent Leading with Intent study, 87.5% of nonprofit boards indicated having board terms. The most common board member term structure is two consecutive three-year terms. You can also implement a staggered term system which allows a set number of new members to be chosen regularly, makes it easier to diversify your board by bringing in new ideas and perspectives, and enables the board to easily adjust its membership to reflect the organizations and members changing needs.

The pros of term limits

- Provide opportunity for the board and organization to work with talented community members who can devote only a few years to board service
- Enable you to avoid the perpetual concentration of power within a small group of people
- When staggered, provide a built-in balance of continuity and turnover
- Raise awareness of and provide opportunities to change and improve group dynamics
- Provide a respectful and efficient mechanism for the exit of passive or ineffective board members
- Increase your number of prospective and committed supporters

The cons of term limits

- Potential loss of expertise or insight that has benefited the board and organization over time
- Potential loss of organizational history and decision-making rationale among past leaders
- Need for the Governance Committee to dedicate more time to the identification, recruitment and orientation of new board members
- Need to dedicate additional time to building the cohesiveness of the board as members rotate on and off the board

Improving board effectiveness

Many NFP boards function successfully as a result of implementing proven practices that move their operations forward. Examining the factors below will provide you with a checklist for assessing board performance, improving areas of weakness, re-energizing an existing board or building one from the ground up, if necessary:

- Understanding the balance between oversight and program involvement
- Maintaining workable board member size relative to organization membership
  - Establishing procedures for removing unproductive members
- Vetting prospective members carefully to ensure engagement and productivity
  - Establishing onboarding procedures for new members
- Having an effective plan in place for the term and rotation of members
- Having a strategic plan that is reviewed, updated and measured against results

[3] Leading with Intent: Board Source Index of Nonprofit Board Practices.

Depending on the size and governing body of the board, having established committees might also be helpful to not only the sustainability of the organization, but in maintaining the retention and satisfaction of board members. The right committee can help structure a board so that the work and decisions are done efficiently, effectively and in a way that lets board members contribute their own expertise to the organization. Examples of standing committees you should consider are:[4]

- **Executive Committee:** Serves as the steering committee for the board to prioritize the work and, specifically, confidential matters or discussions
- **Governance & Nominating Committee:** Serves as an oversight committee ensuring the good governance and operations of the committee while being responsible for nominating new members to the board
- **Investment/Audit & Finance Committee:** Serves as an oversight committee to help develop and monitor the annual budget, investment strategies and overall financial operations
  - Depending on the level of complexity and needs of the organization, the nonprofit might develop two separate finance committees: an Investment Committee and a Financial/Budget Committee
- **Development:** Serves as an oversight committee to all fundraising efforts, including, but not limited to, sourcing new sponsors, stewarding supporters and promoting the organization across their networks
  - Depending on the organization's fundraising goals and if it's planning a multi-year campaign, the nonprofit might develop a capital campaign committee when applicable

Implementing the above items can help you succeed in today's intensely scrutinized, not-for-profit marketplace. Following this approach can reward your organization's brand with a host of compelling benefits. These might include more effective governance and fundraising programs, increased donor confidence, higher ethical standards and enhanced influence in the community.

Additional considerations

Legal compliance and financial oversight—The American Competitiveness and Corporate Accountability Act (a.k.a. the Sarbanes-Oxley Act) was passed in 2002 and regulates the financial controls of corporate boards. While not directly applicable to NFPs, Sarbanes-Oxley may be relevant in that it inspired a number of state laws that govern nonprofits. A case in point is the California Nonprofit Integrity Act of 2004, which addresses registration of a charity, financial reporting, auditing and other financial areas.

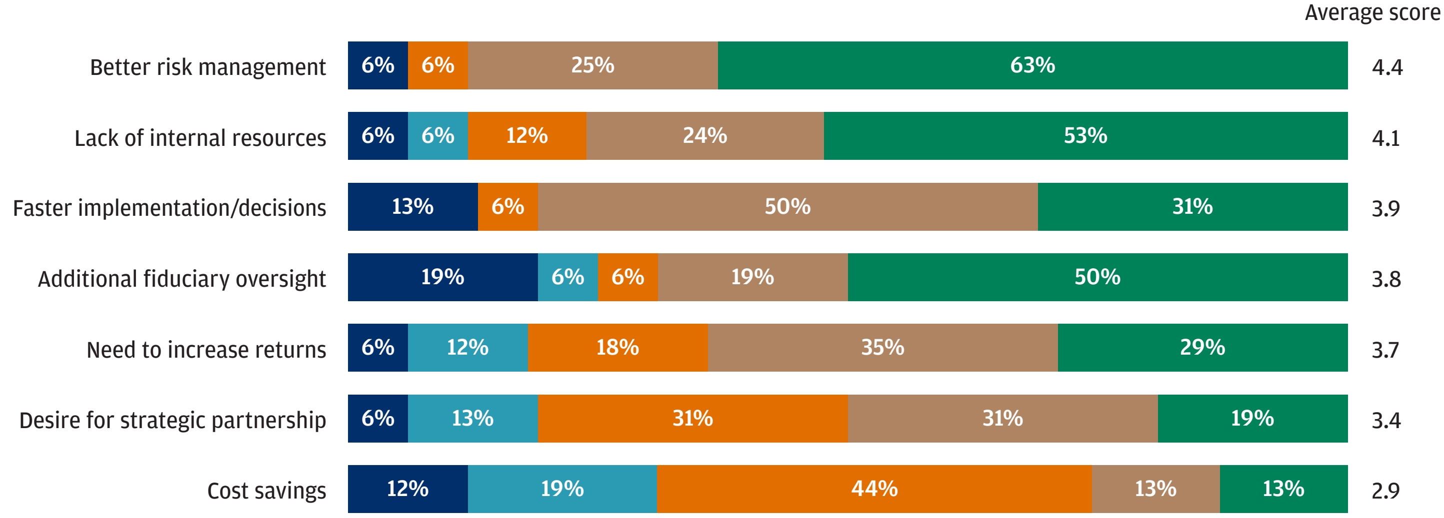
The Internal Revenue Service (IRS), in its Compliance Guide for 501(c)(3) Public Charities, recommends NFPs consider whether such governance practices are necessary to ensure sound operations and compliance with tax law. While you may not be required to have one policy or another, the IRS is authorized by section 6033 to "ask for information we consider to be relevant to tax administration, including governance."

An NFP can take measures to avoid placing its federal tax-exempt status at risk under section 501(c)(3) of the Internal Revenue Code. This can be done by restricting participation in certain activities and absolutely refraining from others (e.g., participating directly or indirectly in a political campaign on behalf of a candidate for public office). To reduce risk, organizations could voluntarily adopt a number of Sarbanes-Oxley provisions that relate to board oversight and committees, disclosure, document retention, whistleblower policies and audits. Since state laws vary, your organization's leadership and board should become familiar with relevant legislation in your area of operations.

One way that organizations have been seeking a partner in compliance is through the outsourcing of all or a portion of their investment assets. From the recent NACUBO Study of Endowments 2023 on page 7, the most prevalent reason to outsource was better risk management.

[4] BoardEffect, A How-To Guide for Nonprofit Board Committees, 2023.

REASONS INSTITUTIONS OUTSOURCE*



* NACUBO-TIAA Study of Endowments 2023.

The takeaway

At J.P. Morgan Private Bank, we have seen how targeted philanthropy can help drive positive change in our world. We're committed to helping you contribute to the causes you care about and to integrate your mission with your overall wealth plan. Our experts in The Philanthropy Centre help individuals and families make a lasting impact on the communities they serve by providing meaningful advice, thought leadership and learning opportunities centered on charitable giving. We also understand your commitment to fulfilling your mission.

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