Are Business Professionals Undermining Your Board?

Businesspeople may do more harm than good on nonprofit boards, unless they follow these guidelines.

BY MARGARET O'REILLY-ALLEN & RAYMOND POTEAU

Many nonprofit board members are business professionals who bring a corporate perspective to the board. This approach often focuses on financial criteria, leading the board to make decisions inconsistent with the organization's mission.

For example, at a board meeting of a teaching hospital, whose mission is to provide patient care, one board member suggested closing the kidney dialysis unit as a cost-cutting measure. Another example occurred when a college board chair stated that his organization "had just completed its 21st consecutive year of balanced budgets." However, the quantity and quality of applicants fell, programs on diversity (race, class, gender) were dropped because they were unprofitable, and the productivity of the faculty was reduced.[1]

Clearly the financial bottom line is critical to a nonprofit's existence. But the board should consider corporate-type measures as a means to an end; a complete set of performance measures for a nonprofit should assess how successful the organization is at achieving its goals.

A recent study suggests that adopting corporate solutions for many nonprofit problems is neither feasible nor desirable.[2] Does that mean you need to get rid of the corporate leaders on your board? Not if you make sure they observe these three essentials:

1. Know the Mission

A survey of over 400 board members of colleges and universities[3] reveals that a large percentage of board members don't feel well-versed about their organizations' missions. These findings suggest that an educational program about the organization's mission is essential. A well-planned educational program should include a meeting that provides board members with the following information:

- a brief history of the organization
- the mission statement for the organization as a whole and for each program the organization provides
- the most recent strategic plan
- an organizational chart
- a list of laws and regulations that must be complied with
- a summary operating budget for the last three years
- biographies of board members.

Follow up frequently, giving board members a chance to put the mission in their own words. Post the mission statement on the wall. Make sure it's prominently displayed at every board meeting.

2. Share Governance

Shared governance occurs when upper-level management and other stakeholders in your organization are active participants on the board. Such representation provides the board with a richer and more in-depth understanding of the organization.

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Figure 1
Sample Performance Measures for a College or University

Overall revenue structure (including adequacy of balance between tuition and endowment)

Overall expenditure structure

Percent of freshmen applicants accepted and percent of accepted freshmen who matriculate

Ratio of students to faculty

Institutional grant aid as a percent of tuition and fee income

Tenure status of faculty

Percent of full-time-equivalent employees who are faculty

Maintenance backlog as a percent of total replacement value of plant

Percent of living alumni who have donated money in past five years

Test scores of graduates

Measures of diversity within the student body and the faculty

Stakeholders include those who have a significant interest in your organization, those who use your services, and those who decide who should use your services. For example, in a health-care entity, health-care professionals can be valuable additions to the board. They can bring first-hand knowledge about problems in achieving the organization's mission.

3. Create Performance Measures

Management and the board should work together to develop comprehensive performance measures. These measures should answer the following questions:

How Effective Are You? How well is your organization satisfying its mission? Are the people you serve "better off" as a result of your service?

How Efficient Are You? Have you met your financial goals? Are you in compliance with grants, budget projections, productivity measures, and financial plans?

How Satisfied Are Your Clients? Are they pleased with your service and the outcomes of your service?

How Successful Are Your Processes? How well does your organization achieve its operating objectives? Have you reached your strategic goals? Have you responded promptly to board and staff suggestions? How many clients have you served?

Because these performance measures include financial and non-financial information and input and output measures, they give the board a balanced report of how well the organization is meeting its objectives. Other information that can be helpful to the board includes charts, graphs, and ratio analysis. See Figure 1 for examples of performance measures.[4]

After developing performance measures, board members should track how well the organization meets those measures.[5] For example, board members should know if revenue sources change so that they can develop strategic plans to attract other sources of funding. On the non-financial side, if client satisfaction measures show a negative trend, the board can address the problem. Only by tracking these measures and reacting quickly to problems can the board make sure the organization continues to achieve its mission. ■

Footnotes

[1]See "Working on Nonprofit Boards: Don't Assume the Shoe Fits," William McFarlan, *Harvard Business Review*, November/December 1999.

[2]See "The Adoption of the Corporate Governance Model by Nonprofit Organizations," Jeffrey A. Alexander and Bryan J. Weiner, *Nonprofit Management and Leadership*, Spring 1998.

[3]*Improving the Performance of Governing Boards*, Richard P. Chait, Thomas P. Holland, and Barbara E. Taylor, American Council on Higher Education, Oryx Press, 1996, page 6. (161).

[4]Ibid., pages 103 and 104.

[5]See series on outcome measurement in *Nonprofit World* and videotape on outcome measurement, available through the Society's Resource Center, www.snpo.org.

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