



Crisis in the Boardroom— Can We Avoid Catastrophe?

Only if we make some drastic changes—and fast.

BY GARY SNYDER

Let's be direct, the nonprofit sector is in crisis! Nonprofit organizations are on the verge of apocalypse. Without some immediate attention, they're going to be DOA—dead on arrival.

The Past

Nonprofit organizations are society's response to an issue that needs to be addressed. Nonprofits are typically held in high esteem, as evidenced by their tax status and the relatively innocuous regulations under which they're monitored. It's implicit that they will regulate themselves and provide for the public good. In large measure they are working well, but a small and increasing number of nonprofits are poised to spoil everything.

The Present

The nonprofit sector is massive and far-reaching. More than 1.5 million nonprofits exist in the U.S. with contributions of about \$200 billion, representing about 15% of the U.S. Gross Domestic Product (GDP). Thousands of young people will begin their careers by joining the

tens of thousands of Americans employed in the nonprofit sector. One to three million board seats are either vacant or turning over. While this creates a severe crisis, it presents a great opportunity to educate those joining the forces of the nonprofit world.

Nonprofit and for-profit boards have rejected the notion that they aren't performing in the best interests of their stakeholders. Yet there's ample evidence—Enron, Global Crossing, Lucent, WorldCom, Waste Management, and others—of corporate boards not fulfilling their fiduciary responsibilities. Nonprofit organizations have had their share of problem agencies, including United Way, Red Cross, the Baptist Foundation, and others whose boards have failed to govern effectively.

Because nonprofits have been held sacred, we've turned our heads and disregarded the obvious similarities with the corporate world. But there's no reason to believe that nonprofits would manage and govern themselves better than for-profits, except for the greed component in the for-profit sector. Even if nonprofit board members have more pristine motives, they're equally ineffective.

So What's the Problem?

With hundreds of billions of dollars of donations on the table every year, there's an assumption that management and governance of the nonprofit agencies is flawless. Unfortunately, that's not the case.

People join nonprofit boards because they want to "do good." Virtually

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every member of the board is a volunteer. Therefore, the goal of board meetings is to seek camaraderie and minimize conflict. Bad news isn't welcome, and counterpoints are often considered rude.

Few board members are sufficiently prepared to guide the organization. As a result, the executive staff is in the seat of power and the front line for all decision making. Staff members are exposed to issues before the lay leadership is aware of them. Frequently, the board is kept in darkness about problems brewing. Communication between board and staff typically needs improvement. The board is often caught in a crisis that could have been mitigated by earlier intervention.

And a Solution!

If nonprofits want to keep their tax advantages, they must move quickly to change the way boards operate. Both board and staff must gain the skills needed to govern—those tools that are indispensable to make thoughtful and appropriate decisions. Staff members must support their board to create a symbiotic relationship between the two. The power couple of the future is the board leadership and the executive staff.

The days of the board rubber-stamping staff recommendations must end. It is crucial to develop a culture that fosters accountability by the board at all levels. It's up to the board, not the staff, to

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recruit new board members. Understanding financial statements is a board mandate, not a casual discussion. Cultivating outside relationships is a leadership activity, not a staff function. Adherence to a focused annual agenda, thoughtfully considered, is an imperative.

The Result

When a board exercises its authority and staff is used appropriately, organizational failure is minimized. The board will be able to handle bad news, not simply the rosy assumptions that were standard fare from staff in the past. Mechanisms for feedback and controls will feel comfortable. Assessment of board and staff performance will reflect reality rather than perceptions. With those changes in place, regulators and politicians won't need to impose their will on the nonprofit sector, as they are poised to do.

Nonprofit organizations are a vital part of our society. Board business is serious business. So, let's get going and reform it! ■

Resources

Brudney, Jeffrey & Vic Murray, "Improving Nonprofit Boards: What Works & What Doesn't?", *Nonprofit World*, Vol. 15, No. 3.

Houle, Cyril, "How Effective Is Your Board? A Rating Scale," *Nonprofit World*, Vol. 8, No. 5.

Muehrcke, Jill, ed., *Board Leadership & Governance, Leadership Series*.

Stewart, Andrew, "Long-Range Financial Planning: The Board's Role," *Nonprofit World*, Vol. 11, No. 6.

Weisman, Carol, *Board Governance Videotape*.

These resources are available from the Society's Resource Center, www.snpo.org.

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