

On the BOARD

Considering taking a seat
on a nonprofit board?

*Understanding your responsibilities and how
the board operates can help ensure a good fit.*

Killick Datta was drawn to the idea of serving on the board of Direct Relief International, a global nonprofit that provides medical supplies to developing countries. His wife was a volunteer for the organization and “would come home and tell me these great stories about what they were doing,” he says.



For Datta, founder of Global Brand Marketing Inc. and a former Nike executive, that first foray into board membership was about serving the organization's mission. "The nonprofit's cause is absolutely something that I need to feel personally," Datta says. "I also have to know I can give them enough of my time to make a difference. I don't want to be there one minute before the board meeting starts and leave a minute after it ends."

Datta liked that while the nonprofit had a global reach, it also had offices in Santa Barbara, Calif. — not far from where he lives and works. The organization's global scope fit with his own background as an immigrant from India who spent much of his career in international business, and the group's local angle allowed him to fulfill his personal time commitment requirement.

CONSIDER CAREFULLY

With increased scrutiny of nonprofits' financial records in recent years and more fiduciary responsibility laid on the shoulders of board members, becoming a board member at a nonprofit organization is a serious commitment. But it also can be immensely rewarding. "You have the opportunity to effect change," says Marguerite Griffin, national director of philanthropic services at Northern Trust. "Being involved in something you love — where you are helping to improve people's life experiences — there's immediate satisfaction in that. It becomes part of what your life stands for."

Before you accept a board position, ask yourself some questions: Do I believe in the mission of the nonprofit? Do I understand what my financial responsibilities and com-

mitments will be, especially under new laws governing nonprofits' finances? Will my ideas about management and organizational development fit with the organization's operating style?

BELIEVE IN THE MISSION

Historically, board membership may have been seen as the next step in your volunteer work, as a "thank you" for a large donation or simply for social and business networking. But today, board membership involves much more. As a result, a key component to making board membership fulfilling is being committed to the mission of the organization — and advancing that mission while you serve.

"You are there to maintain and protect the mission of the nonprofit," says Griffin. "You also are responsible for the financial viability of the organization." If you aren't passionate about the nonprofit's mission, the weight of your responsibilities likely will outweigh the benefits.

Also, investigate the role the board has played in the organization's overall mission and operations. Does the board take an active role, or does it take a more hands-off approach and simply follow traditions set down years before? If you are passionate about the organization's mission, but the board is passive, you may find board membership very frustrating.

FISCAL OVERSIGHT A CRUCIAL RESPONSIBILITY

For board members today, fiscal oversight is a key responsibility. To understand this role, remember one simple rule: The buck stops at the boardroom. The board has oversight of everything — fiscally and in achieving the organization's mission — from the actions of the executive director and staff to fundraising and budget concerns.

Scandals, such as the one in which Red Cross call center employees were indicted in



The Sarbanes-Oxley Act is making the responsibilities of nonprofit board members more closely mirror those of for-profit boards.

If you aren't passionate about the nonprofit's mission, the weight of your responsibilities likely will outweigh the benefits.

2005 for making false claims for Hurricane Katrina disaster disbursements, may not lead to board members being punished or fined. However, they can seriously damage the nonprofit's reputation and call into question the board's management.

Today, members on nonprofit boards need to understand two key pieces of legislation — Sarbanes-Oxley and the Pension Protection Act of 2006 — and how they affect their financial responsibility and the personal liability they may face.

While the Sarbanes-Oxley Act focuses mainly on the financial workings of corporations, it is also forcing change at nonprofit organizations and making their financial practices — and the responsibilities of their board members — more closely mirror those found in the for-profit world.

For example, many organizations are creating separate audit committees, writes David E. Ormstedt, a lawyer with the firm Wiggin and Dana, in a December 2004 report on the effect the legislation has had on nonprofits. Ormstedt notes “there are a number of provisions in the law that nonprofits can incorporate into their own governance structure to help avoid the kinds of mismanagement, self-dealing and financial shenanigans caused by lack of proper board oversight.” In addition, an increasing number of state legislatures are considering passing laws that would apply Sarbanes-Oxley-like restrictions to nonprofits.

The Pension Protection Act of 2006, signed into law in August of last year, also covers important financial issues that nonprofits, par-

ticularly smaller ones, historically may have overlooked. The Act extends the requirements for filing an annual report with the Internal Revenue Service to include nonprofits with less than \$25,000 of annual gross receipts. Failure to file for three years can result in revocation of an organization's exempt status.

Sen. Chuck Grassley, R-Iowa, chairman of the Committee on Finance, noted in an August 2006 statement that the legislation includes several charitable giving incentives and methods for closing loopholes. “It makes sense to tighten areas of abuse while increasing incentives for charitable giving,” said Grassley, who developed the charitable giving incentives and provisions in the legislation. “Americans are very generous with their donations. They deserve to know that their money helps the needy, not the greedy.”

Many board members welcome this increased scrutiny of nonprofit financial practices and the more business-like structure it brings to their operations. As long as you understand and are comfortable with the financial responsibility faced by a nonprofit's board, this new legislation shouldn't act as a deterrent to serving. However, you may also want to take steps to protect yourself from personal liability. If the organization doesn't carry liability insurance for its board members, you may want to consider purchasing coverage yourself.

HELPING TO FUND THE CAUSE

In addition to the financial oversight responsibilities often mandated by law, it is important

to clearly understand the personal financial commitments expected of a board member.

Altruism drives nonprofit organizations, but money is what makes it possible for them to pursue their missions. “It is good to remember that a primary function of a board member is to give money and to ask for money,” says Craig Harris, former nonprofit consultant and current founder and chief executive officer of Noza Inc., an online database of charitable donations. “You need to be comfortable with those responsibilities.”

In addition to considering your annual fundraising commitment, Harris suggests asking about the nonprofit's capital campaign plans, designed to raise money for buildings, equipment or to create an endowment, before accepting a position on the board. “Raising those kinds of funds can change the work and drive of the board,” he says. As a board member, you may be asked to increase your personal donations or to help with major fundraising programs by soliciting others for donations.

COORDINATING STYLES AND EXPECTATIONS

Finally, it's important to be sure both you and the nonprofit share the same expectations for board membership. Make time to meet the executive director and top staff who are responsible for the nonprofit's day-to-day operations. Find out why they have asked you to join.

“The first thing I ask is, ‘Why me?’” Harris says. He tells the story of working with a non-

Before you GET ON BOARD

1. Understand your motivation.

Is the nonprofit's mission important to you personally? Social and business networking can be a perk of board membership, but it shouldn't be the main reason to join a board.

2. **Get to know the board.** Take several board members to lunch or attend a board meeting. Look for a diverse mix of members. A homogenous, long-tenured group may not be as dynamic or welcoming.

3. **Dig into the financials.** Ask for the nonprofit's financial statements. Is it constantly falling short on funding, or does it meet its budget every year? Do the director and other staff members understand what laws they must abide by?

4. **Be aware of potential lawsuits.** While lawsuits aren't necessarily a reason to reject a board seat, know that you could be spending more time dealing with the lawsuit than moving the nonprofit's mission forward.

5. **Confirm personal protection.** Check to see whether the nonprofit carries board of directors' liability insurance. If the nonprofit doesn't have coverage in place, consider taking out a policy of your own.

6. **Meet the executive director and top staff.** Can you work with them? Do you feel the director wants input from the board, or is the director looking for the board to rubber-stamp decisions?

profit that sought to enlist a locally prominent citizen to its board. "They had this vision of holding their black-tie ball at her home, which was a beautiful mansion." They didn't realize until she had already joined the board that she preferred to never open the house to the public. "Both parties ended up being disappointed," Harris says.

If possible, attend a board meeting to see how the group cooperates and how members make decisions. Find out if individual members are invited to speak up, or if one board member controls the group. "I have left a couple of boards because I felt the board meetings were not really open forums where I could ask probing questions about operations, management decisions, due diligence or program initiatives," Griffin says. "I didn't feel my opinions and experiences were valued."

Harris suggests finding out how long other board members have served. "You may not want to be on a board where the members have been there for 30 years," he says. "Turnover is great when it comes to board membership, but also be aware of whether board members aren't fulfilling their terms."

Next, determine whether the executive director or CEO is open to taking direction from the board. The most effective boards, according to a 2003 McKinsey & Co. report on best practices for nonprofits, offer three key components to nonprofit organizations: They shape the direction of the nonprofit and its mission, ensure that leadership and finances fit the organization's vision, and monitor performance of the executive team. The authors of the report note, "Strong boards develop an independent view that helps shape the organization's agenda, rather than simply responding to the views of management."

Griffin agrees. "Some executive directors expect a 'rubber stamp' board," she says. "The assumption may be that the board is going to approve everything that they do."

But as the McKinsey report points out, dynamic boards will go much further in helping a nonprofit achieve its goals than those that sit back and let the chief executive control everything, particularly in the increasingly competitive world of nonprofits. "The advent of charity rating services, Internet-based information sources, increased competition for donated funds, growth of earned income and other changes in the social-need landscape all demand more of nonprofit managers," the McKinsey report concludes. "Great boards, once developed, actually remove burdens from management's shoulders and inspire individual board members to increase their commitment."

MAKE A VALUABLE VISIT

Once you determine if you'll be comfortable working with the nonprofit's leadership, the last item on your to-do list should be visiting some programs the nonprofit supports. That will give you a sense of how money is being spent and whether the nonprofit is fulfilling its mission — which you'll help develop over your years of service. It may also tie into your deeper reasons for serving on a nonprofit board.

Bill Osborn, chief executive officer of Northern Trust, says his initial involvement with the YMCA of Metro Chicago developed through visiting some of its programs. "I saw what they were doing and saw some of their needs and it got me engaged," he says. He went on to become chairman of the board, overseeing a capital campaign to raise \$75 million. "It's rewarding, seeing the difference you're making." ■