Governance Practices of Regional Nonprofit Boards: Results from an Exploratory Study

By
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Nonprofits represent the silent backbone of the U.S. economy and include hospitals, educational institutions, the arts, and social service agencies. Currently, NPOs account for more than 5% of the U.S, gross domestic product (GDP). Also, they employ 12.3 million individuals, or more than 10% of the U.S. workforce, representing the third largest industry in the country and on par with the manufacturing sector (Salamon & Newhouse, 2019).

Given the absence of shareholders, nonprofits (NPOs) generally have little oversight beyond their board. The function of a nonprofit board is management oversight as well as advancing the mission and directing itself. While governance practices vary among NPOs, governance policies and practices ensure a board meets its legal fiduciary duties of care, loyalty, and obedience, all of which lead to more effective operations (Gazley & Nicholson-Crotty, 2018).

Blurring the lines between governance and the board is a significant concern in the study of governance. Renz (2016) succinctly explains the distinction: that "governance is an organizational function, whereas a board is a structure of the organization that exists (at least theoretically) to govern—to perform the work of governance" (p. 132). The concern is when we meld them, we further the confusion that exists in understanding organization-

al effectiveness and board effectiveness. Stone and Ostrower (2007) confirm this blurring by noting that most literature has equated governance with the board of directors fulfilling its fiduciary responsibilities of care, loyalty, and obedience.

The purpose of this study was to examine a cross-section of operating NPOs to understand what governance policies they utilize and compare these policies and practices to those recommended in the literature. The first research question (RQ1) was: "What are the current governance practices and procedures at mid-sized regional nonprofits?" The second research question (RQ2) was: "How do current governance practices and procedures at nonprofits compare to recommended practices and procedures?"

The study was based on interviews of 18 board members of nonprofits in the Tampa Bay area and used thematic analysis to evaluate participant responses. The four primary themes discovered in the interviews were: Recruiting, Training & Onboarding, Meetings & Decision Making, and Organization & Structure. The findings suggest that all boards have room to improve, especially in the areas of evaluation and board training. The underlying tenet is that improving governance will lead to improved board functionality and therefore, organizational and financial performance (Brown, 2007; Lee, 2016).

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Keywords: Governance, Nonprofit, Board of Directors, Policies and Practices

Findings

Most board members in this study were cognizant of their board's shortcomings; however, most did not believe they were in a position to make these changes; many do not feel confident speaking up to suggest these changes, as they are new to the board, or the board may be dominated by strong personalities. This reluctance and discomfort of board members to suggest changes to that status quo of the board was observed by Holland and Jackson (1998), despite a member's desire to see the organization improve. As with most organizations, nonprofits and their boards need to adapt over time due to changes in the regulatory environment or regional needs. The failure to confront these challenges due to inflexible board members and practices can lead to organizations ceasing to be relevant (Cornforth, 2002).

Theme 1: Recruiting

In general, most of the organizations have a recruiting process for new board members. Board development needs to be an integral responsibility of the board (Holland & Jackson, 1998; Brown, 2007). A weakness for most of the NPOs in the study is that new board members tend to be sourced via a "friends and family" network with a heavy reliance on existing board members to refer prospective new members to the governance committee. To combat this model, organizations should consider casting a wider net to attract individuals who are not connected to existing board members. Additionally, having clear selection criteria for new board members will streamline the process by screening candidates early in the process (Brown, 2007). Cornforth (2001) found that it was critical to recruit new board members with skills, experience, and time, not solely enthusiasm for the organization.

Improving board diversity, which prior studies noted was an issue (Green & Griesinger, 1996), was also expressed as a concern. Ostrower and Stone (2010) observed this lack of diversity by suggesting nonprofit board members tend to be "older, white men from upper-middle class or upper-class backgrounds" (p. 904).

During the interviews, the organizations where individuals mentioned other board members were not engaged were boards that did not have a robust committee structure and did not require all board members to serve on at least one committee. Given many members report that most of the work is done in committees, this practice will encourage all board members to participate. Committees and task forces allow the organization to structure the board's work to deal with institutional priorities by bringing together subject matter experts to tackle specific responsibilities (Taylor et al., 1996; Holland & Jackson, 1998).

Theme 2: Training & Onboarding

Training was the theme with the weakest observance of the recommended practices. Surprisingly, the responses were not tied to the size of the organization, with some larger organizations not conducting formal orientations, nor providing a board manual. These findings support the results from prior studies that find new member orientation is an area that requires significant improvement (Gill et al., 2005). The academic literature is quite clear that board orientation and on-going board training is one of the single most important factors that leads to high quality board performance, including better fundraising and community relations (Bernstein et al., 2015).

Evaluation was the area where most boards can improve, in collective board appraisals and assessment of individual board members. In prior studies board self-evaluation was found to be one of the three practices where boards that were judged to be more effective scored significantly higher than those thought to be least effective (Herman & Renz, 2000). The level of compliance found in this study is far below the 34% of organizations that Brown (2007) found did not use any evaluation practices.

Theme 3: Meetings and Decision Making

Nearly all of the organizations followed a traditional agenda of starting the meeting by approving prior meeting minutes, followed by reports by the executive director and committee chairs, old business, and new business. The principal criticism of board meetings was that they ran over time. Additionally, several organizations need to make a conscience effort to distribute meeting materials well in advance of meetings so that board members can be prepared to make informed decisions and participate intelligently in board discussions. Being prepared and focusing on strategic items and organizational policy in board meetings versus discussing routine operating matters have been found to improve board effectiveness (Van Puyvelde et al., 2018).

The use of the consent agenda was split evenly among the 16 organizations, with eight using it and eight not using it. More organizations should consider implementing a consent agenda to streamline meetings and eliminate discussion of reports that can be disseminated prior to the meeting. Using this practice to group routine reports and noncontroversial items, such as the acceptance of prior meeting minutes and financial statements, frees meeting time to focus on strategic items (Holland & Jackson, 1998).

Theme 4: Organization and Structure

The most common term for a board member was three years with a maximum of two or three terms.

Four organizations had no term limits for members, and two of these organizations had some of the weakest governance measures. These findings compared favorably to Block and Rosenberg's 2002 study where only 50% of the NPOs surveyed had term limits and those that did generally limited it to two terms.

Bylaws are the primary governing document of an organization. Regular reviews and updates ensure an organization stays current with laws, which is central to the fiduciary duty of obedience (Hopkins & Gross, 2016). Again, the size of the organization in this study was not a factor as to which NPOs had regular reviews.

Conclusions

According to board members who served on the board several years, reported the organization had improved their training and recruiting during their tenure. The area where they saw little change was in the evaluation of the board and individual board members. These findings are consistent with those of Gill et al. (2005).

Everyone interviewed wanted to see their organization thrive and grow and was interested in improving the governance so that the board could support the staff and clients. Most admitted there was room for improvement in governance practices and expressed interest in hearing how their organization stacked up to best practices. Individuals appeared to gain confidence expressing an opinion to the board on how to improve governance with longer board tenure or appointment to the executive committee. Some of the most constructive comments when asked, "How would you improve board governance?" came from board members who were early in their tenure and not in a leadership position with power to effect such change. An easy remedy is that every board member should be surveyed on a regular basis on what could make the board function more efficiently and effectively. Making responses anonymous could result in the most authentic feedback.

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