
NONPROFIT BOARD LEADERSHIP: Understanding the Role of a Board Member

Martha A. Walker, Ph.D., Community Viability Specialist

You have decided to say yes and accept the invitation to serve on the board of directors for a nonprofit organization. You have the knowledge and experience to be a great board member. But, you also have served on numerous nonprofit boards and realized that your past commitments have ranged from being heavily involved in the organization's work to avoiding the meetings. As you prepare for this new role, you wonder what organizational differences made you drift in your commitment or created the stronger connection resulting in either fulfilling or neglecting board member duties.

For most of us, our attitude toward service is directly affected by the organizational culture of the group we agreed to join. If a board has defined policies and procedures and constantly practices what is written as policy, we seem to be fully committed to the goals of the organization. However, if the organization is loosely structured and extremely relaxed in its practices or works as a closed, uninviting group, our reaction may result in a short-term commitment as a member of that nonprofit board.

The Purpose of a Board

Nonprofit organizations are governed by a volunteer board of directors which sets direction for the organization, oversees the organization's work, and "is regarded as the final authority in the management of the nonprofit" (Jackson & Fogarty, p 30). Board members must be accountable for the implementation of policies and practices, be competent, and maintain transparency.

Accountability and board competence are understood by most members. However, the idea of "being transparent" in its operations sometimes confuses board members. In 2007, the Panel on the Nonprofit Sector released *Principles for Good Governance and Ethical Practice: A Guide for Charities and Foundations*. The guide offered 33 guiding principles on how a charitable organization should operate. Principle 7 discusses transparency and instructs boards to make organizational information available to the public through annual reports, websites, and other publications describing what the organization does and how it operates.

Board members are asked to understand their obligations to the nonprofit institution and to take reasonable steps in deliberation before making a decision. For decades, nonprofit boards were often expected to 1) "rubber stamp" staff recommendations, 2) give money, and 3) secure funds from fundraising activities. However, with the rising number of financial scandals and the enactment of the Sarbanes-Oxley Act of 2002, nonprofit boards are now held to the same level of accountability as corporate boards

The Legal Standards: Care, Loyalty, and Obedience

All board actions are framed around three legal standards: care, loyalty, and obedience (Jackson & Fogarty). To guide nonprofit boards in adhering to the legal standards of accountability, Jackson and Fogarty's book *Sarbanes-Oxley for Nonprofits* offers the following checklist:

Legal Standard of Care

- Are board members furnished with financial statements and other materials well in advance of the board meetings?
- Is an agenda prepared and followed for each board meeting?
- Are minutes kept for each board meeting?
- Do board members come to the meetings prepared to discuss the issues on the agenda?
- Is there a specific decision-making process, such as a specific length of time for discussion followed by a vote?
- If a topic needs to be deferred for a vote at a later date, are there specific steps and/or information that will be gathered so that the board can take a vote when the topic is revisited?

Legal Standard of Loyalty

- Are board members required to complete a conflict-of-interest letter on an annual basis?
- Does the board have specific protocols to handle conflicts of interest as they occur?
- Are board members fully briefed (usually at orientation) about their fiduciary obligations?
- Are board members required to sign a code of ethics and are held accountable for conducting themselves in accordance with the code?

Legal Standard of Obedience

- Are board members briefed on the nonprofit's mission and how that mission is affected by board decisions?
- Are board members briefed on the correlation between their decision making and their fiduciary obligations as these [decisions] impact the nonprofit's mission?
 - Fiduciary duties require board members to act in the best interest of the organization, stay alert for and avoid conflicts of interest, remain objective as decisions are made, serve as good stewards of the trust invested by the public in the organization, and guide the organization to fulfill its nonprofit purpose and maintain its tax exempt status (Council on Foundations).
- Are board members briefed on the correlation between the quality of their performance and the nonprofit's mission?

The Functions of a Nonprofit Board

Selection Process. How do organizations select new board members? Are the needs of the organization and the gaps in board expertise considered, or are individuals selected just because they are known by other board members?

Nonprofit organizations need a diverse board of directors with an array of skills and expertise in leadership, finance, organizational management, fund development, and acquiring information. Not every board member will have all the skills, but it is the blending of individual talents that will create the best board.

Before asking a person to serve, the organizational needs and expectations along with the prescribed role of the board should be clearly stated and discussed with a prospective board member.

The New Board Member: Saying “Yes” and Understanding the Mission. For most of us, we are honored when asked to serve and agree to accept the call to board service because we:

- Want to make a difference.
- Believe in the organization’s mission.
- Want to serve something larger than ourselves.
- Have given money to the organization.

Expecting to give time, talents, and resources, newly appointed board members arrive at the door of an organization happy, energetic, and ready to participate with others in serving on the team and achieving the organizational goals. It is at this first encounter that a board member’s commitment to the organization is either captured and directed to the next level or is minimized and controlled.

Orientation. New as well as long-term board members require an orientation to the organizational values, vision, and mission. These volunteers expect the organization to have appropriate structure, policies, procedures, and practices that align with the mission and provide the framework for effective board membership.

Boards must hold its members accountable for acting as responsible board members and for conducting the work of its committees.

The Role and Expectations of a Board Member

Attend meetings on a regular basis. A member who attends and participates in meetings has a better understanding of the organization’s work and impact. Members are to receive agendas and relevant information prior to board meetings and are to read and understand the materials scheduled for discussion. The board must ask the difficult questions especially related to financial issues and connect these deliberations to the organization’s charitable mission. It is the board that ensures wise stewardship of charitable resources (Principles for Good Governance and Ethical Practice, pp. 20-23).

Govern the organization. Always place the welfare of the nonprofit before personal considerations, adhering to a well-defined code of ethics based on the nonprofits’

values and principles. Boards must always be good stewards of the public trust and financial gifts never benefiting from its role.

Articles of Incorporation, bylaws, and policy manuals are to be current and available for review by board members, staff, and the public. The organization's mission and strategic direction must be clear and approved by the board along with the annual budget, financial transactions, and compensation plans. Fiscal and governance policies and procedures must be established and implemented to maintain oversight and govern effectively protecting the organization's records and assets and minimizing its risks (*Principles for Good Governance and Ethical Practice*).

Boards are not assigned to be the "window dressing" for staff. The board establishes a statement of duties and responsibility for its staff and assesses performance. Meeting in executive (or closed) sessions are required to allow discussions that do not include the staff.

Evaluations are also completed by the board to evaluate the board's performance and to confirm adherence to the legal standards. These self-assessments offer board members the foundation for making changes to its bylaws, meeting structure, or communication practices.

In addition, the board ensures legal compliance and public disclosure related to the organization's work and any conflict of interest issues (Jackson & Fogarty; *Principles for Good Governance and Ethical Practice*). Compliance includes the approval of the annual audit and submission of Internal Revenue Service forms such as the IRS 990.

The Code of Virginia statute 13.1-870 charges a board member to provide "good faith business judgment of the best interests of the corporation" (Virginia Society of Certified Public Accountants, p. 2). Board members may "rely on information, opinions, reports or statements, including financial statements and other financial data, if prepared or presented by" (Virginia, p. 2) staff, legal counsel, and officers/ committees. The Code "adheres to the general rule that a director will not be found liable for his actions as a director as long as he follows the *business judgment rule*" (Virginia, p. 2).

Invest in the work. Nonprofit board members are generally not compensated for their service but seek to secure resources in order to build the organization's capacity to achieve its mission. Many nonprofit boards seek funding from individuals, businesses, foundations, and other sources. Before a board member requests a donation, the board member must first invest in the organization not only with time and expertise, but financially. Board members are also required to set policies and procedures for soliciting and using funds from the public with the goal to build support, confidence, and trust (*Principles for Good Governance and Ethical Practice*).

The Impact

A board member is the ambassador or champion of the nonprofit organization constantly building new partnerships and marketing the organization's value or service

impact to the public. It is because of an individual's dedicated service to the nonprofit organization that people are served and the community becomes a better place to live.

On behalf of all Virginia communities, thank you for your willingness to serve.

References

Code of Virginia. § 13.1-870 and 13.1-870.1. <http://leg1.state.va.us/000/src.htm>

Council on Foundations. <http://www.cof.org/>

Jackson, P.M. & Fogarty, T.E. (2005). *Sarbanes-Oxley for Nonprofits*. John Wiley & Sons. Hoboken, New Jersey.

Panel on the nonprofit sector: Strengthening transparency, governance, accountability of charitable organizations. A final report to Congress and the nonprofit sector. (2005, June).

Principles for good governance and ethical practice: A guide for charities and foundations. (2007, October). Published by the Panel on the Nonprofit Sector.

Virginia Society of Certified Public Accountants. *Responsibility & liability of nonprofit board members*. (2011, September). Provided by the Virginia Society of Certified Public Accountants.

Acknowledgements

The author sends a special note of appreciation to the reviewers for their partnership in exploring these ideas and offering their best suggestions. This publication was strengthened because of the work of Kevin Spurlin and Kelly Liddington, Virginia Cooperative Extension; Jesse Richardson, Virginia Tech; and Karl Stauber, Ph.D., President & CEO Danville Regional Foundation.