Nonprofit Board Governance: Warning Signs to Watch For

By Rob Faulk, Partner, and Nathan Davis, Senior Manager

Imagine that you've been elected to your first nonprofit board, at your local church. There is excitement in your heart as you think about what lies ahead and the good work you'll help to accomplish.

You arrive at your first board meeting 15 minutes early, before anyone else, and say a prayer asking God to give you wisdom and discernment as you discuss key issues facing your church. However, as others begin to arrive you realize that the meeting is not like what you expected. First, only half of the board attends the meeting. The discussion focuses on trivial issues that have little or no effect on the church, and the financial reports provided are three months old. You find yourself wondering what you've gotten yourself into.

Unfortunately, scenarios like this are common. In the first article in this series, Nonprofit Board Governance: Goals and Responsibilities, we discussed what good nonprofit board governance looks like and how boards can fulfill their responsibilities. In this article, we will explore what poor board governance looks like and steps you can take to address it.

Warning Signs of Poor Nonprofit Board Governance

There are many indications that a board is not providing good governance. Here are some of the most common and dangerous signs to watch out for:

- **The board does not have a manual with the proper board policies and procedures, or the existing manual is outdated.** When asked, many board members are likely to say that their board has the proper policies in place. But are these policies chronicled in one place, or only in the board minutes?

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  Many boards adopt new policies over the years. If they are not properly documented, these policies could conflict with each other. That's why it is important to create a board policies manual. This manual should cover a wide range of topics, from finances to succession planning and legal items. Start by committing to the idea of a board policies manual and assign a coordinator to work on creating it. Then integrate the manual into your committee work and board discussions. Once the manual is complete, make sure it is used, reviewed, and updated regularly.

- **No board orientation is provided.** Too often, board members learn what their responsibilities are and how the board works through "on-the-job" training. A failure to properly orient board members can lead to inefficient and ineffective meetings in which time is spent answering questions about the organization's history, strategy, finances, and other matters better addressed in one or more orientation sessions. Orientation should include topics such as:
  - Board matters
  - Board member responsibilities
  - Historical information about the organization, including a brief history
  - Financial information (financial statements and most recent Form 990, if applicable)
  - Board policies and procedures
- **The board does not perform self-evaluations.** When was the last time your board completed a self-evaluation? If you answered "never," you are not alone! Many boards do not take the time to do a self-evaluation and answer some of the most important questions a board can ask. At a faith-based organization, these include:
  - Are we comprised of individuals who are lifelong learners?
  - Is there deep joy and connection in every board meeting?
  - Do we consistently hear and respond to the Spirit's guidance in our board meetings?

    - Is the energy in our meetings electric?
    - Are we fostering a culture that eliminates personal preferences for the sake of unity, particularly the unity that only the Spirit of God brings?
- **The board isn't focused on development.** Boards that fail to focus on their development tend to stagnate and become less effective over time. Development should be an ongoing topic of discussion at each meeting, and there should be a specific plan for how each member will grow and become more effective in their board role.
- **The board is not addressing conflicts of interest.** Your board should consider how donors and constituents may view the organization's related party transactions. The board should take these steps:
    - Exclude all individuals with a conflict of interest from the discussion and vote.
    - Consider all independent, reliable, and comparable data. This includes obtaining multiple bids.
    - Conclude whether the transaction is in the best interest of the organization and how it could be perceived by others.
    - Document the reasoning and conclusions.
- **The board is not independent.** If a board does not have term limits, the CEO/senior leader is the only one bringing on new board members, or the board is overwhelmingly made up of staff, it may not be independent of the organization. It is important to properly vet new board members to ensure these individuals do not have any current conflicts of interest with the organization, particularly with the CEO/senior leader. Board members should sign conflict of interest forms annually, with the board chair addressing any concerns.
- **Board members who are unproductive, or worse, disruptive, are not removed.** Is there a member of your board who does not contribute, or who manipulates, pressures, blames, and coerces others to follow his or her agenda or desires? These boardroom bullies can create dissension and wreak havoc within an organization. They often are highly opinionated and poor listeners.

  Your organization can minimize the negative impact of a disruptive board member by taking these steps:
    - Empower the board chair to deal with the bully by exercising an appropriate level of authority in board meetings.
    - Be willing and ready to accept the individual's resignation. Boardroom bullies will often threaten to resign if they do not get their way.
    - Be careful to only elect individuals who fit well with the board to key positions. Typically, a boardroom bully needs a pulpit to blast their position from.
    - Set high expectations for your board members, with a specific emphasis on being servant-oriented. These high expectations will create an environment in which bullying is ineffective.
    - Consider term limits. If board members are required to take a break after a certain number of years, the board could then decide not to invite disruptive members to re-join the board.
    - Most importantly, remember to treat the bully as a person whom Christ loves and died for. How you treat this person should reflect Christ's love for them.
- **The board is spending time on management issues.** If a board begins to focus on operational matters, it likely is no longer focused on strategic issues. It is important for boards to not spend time on operational issues that should be handled by the CEO/senior leader. (If the CEO/senior leader is not handling these issues appropriately, however, the board should address this.)

  If you find that your board is focusing on management issues, here are a few ways to get the conversation back on track:
    - Empower board members to hold each other accountable when the conversation moves to operational matters. This starts with the board chair collaborating with the CEO/senior leader on the agenda and keeping operational matters off it. Start the agenda with a short summary of the desired outcomes of the meeting (vote on X, understand Y further, etc.).
    - Include policies in your board policy manual that define roles and responsibilities for board members.
    - Avoid having the board design new programs and initiatives. Boards should be presented with new initiatives and asked to provide feedback on these programs to the staff, not the other way around.

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- **The board has become too large — or it's too small.** The ideal board size depends on the nature and needs of the organization. When a board is too large, it can be harder to achieve consensus. Some board members may feel that they cannot contribute effectively, either in meetings or by serving in an appropriate function. Also, adequate and timely communication with all members may be challenging with a larger board.

  On the other hand, while it may be easier to communicate effectively and reach consensus with a smaller board, a board that is too small may lack the expertise or experience the organization needs, and members may feel overworked. It is important for the board chair, in consultation with the CEO/senior leader, to ensure that the size of the board is appropriate for the needs of the organization.

- **The board is disengaged or inactive.** If board meetings have grown dull, there is little participation, or board members are often absent, your board may have become disengaged. Here are some best practices to help keep your board engaged:
  - Establish an attendance policy.
  - Affirm each other, including an annual affirmation statement. Thanking board members for their service will energize and engage the board as a whole.
  - Recruit committed people and thoroughly vet potential new board members. Check their references and make sure they have a track record of faithfulness to their commitments.
  - Improve your agenda! Board members may start to skip board meetings if they feel they are not needed, their input is not valued, or the meetings don't address important matters.

- **Significant risks to the organization are being ignored.** If you ask each board member to name the top three risks the organization faces, you may receive a variety of answers. These steps can help your board get in sync on the top organizational risks:
  - Start by putting risks and risk management on the agenda to ensure the topic is discussed at board meetings.
  - Have the CEO/senior leader gather input from staff and share it with the board. Staff members are involved in the day-to-day operations of the organization, which puts them in the best position to recommend solutions.
  - Don't treat all risks equally. Some risks are major and need more attention than others.
  - Don't assume the organization has no risks. This assumption could cause the board to overlook a significant potential issue.

- **The board is given inadequate or inaccurate documentation.** Reports received from the staff should be accurate and complete, as many board decisions are based on information in these reports. If you find that staff may not be providing accurate information, the CEO/senior leader should address it right away.

After reading this, you may be thinking that your board has a lot of work to do. If that is your response, congratulations — you have taken the first step in improving both your board and your organization. Continue to learn about proper board governance and consider hiring a consultant to help you work through issues your board is facing.

What's Ahead

In the last article in this series, we will explore common governance challenges nonprofit boards face and:

- Discuss elements of effective relationships between boards and CEOs/senior leaders
- Identify and explain factors that may indicate that the CEO/senior leader is at increasing risk of compromising the organization's behavioral standards

As with the other articles in this series, the final article will provide recommendations and next steps your organization and board can use to strengthen your board governance.

Please contact us with any questions about board governance at your organization or if you would like to discuss how we can assist you.

Additional Resources:

Nonprofit Board Governance: Goals and Responsibilities

Nonprofit Board Governance: Senior Leader Warning Signs to Watch For

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