

More Effective Boards: A Detailed Guide

This list of effective practices is designed to serve as a guide and to spark discussion within an organization about its top priorities for board development. It is a companion piece to the article: [Becoming a More Effective Nonprofit Board](#).

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Oversight

Financial and legal oversight

1. Review and approve financial plans

Board approves multi-year financial plan, tied to key priorities in the business or strategic plan

Board approves annual budget, which also reflects key priorities

Board ensures management conducts an orderly budget process

2. Monitor organization's financial health

Board reviews internal financial statements (e.g., Statement of Activities, Balance Sheet, Cash Flow Statement) regularly (e.g., quarterly or monthly)

Board reviews key financial analyses regularly

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- Board reviews budgeted vs. actual performance, and reason for variance
- Board monitors key ratios for financial soundness (e.g., liquidity, working capital)

Some members (if not all) have received adequate training on how to interpret the organization's financial statements

Board has contingency plans and processes in place to address financial concerns

3. Ensure management has instituted appropriate financial controls

Board ensures all funds are disbursed in accordance with donor restrictions and/or intent

For key financials, board ensures that executive director / CFO have:

- Reviewed and signed off on internal financials
- Ensured that all statements are accurate and complete, especially that contributions are recorded correctly

Board ensures organization complies with legal requirements surrounding accounting for non-cash contributions, tax shelters, and supporting organizations (where applicable)

Board ensures management follows appropriate investment policies (where applicable)

4. Ensure an independent audit of financial results

Board has a separate Audit Committee

- At least one financial expert serves on the Audit Committee
- Audit Committee hires, fires and oversees auditor
- Auditor reports directly to the Audit Committee, not to management
- Audit Committee ensures no conflict of interest between auditing firm and organization, including staff exchange
- Audit Committee reviews the audit and presents to full board for approval
- Board members on the Audit Committee are free from conflicts of interest and do not receive compensation for their service on the committee
- If auditing firm is used for non-audit services, services are minor (such as tax preparation or answering accounting and tax questions) and are pre-approved by Audit Committee
- Audit Committee ensures it receives an annual report from the staff on the use of the audit
- Audit Committee rotates auditing firm and/or lead partner every five years

Board is ultimately accountable for audit (full board, not just Audit Committee members)

- Full board approves the audit result
- Full board ensures that organization implements financial controls or any other changes recommended through the audit process

Board reviews and understands the detailed management letter that accompanies the audit and meeting with the board oversight committee

Board ensures organization receives a clean audit letter each year, and that management takes appropriate steps where necessary to address any concerns raised by the audit letter

5. Ensure management files IRS 990s on time and makes them publicly available

Board approves IRS 990 filings; highest ranking officer signs IRS 990 filings for accuracy

Board ensures IRS 990 filings are filed on time

Board ensures IRS 990 filings are disclosed in a timely and easily accessible way (ideally on website)

Board encourages movement to an electronic filing method with the IRS

6. Ensure key risks are identified and managed

Board supports management in systematically identifying key risks (potentially including but not limited to legal, program, investment, and receivable risks)

Board ensures that management systematically addresses key risks, and has contingency plans in place

- For example: Board periodically reviews all insurance carried by the organization to ensure adequate coverage (potentially including but not limited to program, liability, property & casualty, and director & officer insurance)

7. Ensure applicable legal policies are in place and enforced

Conflict of interest policy

- Board ensures enforcement of a conflict of interest policy:
 - Defines conflict of interest
 - Specifies persons who will be covered
 - Requires regular disclosure of information related to conflicts of interest
 - Specifies procedures for handling potential or actual conflicts when they arise
- Individual board members disclose any potential conflicts that may be relevant to the board's oversight functions

Self-dealing policies

- Board ensures no self-dealing or excess benefit transactions
- Audit Committee discourages, discloses, and supervises any personal loans to directors or executives
- Board discloses any compensation provided to board members (both amounts and rationale), including travel reimbursements

Whistle-blower protection policies

- Board develops, adopts, and publicizes a formal process to handle complaints and prevent retaliation

- Board ensures investigation of employee whistle-blower complaints and resolution of issues

Document retention/destruction policies

- Board adopts a policy that covers written, electronic, and voice data files
- Board adopts a policy that covers back-up procedures, archiving of key documents and regular check-ups of system reliability

Fundraising policies

- Board ensures compliance with state and federal fundraising laws (traditional channels as well as internet fundraising)
- Board ensures gift acceptance guidelines are compatible with the mission of the organization

8. Ensure at least one-third of board members are “independent”

Independent board members are defined as:

- Individuals who have not received compensation or material benefits directly or indirectly from the organization in the previous 12 months
- Individuals whose compensation is not determined by other board or staff members
- Individuals who are not related to someone who received such compensation from the organization

9. Stay informed about changing state and national regulatory environment

Board ensures that the organization retains adequate legal counsel or obtains pro bono legal counsel specializing in nonprofit laws and regulations (and any other areas of law applicable to the organization’s activities)

Legal counsel provides adequate education to board members on relevant changes in the legal/regulatory environment

Board ensures organization complies with all applicable state and national laws and regulations

Executive director and board oversight

1. Set standards for executive director performance, and review performance regularly

Board writes executive director job description, clearly describing role and responsibilities

Board and executive director develop executive director’s annual goals and evaluation criteria. Criteria are based on annual targets tied to business or strategic plan (e.g., program outcomes, financial and operational milestones)

Board conducts annual executive director performance review evaluating progress toward annual targets

Board reviews a professional development plan for the executive director

Board has contingency plans and processes in place to address underperformance by the executive director

2. Set compensation at a reasonable level

Board has established clear expectations regarding executive director's (and in some cases, top management's) base compensation and any performance-based incentives

Board understands how executive director compensation compares with compensation of chief executives at similar nonprofit organizations

Board reviews full staff compensation policy periodically

3. Ensure orderly succession of executive director

Board tracks internal candidate development for potential succession (where appropriate)

At appropriate times, board defines formal search criteria and search plan, and oversees recruitment process

Board ensures orderly transition and orientation of new executive director

4. Annually review board performance

Board evaluates its overall performance against goals set in the business or strategic plan

Board reflects on its own activities and processes (as outlined by this document) and reviews its role in conjunction with the executive director

Priority areas for improvement form the basis of an overall board development action plan. This includes key development and recruiting needs

Board undertakes a full review of governing documents and policies at least once every five years

5. Ensure board member processes (recruitment, orientation, development, and exit) function smoothly to add, develop and remove members

Recruitment/nomination: Board sets clear evaluation criteria and qualifications for interested candidates in advance. Board creates effective and efficient process for sourcing and communicating to candidates, with clear roles and responsibilities

Orientation: Board creates process for bringing new board members into the organization, including proper orientation to the mission, leadership, programs, financials, and cultural aspects of the organization

Leadership development: Board leadership identifies potential future board leaders and gives them opportunities to lead, through committees or other important assignments

Exit: Board ensures a process to review individual board member contributions to the organization and exit board members appropriately

Adherence to mission

1. Share an understanding of the mission

Full board has discussed and approved the mission

- Board reviews mission (and engages with management to modify the mission if necessary) at least once every five years
- Board approves changes to or expansion of the mission. Management team does not make decisions with respect to the mission without board approval
- Board has also discussed and described vision and values

Board and organization's leadership share understanding of the mission and how it translates into programs/services

New board members receive a detailed explanation of the mission upon joining the board

2. Regularly refer to the mission when making strategic/financial decisions

Board regularly discusses whether new programs or financial endeavors are in line with the organization's mission

Leadership activities

Strategic support and expertise

1. Understand how the organization creates social impact

Each board member understands the organization's target beneficiaries and intended impact

Each board member understands the organization's theory of change (how the nonprofit's programs/services create the intended impact) as well as critical interdependencies with other institutions or actors in creating that change

2. Ensure clear indicators track progress over time

Board tracks clear indicators for program, financial, and organizational progress, with all key strategic elements being covered

Board oversees a clear action plan to close any performance gaps

3. Participate appropriately in business or strategic planning

Board ensures that the organization has a process in place for regular business or strategic planning

Board's role in strategic planning and decision-making is clear (see "Decision-making process" below)

- At least a few board members regularly participate in the strategic decision-making process
- Ideally, board members help frame the key decisions to be made. This includes planning during formal processes, as well as responses to decisions or opportunities that arise between formal planning cycles

Board approves clear organizational priorities each year, based on the business or strategic plan

4. Provide operational support to the executive director and senior team as appropriate

Key areas of support provided by the board are included in the organization's business or strategic plan (e.g., financial, marketing, operational, legal, or accounting support)

Board provides support as appropriate (defined jointly by board and executive director), according to the nonprofit's need and member expertise

Fundraising

1. Understand the fundraising needs as established in the business or strategic plan

Board understands fundraising implications of the business or strategic plan and knows the gap between the budget and revenue required

Board understands fundraising strategy and participates in fundraising strategy development as appropriate

Board understands diversification among funding sources and ensures management has established targets (as appropriate)

2. Work actively with management team to meet fundraising targets (as appropriate), and clearly delineate each member's expected contribution

Board has a defined target for the expected amount of contribution by each board member (as appropriate, may differ by person)

Board members fundraise to meet targets defined in the business or strategic plan (as appropriate). For example:

- Board members may seek out potential donors and create introductions
- Board members may hold or support fundraising events

Where appropriate, board provides training in fundraising for any members who do not feel confident in their fundraising abilities

Community support

1. Understand and represent the point of view of the organization's key constituents

Board understands the needs of each key group (may include: beneficiaries, legislators or regulators, community-based organizations, a national office, the press), and how they are likely to change over time

Board has mechanisms in place to hear feedback directly from key constituents (e.g., committees of beneficiaries, donors, or peer nonprofits). These mechanisms are unfiltered by management's opinions and perspectives

Board uses results of stakeholder input to inform decisions

2. Monitor and promote the organization's public image (as appropriate)

Board ensures management has an appropriate PR and marketing strategy, and assists implementation where appropriate

Board members actively promote a positive image of the organization in the community

- Board members proactively reach out to their networks to build awareness and excitement
- Board members forge connections with other groups (as appropriate)

Board members stay on top of current events related to the sector

How the board does its work

People

1. Align board members' skills and assignments with the organization's needs

Assuming the organization's goals and priorities have been identified through the business or strategic planning process, board has clarity as to how it ideally should be supporting each organizational priority

Board has mapped, by board member, its actual current ability to support each organizational priority

Board has identified the gaps in skills, networks, etc., and has created a plan to fill gaps (e.g., through task forces, training, or new member recruiting)

Board allocates funds for board education and development (as appropriate)

2. Assign members to the right work, aligned with both their skills and interests

Leadership ensures that committee or other assignments reflect the experience and skills of board members. Assignments also reflect the interests of individual board members, to encourage ongoing engagement

Board leadership transitions on a regular basis, and the process for such transitions is clear

Ideally, members being groomed for potential leadership positions rotate through assignments, gaining experience in various aspects of board work over time

3. Adjust members' level of involvement, or help them exit the board, as appropriate

Board leadership conducts individual board member reviews regularly. Reviews assess actual contributions (financial, non-financial) as well as interest in future contributions to the organization

After reviews take place, joint conversations occur between the leadership and each member individually to discuss the future of the member's board service, in light of the organization's and member's priorities

Culture

1. Demonstrate an atmosphere of mutual trust and respect in all board interactions

Both the board and executive director create a mutual relationship of candid and respectful interactions

Respectful differences of opinion are tolerated, even encouraged, on all issues. Board members feel able to speak their minds in meetings and other interactions

Culture balances diversity (as a set of individual members) with cohesiveness (as a group)

Once the board has reached a decision, the full board supports it and/or schedules a time to revisit the issue

2. Encourage members to enjoy their board service

Board members look forward to their participation, as demonstrated by high meeting attendance and participation

Members exhibit passion for the organization's work and their own board service

Decision-making processes

1. Clearly define respective decision-making roles (board vs. executive director vs. staff)

Roles of the board, executive director, and staff are clearly delineated. Neither board nor staff oversteps its role (e.g., board allows executive director to lead the staff; executive director seeks board approval where appropriate)

Types of decisions the board makes are delineated, either verbally or in writing. For example:

- When the board makes the final decision on an issue
- When the board should have input, but not final decision-making authority, on an issue
- When the board should be informed/updated about decisions made by the executive director or staff (may be before or after the fact)

Responsibilities of board committees and staff assigned to work with them are clear and manageable. Board does not overwhelm staff with requests or distract them from their other priorities

Meeting agendas focus attention on the most important decisions and updates

- Agendas are circulated in advance, indicating which topics require decisions and which are for discussion/input
- Time allotted for presentations is balanced with adequate time for discussion of key issues

Structures and information

1. Ensure appropriate board size, committee structures, and meeting calendar

Board size is small enough to encourage manageability/esprit among members, but large enough to allow participation from a wide variety of constituencies (need at least three members as a legal minimum)

Board establishes policy on length of board service. Board discusses how to effectively balance retention with the need for new skills (term limits or some other mechanism)

Board committees balance ongoing and temporary needs

- Each committee (standing and ad hoc) has clear goals
- Each board member actively participates on at least one committee

To the extent possible, board leadership and executive director should map out rough meeting agendas and communicate them at the beginning of the year to the board and key staff

- Board leadership also communicates sub-committee calendars in advance
- Board leadership and/or staff send updated agendas and reports well in advance of each meeting

2. Clearly define and meet board's informational needs

Board has clearly defined its informational needs

- Board has explicit conversations discussing what information it needs to do its job, and how often, and in what form it wants the information
- Board communicates its informational needs clearly to the management team

- Board works with staff to ensure manageable burden of gathering information

Board receives regular reports tied to key metrics- (program, financial, operational) in the business or strategic plan

- Areas where organization is not on track to meet goals laid out in business or strategic plan are highlighted
- Report shows only metrics that are essential for the board to review, with the ability to get more information if necessary
- Board is clear on any information in this report that the board itself is responsible for reporting and has assigned each piece of information to specific members
- Information captured in the report is updated each year to reflect shifting priorities and strategy

Board regularly updates its handbook, which includes:

- By-laws, charter, and other legal documentation
- Board roles and responsibilities (overall and individual)
- Board structure and processes (size, composition, term limits, committees, positions)

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