Institutional Advisors

Saving Your Future: How Good Governance Sustains Nonprofits

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Nonprofits play a vital role in society, tackling critical issues from poverty and hunger to environmental protection and education. But just like any organization, they are vulnerable to mismanagement and ethical lapses. That's where good governance plays a role in sustaining your nonprofit.

Strong governance is not just a moral imperative; it's a strategic advantage. It builds trust with donors, funders, and the communities nonprofits serve. It attracts and retains talented staff and volunteers. And it minimizes the risks of financial mismanagement, legal trouble, and reputational damage.

The recipe for good governance includes many ingredients, including the right mix of board members, candid discussions, transparent practices, and thoughtful policies. Among the best practices that help produce good governance are the following:

Shared responsibility
Everyone, from board members to staff, has a role to play in upholding good governance. This means taking ownership of your actions and decisions and holding others accountable.

Transparency and open communication
Open and honest communication is essential for building trust and ensuring everyone is on the same page. That includes regular board meetings with clearly written minutes, readily available financial information, and open stakeholder communication.

Accountability
Board members are ultimately responsible for the organization's well-being. This means taking ownership of the results, proactively identifying and addressing problems, and not shying away from difficult decisions.

Full knowledge of the organization
We advise requiring all board members to review the annual 990 before filing to ensure they understand your organization's filing requirements. We also recommend helping onboard new board members, so they know your governance practices from the start, including requirements of meeting attendance, gift acceptance policies, and potential conflicts of interest.

The pitfalls of poor governance

The most common mistakes board members make are failing to provide adequate oversight, understanding their fiduciary duties, avoiding hard questions, and operating with outdated governance documents, including bylaws and mission statements. The consequences of poor governance can be severe. These are among the potential risks:

Financial mismanagement
Failing to provide proper oversight results in wasted or misappropriated resources, which can lead to financial difficulties. Donors can lose their trust in your organization and reduce or even eliminate their support.

Legal trouble
Nonprofits that don't comply with relevant laws and regulations can face fines, penalties, and even shutdowns. Board members must understand their fiduciary duties and act in good faith and due care.

Reputational damage
Avoiding hard questions can lead to scandals and ethical lapses that tarnish a nonprofit's reputation, making it harder to attract donors, funders, and volunteers. The board chair must set a tone encouraging a free exchange of thoughts and ideas – bad or good. Board members must also ensure that your organization operates with governance practices that align with your original bylaws.

Sometimes, even well-intended boards can lose their way:

- The finance committee at a private college was not fully engaged and failed to ask questions about the chief financial officer's (CFO) environmental, sustainability, and governance investing strategies. When that CFO left, there was no one to question whether these were the best policies for their organization and how similar schools were investing. It wasn't until new leadership was in place that the policies were questioned and adjusted.
- A nonprofit that serves individuals with disabilities had solid governing documents but did not have a comprehensive onboarding process for new members. As a result, the personal investment strategies of one individual who joined the board conflicted with the investment fund for the individuals with special needs.

Good governance begins with a good board

Good governance of nonprofits may require an initial investment of time and resources, but the long-term benefits far outweigh the costs. Perhaps the most critical step in that process is developing a solid board of directors. You need to recruit board members with diverse skills and experience who are committed to the organization's mission. You should also provide regular training and development for board members to keep them up-to-date on best practices.

Among the board's responsibilities are the following:

Providing strategic direction
The board sets the organization's mission, vision, and values, defining its long-term goals and aspirations. Members should be eager to engage staff in promoting the organization's values and its mission.

Overseeing management
The board hires and evaluates the executive director, holding them accountable for the organization's performance.

Financial oversight
The board approves the budget, monitors financial reports, and ensures the organization follows sound financial practices.

Risk management
The board identifies and mitigates potential risks that could harm the organization, including financial, legal, and reputational risks.

Fundraising and advocacy
The board is vital in securing funding and promoting the organization's cause to the public and policymakers.

Effective boards are composed of diverse individuals with various skills and experience relevant to the organization's mission. Board members should be committed to the pillars of good governance, sustainability, and funding and be willing to dedicate the time and effort necessary to fulfill their responsibilities. They should be willing to decide on term limits or laddering terms to assure a transition process.

Some board members are selected because they share the same vision and support the board's views. But will they push back when they disagree with a policy? Other board members who are wealthy and influential are selected because it's believed they will contribute and connect the organization with their network. But will they attend meetings? Provide real oversight? And will they use independent judgment?

It is critical to select board members who are engaged in your organization. You don't want members who rubber stamp or abstain from decisions. One disengaged member can diminish the momentum of a productive meeting.

Review your policies

Another important step to establishing sustainable governance is establishing clear policies for everything from conflict of interest to financial management and risk assessment. Regularly review and update these policies to ensure they are effective.

In particular, we strongly recommend you review your organization's gift acceptance policy (GAP). Experts consider having a GAP in place as a best practice from multiple perspectives – whether relating to relationships with donors or managing your organization's risks.

Some important things to note in your GAP:

- Be cautious about gifts that may sit on the balance sheet for the next regime. Gifts of real estate, in particular, can lead to obligations to pay property taxes until sold unless negotiated with the donor.
- Make sure that your organization can maintain or dispose of certain gifts, e.g., boats, golf courses, timber fields, wind turbines, etc.
- Consider adopting a GAP for external use with donors, but also draft guidelines to help staff and board members put the policy into practice – an internal GAP.

For total transparency, some organizations will post a version of the GAP on their website.

Good governance includes managing risk

The cost of running an organization has increased drastically. Total balance sheet management is critical to determining how your organization grows while remaining risk averse. Proactive risk management is essential for any organization but particularly important for nonprofits. Strong risk management practices include the following:

Identifying potential risks
Regularly assess the organization's internal and external environment to identify potential risks.

Evaluating the likelihood and impact of risks
Once you identify risks, assess their likelihood of occurring and the potential impact on the organization.

Developing and implementing risk mitigation strategies
Develop strategies to minimize the likelihood and impact of identified risks.

Monitoring and updating risk management plans
Regularly monitor the effectiveness of risk mitigation strategies and update plans as needed.

By proactively managing risks, nonprofits can protect their resources, safeguard their reputations, and ensure long-term sustainability.

For more information, please contact your advisor.

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