

Lessons for Successful Nonprofit Governance

Peter F. Drucker

Boards of nonprofit organizations malfunction as often as they function effectively. As the best-managed nonprofit organizations demonstrate, both the board and the executive are essential to the proper functioning of a nonprofit organization. These administrative organs must work as equal members of a team rather than one subordinate to the other. Moreover, the work of the executive and the board does not divide neatly into policy-making versus execution of policy. Boards and executives must be involved in both functions and must coordinate their work accordingly. In a well-functioning nonprofit organization, the executive will take responsibility for assuring that the governance function is properly organized and maintained.

Despite the almost limitless diversity in their mission and size, the majority of American nonprofits have the same governance structure. They have an unpaid, outside, part-time board. And, they have a paid full-time executive officer, called variously *president, executive director, executive secretary, senior pastor, administrator, executive vice-president, or general manager*. Despite their almost limitless diversity, nonprofits are alike also in that in many — maybe the majority — this governance structure malfunctions often as it functions. Boards are criticized as being rubber stamps for the executive. But, the same boards also “meddle.” Board members complain that the executive officer

“usurps” the board’s policymaking function. Executive officers in turn complain that the board wastes endless hours discussing operational trivia. Board members complain that they get no information. Executive officers and their staffs complain about the hours, days, and weeks wasted preparing reports on matters well beyond the board’s competence and ken. And, there is confusion across the nonprofit spectrum — in churches and trade associations, hospitals, universities, community services, learned societies, and foundations — as to what governance the institution needs, what the task of each organ of governance should be, and how they should work together. Indeed, no subject provokes more heated debate in the nonprofit world than that of governance.

Yet, we know the answers — or at least enough of them to do the job. A small but growing number of nonprofits are truly well managed (Drucker, 1989). For many nonprofits, it is probably true — at least their board members so believe — that they are a good deal less well managed than the average business. However, the small but rapidly growing group of nonprofits that have organized their governance is beyond doubt better managed than some businesses with a reputation for first-rate management. These institutions have both a functioning board and a functioning executive. Some of these leaders in the nonprofit sector are colleges and universities, some are community services, some are churches, and some are hospitals. Some are very large national or international organizations; others are local and at best middle sized. Yet, all have reached pretty much the same conclusions in regard to nonprofit governance. Their solutions are thus generic and should apply across the nonprofit spectrum.

Clear and Functioning Governance Structure

The first lesson to be learned is that nonprofits need a clear and functioning governance structure. They have to take their governance seriously, and they have to work hard on it. They need effective leadership and management a good deal more than even businesses do — for three reasons.

First, they lack the bottom line that a business has. They must therefore have a clear mission that translates into operational goals and that provides guides for effective action. Of course, businesses also deteriorate if they do not have a clear mission; they become diffuse, and their efforts splinter. But, in good times a business can muddle through for a while with no other lodestar than the financial bottom line. A nonprofit institution will start to flounder almost immediately unless it clearly de-

fines its mission and emphasizes that mission again and again. This is doubly true for the nonprofit that relies on donors, volunteers, or both.

Second, the nonprofit needs a clear definition of the “results” that it seeks to obtain. Again, a business can, though only for a few short years steer by the financial bottom line alone.

Last, a business earns its money for its performance; the money is its own. In contrast, the money of the nonprofit, whether obtained from donors or from the taxpayer, is given against promises. Nonprofits are not owners; they are trustees of the money that they spend.

Nonprofits thus need both strong organs of accountability — for mission, for results, for allocation of resources and their productivity — and a clear process for discharging these responsibilities. They need effective, strong, directed governance and a clear governance structure.

These are truisms. Everyone nods and says *of course*, but far too few nonprofits listen, let alone act.

Effective Board and Effective Executive

Nonprofits need both an effective board and an effective executive. Practically every nonprofit will accept one or the other half of this assertion. But a good many will not accept that both are needed. Yet, neither the board-dominated nor the executive-dominated nonprofit is likely to work well, let alone succeed in perpetuating itself beyond the tenure of an autocrat, whether that individual be board chairperson or executive officer.

In a good many businesses, especially in large publicly held ones, boards have become slumber parties. They only wake up when there is a serious crisis and usually when it is way too late. In the large and successful petroleum companies that grew out of Rockefeller’s Standard Oil Trust, but also in companies in Europe and Japan, boards have traditionally been a legal fiction. Some nonprofits, too — large private universities or large churches dominated by a powerful, charismatic pastor — have reduced their boards to a purely ceremonial role. And, boards as a part of governance are not known altogether in the canon law of the Catholic church (although American Catholic dioceses are increasingly setting up lay committees that in effect are governing boards), in the Salvation Army, and in the typical labor union (which is surely also a nonprofit institution).

But, most nonprofits could not emasculate the board even if they wanted to. One reason is that the board often actively leads in raising money. Another, more important one is that board members are committed to the nonprofit’s cause. If they have no legitimate function and

no real job to do, they will do mischief; they will "meddle." The nonprofit has no choice but to work on making its board an effective organ of governance. Only an effective board composed of independent but committed outside people can give the nonprofit the clear focus on mission, the definition of results, and the accountability for the money entrusted to it that it needs. Without these, any nonprofit will soon decline into nonperformance.

At the same time, every nonprofit, except maybe the very small and purely local one, must also have an effective executive officer. Its success in this century has made the American nonprofit too big, too complex, too important to be managed by its board.

The community hospital in the small New England town where I lived in the 1940s was still run by its board. It did not even have a chief medical officer or a nursing supervisor. But, it also had no emergency room, no ambulance service, no X-ray department, no physical therapy unit, no clinical lab, no social worker, and not even a well-baby clinic. To be sure, it was no longer simply a place where the poor could die in a little dignity, as it had been two decades before. But, its job was still primarily to provide private physicians with beds for their patients, not to be a health care center. Similarly, none of the churches in the town at that time tried to provide anything but two services on Sunday mornings and Sunday school to go with them. And, it was not until World War Two that the American Red Cross — the world's largest volunteer organization — went beyond disaster relief and took on blood banks and health and safety education.

Indeed, the most noteworthy feature of the American nonprofit institution is not its size. It is the explosive growth in the scope of nonprofit work and the parallel growth in the demands placed on the competence of the nonprofit institution. These demands go way beyond what good intentions and generosity can supply. Increasingly, they demand professionalism of a high order. The more a nonprofit institution relies on volunteers, the more professional its management has to be. An organization has far too many things to do for it to be able to operate without professional, full-time staff. Furthermore, if performance standards are to have any results, they must be coupled with executive accountability.

Board and Executive Officer as Colleagues

Nonprofits waste uncounted hours debating who is superior and who is subordinate — board or executive officer. The answer is that they must be colleagues. Each has a different part, but together they share the play.

Their tasks are complementary. Thus, each has to ask, What do I owe the other? not — as board and executive officers still tend to do — What does the other one owe me? The two have to work as one team of equals.

Double-Bridge Team

The double-bridge team is a model for the board-executive team in nonprofit institutions. In the double-bridge team, neither player is more important; they are equals, and they are equally indispensable. The job for the stronger player is to adjust to the style, strengths, and personality of the weaker partner. The executive officers in nonprofit organizations are the stronger players. It is their job to adjust both what they do and how they do it to the personalities and strengths of their chairpersons.

In more than eleven years with one of the country's largest community services organizations, the chief executive has worked with four board chairpersons, each of whom served for three years. The first was strongly outside focused, a good speaker and skillful in public relations. The successor was inside focused, effective with local chapters and happy working with them but somewhat publicity-shy and awkward on the platform. The next chairperson saw her main task as one of raising money, and she worked hard on getting much-needed business support. The fourth and last chairperson — still in the job today — is concerned primarily with the recruiting, training, and motivating of volunteers. Each chairperson's priority was a legitimate one, and each brought enthusiasm and considerable skill to the tasks on which he or she concentrated. All, in other words, deployed themselves properly. But, each had results only because the executive officer positioned herself in the areas in which her partner, the board chair was weak or had little interest — the inside during the tenure of the first chairperson; the outside during the tenure of the second one; operations during the third chairperson's term; programs, outside relations, and money raising during the last years.

Tasks of Board and Executive Officer

What are the respective tasks of the board and the executive officer? The conventional answer is that the board makes policy and the executive officer executes it. The trouble with this elegant answer is that no one knows (or has ever known) what policy is, let alone where its boundaries

lie. As a result, there is constant wrangling, constant turf battles, constant friction.

Effective nonprofits do not talk much about policy. They talk about work. They define what work each organ is expected to perform and what results each organ is expected to achieve. One work assignment for the board may be to raise so many dollars in contributions in the coming year. Conversely, it may be the work assignment of the executive officer to recruit a given number of new volunteers the next year and to introduce two new programs successfully. Or, the board may commit itself to a certain number of community appearances by each of its members — one of the work assignments of the board members of a major rural cooperative. The board's work assignment may include a specified number of board-conducted, in-depth audits of individual hospital functions and of intensive meetings with major department heads. For the vestry in a large and rapidly growing evangelical church or the lay board in a Catholic diocese, the work assignment may be to specify, design, supervise, and edit the materials that the church uses to recruit and train volunteer workers. For the board of a theological seminary, it may be a half-day at each of its bimonthly meetings spent reviewing one of the school's educational programs. In the effective nonprofit institution, every board committee — indeed, every board member — accepts a work program with specific achievement goals. So, too, does the executive officer.

This has two implications, both still anathema to many non profits and their boards. First, the performance of the entire board, each board committee, and each board member and the performance of the executive officer and all key people on the staff is regularly appraised against preestablished performance goals. (This appraisal is best done by a small group of former board members.) Second, board members and executives whose performance consistently falls below goals and expectations will resign or at least not stand for reelection.

Boards Should Meddle

Boards should meddle. To begin with, there is no way to stop them, and if you can't lick them, you had better join them. Board members of a nonprofit organization should be committed to the cause. They should be deeply interested and involved in it, they should know the programs and the people who work on them, and they should *care*. But also, nonprofit boards are usually organized in such a way that "meddling" is part of their job. They work in committees, each with a specific mandate,

such as fund-raising, or physical facilities, or youth activities. This forces them to work directly — that is, without going through the executive officer — with people working in the particular area of the committee's concern. It thus forces them to "meddle." They had therefore better be organized so as to meddle constructively.

In one of the country's oldest nonprofit boards, the Board of Overseers of Harvard University, which was set up more than four hundred years ago, members act as visitors to one of the university's academic departments or schools. They meet regularly with the department, interview faculty and students, and appraise the department's performance. A good many people in academe consider the Harvard board the most effective, if not the only effective, American university board.

However, the board's meddling must strengthen rather than divide the institution. This requires first that there be no restrictions on contacts between board members and staff members. Restrictions are in any case ineffective, and they only make board members and staff members suspicious. They invite politicking. Nevertheless, the executive officer needs always to be informed of any contact between a board committee or board member and a staff member. The Harvard board achieves this by having each visitor submit a formal and written report, which is discussed first with the academic department and then presented to the president and the full board. Equally effective but simpler is a commitment — entered into by board and staff members alike — to have each staff member report any board contact immediately to the executive officer, preferably in writing and with a copy for the board member.

This may seem petty. It is. But the executive officer's fear of "meddling" and the resentment of board members at being "isolated" from the organization are, in my experience, the main cause of guerilla warfare between the two organs of governance in the nonprofit institution. It is almost impossible to cure. But, it can be prevented by a little elementary hygiene.

Who is Responsible?

Who should be responsible for an effective board, for the relationship between board and executive officer, and for the structure of governance in the nonprofit institution? The standard answer is, the board's chairperson. There is only one thing wrong with this: it does not work.

What works is to assign responsibility for the effective governance of the organization to the executive officer and to make it one of his or her key duties. I know the arguments against this: it is risky. There is a dan-

ger of the board's becoming the executive officer's creature and a *roi faineant*, a shadow king. It would indeed be greatly preferable if the board chairperson were to take on the duty.

Alas, I have not seen a single one who was willing to do so. It simply takes too much time. Wherever I have seen the job done, it required five years of hard, persistent work. And, that goes well beyond what a part-time outsider can spare, no matter how committed he or she may be. Making the organs of governance effective in the nonprofit institution and creating the proper relationship between them should therefore be considered a priority task of executive officers, and it should receive serious consideration when executive officers are hired and appraised.

Lessons

The lessons from nonprofits that have developed a working and effective governance structure will not come as a great surprise to many people in the nonprofit world, but they will still not be particularly popular. Indeed, they may be quite unpalatable to board members and executive officers alike. They clash with the widespread view that nonprofits are governed by good intentions. In fact, non-profits have to be governed by performance.

At the same time, these lessons contradict the equally widespread belief that all a nonprofit institution needs is to be managed in a "more businesslike" way. No, nonprofits have to be committed to a cause, they have to have a mission, and they have to be imbued with passion. Nevertheless, the growing number of nonprofits that have worked out an effective governance structure and the lessons they offer should come as a relief to the many dedicated people in the nonprofit world who complain — some to the point of despair — about the chasm between the good intentions and the performance of their institution, whether it is a church, university, hospital, or community service. It is indeed fairly simple to make nonprofits effective. It does not require miracles — it needs will and work.

Reference

Drucker, P. F. "What Business Can Learn from Nonprofits." *Harvard Business Review*, Sept.-Oct. 1989, pp. 88-93.

Positioning Women for National Leadership

Shifra Bronznick

The Jewish community is failing to harness the talents of women in leadership. Women are seriously underrepresented on the boards and among senior officers and executive staff of national Jewish organizations, with few exceptions. Minority status in leadership circles severely impedes women's ability to participate in shaping the priorities of the Jewish communal world. This current gender imbalance has grave future ramifications for Jewish organizations hoping to compete for the loyalty of coming generations of Jews.

Rarely is the gender gap discussed with any candor in the Jewish organizational world. Women commonly avoid raising it, fearing that they will lose status in the organization and become pigeonholed as women's rights advocates, rather than being respected for their individual talents. Men, for their part, tend not to recognize the issue of women's leadership as a matter of priority on the organizational agenda.

This is a mistake. It is a matter of great priority. Women's equality is growing in importance in the eyes of Americans of every background. Anecdotal evidence indicates that Jewish women are among the most ardent advocates of women's equality. Research documents that Jewish women are among the most highly educated women in the United States. Close to half of all Jewish women are college graduates, compared with only 17 percent of non-Jewish white women.¹ And yet, the Jewish com-