CATHY A. TROWER, Ph.D.

GOVERN MORE

MANAGE LESS

HARNESSING THE POWER OF YOUR NONPROFIT BOARD

SECOND EDITION

BoardSource®

Library of Congress Cataloging-in-Publication Data

Trower, Cathy A. (Cathy Ann)

Govern more, manage less : harnessing the power of your nonprofit board / Cathy A. Trower. -- 2nd ed.

p. cm.

Includes bibliographical references and index.

ISBN 1-58686-119-0 (alk. paper)

1. Nonprofit organizations--Management. 2. Directors of corporations. 3. Corporate governance. I. Title.

HD62.6.T76 2010

658.4'22--dc22

2010022164

First Printing, July 2010
ISBN 1-58686-119-0

Published by BoardSource
1828 L Street, NW, Suite 900
Washington, DC 20036

BoardSource®
Empowering Boards. Inspiring Leadership.

BoardSource envisions a world where every social sector organization has the leadership it needs to fulfill its mission and advance the public good. Our mission is to inspire and support excellence in nonprofit governance and board and staff leadership.

Established in 1988, BoardSource's work is grounded in the fundamental belief that boards are critical to organizational success. With decades of hands-on experience working with and supporting nonprofit boards, BoardSource is the recognized leader in nonprofit governance and leadership, and a go-to resource for nonprofit board and executive leaders. BoardSource supports a broad and diverse cross-section of social sector organizations with

- leadership initiatives addressing key opportunities and issues within the nonprofit sector
- research and benchmarking of board composition, practices, and performance
- membership and board support programs
- customized diagnostics and performance assessment tools
- a comprehensive library of topic papers, publications, and downloadable infographics, tools, templates and more
- live and virtual education and training
- governance consultants who work directly with nonprofit leaders to design specialized solutions to meet an organization's needs
- a biennial conference that brings together approximately 800 board leaders for two days of learning and sharing

A note to our global readers:
The need for effective board leadership and governance knows no geographic boundaries, and BoardSource is committed to strong social sector board leadership and governance around the globe. While BoardSource uses United States laws and policies as the legal framework for our resources and recommendations, most of our resources do not focus on legal matters but rather on good governance practices, making them relevant to organizations working outside of the United States. We do suggest, however, that you refer to applicable laws in your country regarding financial reporting and other legal and transparency issues.

BoardSource is a 501(c)(3) organization.

For more information, please visit our website at boardsource.org, e-mail us at mail@boardsource.org, or call us at 800-883-6262.

ACKNOWLEDGMENTS

I am grateful for the thoughtful ideas presented in the first edition of this book by Richard P. Chait, with whom I have worked for many years at the Harvard Graduate School of Education. Dick has been a respected colleague and mentor to me and has also provided infinite wisdom to countless boards. It was my privilege to be given the opportunity to update his work, and it is my hope that future generations of board members and chief executives will find this new edition as useful as the original.

Cathy A. Trower, Ph.D.
June 2010

CONTENTS

INTRODUCTION

With respect to governance, there was a time not so long ago when conventional wisdom held that boards of directors should (1) set overall strategic objectives and policies, (2) react to the ways the staff planned to achieve those aims, and (3) monitor and evaluate the organization's progress toward its goals. Most board members and most chief executives of nonprofit organizations would probably agree that the board, in concert with senior managers, should establish institutional policies and strategies that would then be enacted by the staff. Unless pushed to a doctrinaire and inflexible extreme, the notion that boards should primarily govern, and not manage, offers a reasonable rule of thumb. Despite this agreement in principle, confusion, tension, and differences of opinion still arise about appropriate spheres of influence and responsibilities of boards and executives.

DEFINITIONS

The opening paragraph used the words govern and manage with an assumption that everyone knows what they mean; perhaps, however, all would benefit from a few key definitions of words I'll use in this manuscript.

- *Governance* is the distribution of legitimate authority to influence and enact policies and decisions; it defines who has the power, who is in charge, and who is responsible. To govern is to exercise sovereign authority; to make and administer public policy; to exercise a deciding or determining influence on. The board governs to exercise its sovereign authority over the organization. Its primary governing roles include setting the direction, ensuring adequate resources, and overseeing the health of the organization.
- *Macrogovernance* encompasses activities to define, deliberate, and decide matters most consequential to an organization's short- or long-term well-being. When macrogoverning, the board manages to make discernible differences in advancing the mission of the organization.
- *Management* is the practice of directing or supervising. To manage is to direct or exert control; to handle, administer, or be in charge of. The board delegates the management role to the chief executive who becomes responsible for the daily operations of the organization.
- *Micromanagement* usually means paying too much attention to details and not focusing on the big picture. A micromanager is not able to delegate but feels obliged to get involved in the actual implementation of the work. When a board

micromanages, it steps out of its governance role and engages in the actual operations of the organization or into implementation of strategic plans, forgetting that the chief executive is responsible for managing the organization according to guidelines set by the board.

These definitions are simpler in theory than in practice. Why? The answer, in part lies in what's happening on the regulation and legal front and in part on understanding the balancing act that is effective governance.

THE IMPACT OF SARBANES-OXLEY ON NONPROFIT GOVERNANCE

Governance changed dramatically in recent years due largely to a series of celebrated scandals in the corporate sector (e.g., Enron, WorldCom, and Tyco) and in the nonprofit sector (e.g., United Way, Red Cross). These incidents spawned a spate of legislative and regulatory responses, most notably Sarbanes-Oxley, and more stringent requirements by stock exchanges for publicly traded companies. Measures included more independent directors, a lead director, greater financial transparency and literacy, stronger safeguards against conflict of interest, and executive sessions without the chief executive.

BoardSource and the Independent Sector teamed up to produce a paper called "The Sarbanes-Oxley Act and Implications for Nonprofit Organizations" (2006) that highlights key provisions of the Act and specifies their relevance to, and makes recommendations for, nonprofits. (Editor's note: the paper is available for free download at www.boardsource.org)

Concerns have arisen in both the private and nonprofit sectors that are a net result of Sarbanes-Oxley, and the subsequent additional emphasis and reporting requirements of the IRS Form 990, that there has been an emphasis on *procedural accountability* — assurance that boards are in compliance with legal and regulatory provisions — at the loss of *performance accountability* — how the organization is achieving the mission (Alnoor Ebrahim, "The Many Faces of Nonprofit Accountability," Harvard Business School Working Paper 10-069, 2010); and from organizational success toward risk mitigation.

At the extreme, lawful mediocrity has become the new standard of governance. The focus by boards on compliance has not been without cost. In the words of nonprofit governance expert Herman Leonard:

> Financial accountability is an important characteristic of high-performing nonprofits, to be sure. But an undue focus on narrowly defined accountability can lead to a lot of extra costs (most of it captured by outside audit forms) without providing much or sometimes any guidance about how to improve actual mission performance. I'd like to see a renewed focus on mission performance rather than on financial performance.[1]

[1] Interview with Herman Leonard, "Achieving Excellence in Nonprofits Q&A," Harvard Business School Working Knowledge, October 27, 2008.

The key to maintaining mission focus, says Leonard, is to keep the mission outcome goals ever-present and clear. "If outcome goals are not clear, the pressure for accountability will translate into a conversation about financial indicators. But if we can clarify mission outcomes, we can shift the accountability discussion to being about what we have accomplished, and what social value was created for the time and treasure invested."

EFFECTIVE GOVERNANCE AS BALANCING ACT

Nonprofit and private sector experts suggest that effective governance requires an appropriate balance around compliance and performance; and fiduciary oversight, strategic foresight, and generative insight.

> Boards can and must do better at balancing their function as compliance officers with their function as shapers of the future. From their places around the table, directors must steer themselves and the company's management team toward farsighted strategic and financial thinking and succession planning. Certainly it is management's responsibility to develop and implement strategy, but the board must use a long-range lens when requesting and vetting senior leaders' proposals — encouraging the top team to raise its game even when things are going well and challenging it to respond creatively when threats or problems emerge.[2]
>
> An over-emphasis on compliance issues introduces the risk that directors spend more time and effort investigating the actions of senior executives and becoming absorbed in operational matters. This means that boards become caught up in micro-management rather than debating and formulating long term strategic plans and providing appropriate stewardship to the organization and support of the CEO and senior executives.[3]

In order to be effective, and balance their responsibilities appropriately, boards must understand how to practice macrogovernance and avoid micromanagement, despite increasing scrutiny and demands for accountability. To grapple successfully with complex issues and today's rigorous regulatory environment, boards cannot rely on governance as usual and a singular emphasis on compliance. According to *Exceptional Board Practices: The Source in Action* (BoardSource, 2008), governance is not either/or; "it's a both/and situation — both compliance and leadership, oversight and fundraising, challenge and support."

> Good governance is about providing critical capital — intellect, reputation, resources, and access — to strengthen the organization and in turn the community it serves. An exceptional board recognizes the impact of its leadership, and board members understand that they must be thoughtful and engaged leaders, not competent but passive stewards.

2 Lorsch, Jay W., and Robert C. Clark. "Leading from the Boardroom." *Harvard Business Review* 86, no. 4 (2008).

3 Mueller, Jens, Graeme Cocks, and Coral Ingley. "The Seesaw of Governance: Getting the Balance Right." *International Journal of Business Strategy* 9, no. 1 (2009).

As Peter Drucker said, "Management is doing things right; leadership is doing the right things." The purpose of this book is to suggest actions that will help boards lead — to shift the central focus of a board's attention from management to governance, from compliance to performance — to transformative governance. This is not to say that the distinction between management and governance is absolute, nor that board members and chief executives must endure a relationship in which one never enters the other's primary domain. Governance is too complicated and too dynamic to be reduced to some inviolate division of labor. But, on the whole, boards should be more concerned with governance than management and this, in part, is determined by *when* and *how* the board engages and on *what* issues.

The nonprofit boards that made discernable differences to their organization behaved differently from other boards. As BoardSource states in *Exceptional Board Practices: The Source in Action,* "the difference between responsible and exceptional lies in thoughtfulness and intentionality, action and engagement, knowledge and communication."

> An exceptional board operates on a higher level that is both "more" and "different." Undoubtedly, its members give more — of their time, talent, and treasure. But they also give differently — their time may be spent more wisely, their skills and social networks better leveraged, and their treasure more strategically deployed. Exceptional boards measure organizational impact and evaluate their performance, discuss and debate issues, and open doors and make connections.

WHAT'S AHEAD IN THIS BOOK

Chapter 1 explains what micromanagement is, why it happens, and what can be done about it. Chapter 2 examines events that are catalysts for the board overstepping its role and micromanaging. Chapters 3 and 4 explain the roles of the board and the chief executive in governing and managing. Chapter 5 explains the advantages of being a board that governs rather than manages and details the six characteristics of effective boards.

Realistically, new practices and guidelines alone, however sensible, cannot reform board members mesmerized by operational details or compensate for senior staff unable or unprepared to raise the board's sights. The recommendations offered here are intended to help board members and chief executives who are already so inclined to direct the board's energy toward institutional governance — toward the area where the board is probably best positioned to add value to the organization.