



third edition

**ten basic
responsibilities**
of nonprofit boards

RICHARD T. INGRAM

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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

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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.

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ABOUT THE BOARDSOURCE GOVERNANCE SERIES

The Governance Series, BoardSource's flagship series, was created to help nonprofit board members understand their primary roles and responsibilities. BoardSource believes that board members and chief executives who know and understand their mutual responsibilities are better equipped to advance their organizations' missions and, in turn, strengthen their communities.

WHY IS A STRONG BOARD IMPORTANT?

There's no denying that the 1.5 million nonprofit organizations in the United States play a vital role in society, from assisting victims of natural disasters to beautifying our neighborhoods, from educating our children to healing the sick. To ensure that their organizations have the resources, leadership, and oversight necessary to carry out these and other vital activities, nonprofit boards must understand and fulfill their governance responsibilities.

Although there have been headline-worthy scandals by a few nonprofits and their boards, most nonprofits try hard every day to be worthy of the public's trust. Nevertheless, BoardSource frequently hears from nonprofit board members and chief executives who say that they are not always sure what the basic components of good governance are or how to educate every board member so they can serve their organizations and the public in the best possible manner. The Governance Series helps bridge this gap in knowledge.

Within the board's broad roles of setting the organization's direction, ensuring necessary resources, and providing oversight, board members wear many hats. They are guardians of the mission; they ensure compliance with legal and financial requirements; and they enforce ethical guidelines for their organization. They are

policymakers, fundraisers, ambassadors, partners with the chief executive, and strategic thinkers. They monitor progress, evaluate the performance of the organization and the chief executive, and demonstrate integrity in everything they do on behalf of the organization. Because of their many roles, board members need more than enthusiasm for a cause, passion for a mission, or just “good intentions.” They need to understand all of their stewardship responsibilities and perform all of their duties, while remembering that it is the governing board that holds legal authority rather than individual board members. The chief executive is accountable and reports to *the board only*.

WHAT WILL BOARD MEMBERS FIND IN THE GOVERNANCE SERIES?

The Governance Series addresses all of the fundamental elements of service common to most boards, including board member responsibilities, how to structure the board in the most efficient manner, and how to accomplish governance work in the spirit of the mission of the organization.

1. *Ten Basic Responsibilities of Nonprofit Boards, Third Edition* (Book 1) by Richard T. Ingram describes the 10 core areas of board responsibility.
2. *Legal Responsibilities of Nonprofit Boards, Second Edition* (Book 2) by Bruce R. Hopkins, JD, LL.M., elaborates on the board’s legal responsibilities, liabilities, and the oversight it should provide to protect the organization.
3. *Financial Responsibilities of Nonprofit Boards, Second Edition* (Book 3) by Andrew S. Lang, CPA, explains board fiduciary responsibilities in the areas of financial oversight and risk management.
4. *Fundraising Responsibilities of Nonprofit Boards, Second Edition* (Book 4) by James M. Greenfield, ACFRE, FAHP, helps board members understand why they should be actively engaged in ensuring adequate resources for the organization — and how

to get involved in fundraising.

5. *The Nonprofit Board's Role in Mission, Planning, and Evaluation, Second Edition* (Book 5) by Kay Sprinkel Grace, MA, Amy McClellan, MNO, and John A. Yankey, PhD, shows how to define and communicate the organization's mission and link strategic planning and evaluation to achieve organizational success.
6. *Structures and Practices of Nonprofit Boards, Second Edition* (Book 6) by Charles F. Dambach, MBA, Melissa Davis, and Robert L. Gale offers guidance on how to build and structure the board (size, committees, term limits) and enhance leadership roles and the partnership between the chair and the chief executive.

Each book focuses on one topic, breaking information into manageable amounts that are easy to digest. Readers will find real-world examples that provide insight from effective boards, statistics from BoardSource research, lists of the most important things to remember, end-of-chapter questions, glossaries, and resource lists for further reading. The authors of the books are subject-matter experts with years of experience in the nonprofit sector.

WHO SHOULD READ THE BOOKS?

Board members and senior staff, especially chief executives, in nonprofits of all types and sizes will find the information contained in the Governance Series relevant. They can use it to set standards, to develop their own approaches to board work and interacting with board members, and to modify practices as the organization evolves.

There's something in the Governance Series for everyone associated with the board. A board chair, for example, might share *The Nonprofit Board's Role in Mission, Planning, and Evaluation* with board members before starting a strategic planning process or give *Fundraising Responsibilities of Nonprofit Boards* to the development committee. Chief executives will find it beneficial to give *Financial Responsibilities of Nonprofit Boards* to the board treasurer and to review *Ten Basic Responsibilities of Nonprofit Boards* and give it, along

with *Structures and Practices of Nonprofit Boards*, to senior staff and the board chair to clarify board–chief executive roles and strengthen the partnership with the board. All board members will want to read *Legal Responsibilities of Nonprofit Boards* so they understand how to protect themselves and their organization. The chair of the governance committee might give new board members all six books. This sharing helps ensure that everyone associated with the board is “on the same page” and has a common understanding of the board’s responsibilities, expectations, and activities.

Board service entails serious obligations, to be sure, but it can also deliver immense satisfaction. A board that knows what is expected of it and performs at the highest level is a strategic resource for its organization and chief executive. Ultimately, this commitment by dedicated board members translates into greater mission impact in the communities they serve.

Editor’s note: BoardSource has updated The Governance Series several times, most recently with generous support from the MetLife Foundation.

FOREWORD

Dear Leader,

At BoardSource, we believe that strong board leadership is fundamental to a strong and effective organization, and one of the first things we did as a new nonprofit in 1988 was publish *Ten Basic Responsibilities of Nonprofit Boards*. Since then, this little red book has been guiding and educating board members about their essential roles and responsibilities, and more than 300,000 copies have been distributed around the world.

Much has changed in the nonprofit sector since our founding, however, and as result, author Richard T. Ingram has updated “Ten Basics” to reflect the new challenges, opportunities, and realities that nonprofit boards face several times. In each edition, the ten core responsibilities have not changed, but some of the specific expectations or recommendations within each of those responsibilities have been updated or expanded.

The most significant and notable changes in this new, third edition are around the active and engaged role that we encourage board members to play as ambassadors for their missions. Nonprofit organizations work within a larger community context, and policy decisions can have a profound impact on our ability to fulfill our important missions. To succeed, we need to understand that context and work to inform decision-makers about the impact that those decisions will have on our communities and missions.

Board members have a unique and powerful role to play in that effort, which is why BoardSource — together with the Alliance for Justice, the Champion Foundation, the Forum of Regional Associations of Grantmakers, the John S. and James L. Knight Foundation, and the National Council of Nonprofits — launched

the Stand for Your Mission campaign in 2014, which seeks to unleash the full potential of board engagement through advocacy. It is also why we are so pleased and proud to see the expectation for board members to serve as visible and vocal advocates for their missions incorporated so skillfully into “Ten Basics.” I offer my thanks and appreciation to Mr. Ingram for his partnership and leadership in this effort. I am also appreciative of the support and guidance of BoardSource’s Stand for Your Mission campaign partners, who provided expert input related to the board’s role in advocacy, most especially Tim Delaney of the National Council of Nonprofits.

Finally, I thank you. By reading this book, you are showing your commitment to strong and effective board leadership. On behalf of all of us at BoardSource, I wish you and your mission great success.

Sincerely,

Anne Wallestad
President & CEO
July 2015

INTRODUCTION

IN THE SPIRIT OF SERVICE

A voluntary spirit and philanthropic instinct are seen in virtually all societies in the world through the formation of informal community groups, secular charitable nongovernmental organizations, or faith-based organizations and places of worship.

According to the Urban Institute, the United States alone has some 1.5 million voluntary, nonprofit, and nongovernmental organizations, with more certified every month by the federal government as tax-exempt entities. Although no one has calculated the precise number of directors on these governing boards — nearly all of whom appropriately serve without compensation — we do know that approximately 20 million of women and men accept the fiduciary and other responsibilities of board service at any moment.

RESPONDING TO INCREASED SCRUTINY

Those who serve on nonprofit boards face a host of high expectations. Governing boards are increasingly under scrutiny — first, and most appropriately, by their own members and their stakeholders. But continued scrutiny has also come from the media and government at all levels, as they demand to know more about what goes on in boardrooms, especially when things go awry.

This increased scrutiny has generated a mix of consequences and some ambivalence among board members. Ambivalence about new regulations, for example, stems from the unfortunate (and largely unfounded) perception that voluntary service on a board could bring exposure to personal liability if the organization fails to comply, even inadvertently, with such regulations. Furthermore,

the law of unintended consequences always lurks behind every new regulation. The organizational cost of compliance (the cost of doing business) increases with each new unfunded mandate.

Thankfully, *very few* organizations in the vast and growing nonprofit sector have the kind of dysfunctional boards that lead to national scandals over finances, compensation practices, or other issues. Still, given the slightest hint of misconduct at any nonprofit organization, the public and the media are likely to infer that many more dysfunctional or unethical organizations not only misuse the public's philanthropic gift dollars but do so without paying taxes.

Because of the importance of public perception, a governing board that appears inattentive or lethargic can bring calls for more governmental intervention. New regulation may be appropriate and necessary, but it may also be unhealthy and counterproductive to the public good in the long haul. The leaders of nonprofit organizations should never assume, for example, that state and federal tax policy providing for the tax deductibility of gifts and grants will remain unchallenged.

The good news is that the volume and quality of information about good governance and responsible board leadership has grown enormously, along with new programs and services, including those of BoardSource. And with them have come determined efforts by tax-exempt organizations to strengthen the performance of their boards and management practices. Board members are more informed than ever about what is expected of them. Substantive board development programs have become more commonplace, “best practices” are more widely understood and implemented.

Perhaps most important, there is growing acceptance of the notion that good governance makes a difference in organizational effectiveness. Although empirical evidence still needs to be gathered more systematically on this score, there is little doubt that the quality of work by governing boards has improved considerably.

Richard Chait has observed at the BoardSource Leadership Forum that “Nonprofit boards today seem more self-aware and more enlightened, more determined to govern than manage, more guided

by board policies than trustees' personalities, and more attuned to best practice than local custom. In a word, I believe boards have become more professional.”

For this writer and student of board member education and governing board development, the most encouraging and demonstrable net result of current trends is that governing boards have become much more cognizant of best governance practices, much more willing and able to be self-correcting, much better at keeping their houses in order. They are raising the bar of expectations for themselves higher every day.

The many decades of having to endure the admonition from the business world — that nonprofit boards have a lot to learn from how investor-owned corporate boards function — are over. The for-profit, corporate sector is adopting best governance practices and policies commonplace in the tax-exempt, nonprofit sector — including periodic self-assessment of their policies and practices. There is, however, no room for complacency because good governance is *always* a work in progress — and more important than ever.

Finally, let's remember that governance is a distinctly human enterprise, and this old saw: The difference between an effective and ineffective board isn't that a good board doesn't make mistakes. It does. The difference is that a good board doesn't keep making the *same* mistakes over, and over again.

REDUCING THE AMBIGUITIES

This book, written especially for board members, aims to clarify and distinguish the board's corporate responsibilities and leadership from those of management. Indeed, the first step to an effective board is to minimize the ambiguities that inevitably surround its responsibilities. This means embracing good governance practices, beginning with a comprehensive job description for the board itself.

Although they are intimately linked, the *board's legal authority* and the *responsibilities of its individual members* are distinct. The board's legal *authority* and board member's *responsibilities* are

complementary; although interdependent, they are not precisely synonymous. While the board's authority is rooted in state and federal law and regulation, the responsibilities of individual trustees are not. Put another way: Individual board members have no legal authority except when they make decisions as part of a legally constituted corporate body — i.e., as an officially convened governing board acting consistently with its own bylaws.

Although this book focuses on the board, a set of expectations that typically apply to those who serve on boards appears in Appendix I. In the diverse nonprofit sector, how a board actually uses its authority and how individual board members fulfill their responsibilities are affected by many factors, such as

- the organization's mission and purposes
- the organization's size and complexity
- whether the operating budget is large or small
- whether the organization is member-based
- the main sources of revenue
- whether the organization has a large staff or none at all

Your board's authority and responsibilities, and some of the best governance practices discussed in this book, should be specifically articulated in your organization's bylaws.

Five assumptions are implicit in the chapters that follow:

1. Because every organization is unique and is in a different place in its evolution, there is no single model of governance to emulate. All governing boards, however, share a common set of basic responsibilities. And there is a body of best practices and organizational principles that are broadly accepted and practiced. These responsibilities and best practices, in turn, provide a frame of reference for assessing board performance. Likewise, they call for the articulation of clear expectations for those who serve on boards (see Appendices I and II).

2. Board and board member performance depend greatly on the need for management, especially the chief executive, to understand and respect the governing board's duty to provide responsible oversight and help to set strategic direction. A board with motivated members will only be effective and consequential if its executive leaders really want an engaged board.
3. How a board organizes itself matters, arguably at least as much as the sophistication, commitment, skills, and experience of board members. Both who is "on the bus" and how they are organized to meet their responsibilities have profound implications for accomplishing mission and purposes.
4. The members of truly high-performing boards ask good and timely questions and are strategic rather than operational in their work. They do not manage programs or administer their own policies. Smaller organizations, especially those where board members also volunteer in functions that would typically be handled by staff, should be cognizant of the need to adjust expectations and guidelines for board members if and when the organization hires staff. It is critical that board members do not duplicate or interfere with staff member duties and responsibilities.
5. Over time, all organizations undergo a metamorphosis that calls for periodic evaluation, fine-tuning, and sometimes a major overhaul in how, and by whom, they are governed and how their board members are selected. High-performing boards consistently self-correct and look for or create ways to self-renew; boredom and routine in boardrooms spell trouble. As organizations grow in complexity and consequence, for example, how they *were once* governed is unlikely to be the same as how they *should* be governed.

This book addresses the 10 basic responsibilities of nonprofit boards within the broader context of contemporary best practices. Taken together, these 10 responsibilities constitute a job description:

1. Determine mission and purposes, and advocate for them.
2. Select the chief executive.
3. Support and evaluate the chief executive.
4. Ensure effective planning.
5. Monitor and strengthen programs and services.
6. Ensure adequate financial resources.
7. Protect assets and provide financial oversight.
8. Build and sustain a competent board.
9. Ensure legal and ethical integrity.
10. Enhance the organization's public standing.

You will find several discussion questions at the end of each chapter. These are offered to encourage board dialogue, either as part of board meetings or in board retreats. Individual board member responsibilities are cited in Appendix I. An illustrative approach to self-assessment by board members is in Appendix II.