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A Case Study: Do Board Consultants and Funders Have It Wrong?

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A Case Study: Do Board Consultants and Funders Have It Wrong?

Mike Burns

Overview: The following case, a moment in time for a 25+ year-old nonprofit, features a smart, committed, driven, savvy, and uber persuasive nonprofit founder/executive who decided it was time to expand the building. Also featured: a board that has never been more than a figurehead to the executive and the public. This case is intended to highlight that the popular thinking about board and executive as partners may be no more than a false narrative throughout the nonprofit sector that should in-fact be rewritten to reflect more of a reality. As a subplot, this case acknowledges that when a board cannot or will not support the executive as desired, the executive gains the freedom to both govern and manage.

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About the Author: Mike Burns is an adjunct professor at the University of New Haven, Marketing Department and Nonprofit Certificate Program.

One of the most striking and prominent features on any old ship is the ship figurehead. A carved figure displayed prominently on the bow; these ornamental displays are iconic. Their origins stretch back further than some might think. And their meaning and purpose is multi-fold. These figureheads were symbolic, hence the name. But they were also thought to bring power and luck in battle, and to ward off danger. They could intimidate the enemy or protect the crew depending on the beliefs of the ship makers at the time. Chris Riley, Boat Safe. *(https://www.boatsafe.com/term-figure-head-come/)*

The following case, a moment in time for a 25+ year-old nonprofit, features a smart, committed, driven, savvy, and uber persuasive nonprofit founder/executive who decided it was time to expand the building. Also featured: a board that has never been more than a figurehead to the executive and the public. This case is intended to highlight that the popular thinking about board and executive as partners may be no more than a false narrative throughout the nonprofit sector that should in-fact be rewritten to reflect more of a reality. As a subplot, this case acknowledges that when a board cannot or will not support the executive as desired, the executive gains the freedom to both govern and manage.

It is really up to the board if this reality is undesired.

If this story resonates so well throughout the nonprofit sector, is it more appropriate for technical advisors and funders, particularly to boards, to just accept the reality that the job of a board is to "stand by their executive" and not portend that they, the board, are in-charge?

Background

Everything about this nonprofit reflects the vision of an executive who is also the founder. The Executive describes the nonprofit's services as "unique and outstanding" in the field of child welfare and credits the consistency in funding by the state as evidence of the success of staff. Testimonials have been offered by service beneficiaries. Additionally, there have been a smattering of one-off principally mission-related services offered over the years generating a bit of income and expanding organizational reach into the community.

For the majority of years since its founding, the operating budget has been at a bit less than one-million dollars annually. Ninety percent of these funds have been derived from a single state agency. With the exception of one community foundation, the majority of contributions are made by a network of individuals personally connected to the executive. There are a few major donors, again, acquaintances of the Executive. While there have been multiple attempts at small fundraising events, there has been minimal success in broadening this base of donors. And, the original 4300 square foot single-story building was built without fundraising, principally with state bond funds obtained through a typical political process conducted personally by the Executive.

The board of directors has ranged in size from between five and fifteen members. Throughout the life of the organization the Executive has recruited board members. In the earliest years, there was little change in composition. Members were primarily individuals with knowledge of child welfare. Over time, many have left the board, some because they were leaving the city, many, as they stated, no longer found purpose for their board service. Many did not stay long enough to finish their terms.

A Plan

Fast forward 25+ years since the nonprofit's birth. The founding Executive has a vision to create a "unique" program that will also require an

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expansion of the original building – specifically adding two floors. Toward the pursuit of this vision the first task was to "guide" the board to understand that the primary source of dollars to build the addition would come from a state bond. The Executive acknowledged that the board's approval for the building plan was necessary because the state said it was required versus because the board had a vision or saw a need.

A state bond was ideal as it literally would not require extensive fundraising efforts. Plus, the organization's experience with small friend-raisers and its annual mail appeal indicated there just wasn't a strong history in raising money despite the fact that there were a few major gift givers and a modicum of Executive-connected annual donors. Individual board members had few resources or access to resources and would only be able to raise a few additional dollars. The organization had fewer than one hundred annual donors and literally only a handful of major gift donors. These facts would have suggested limited prospects for a successful capital campaign.

Challenges to the Proposed Building

But timing is everything. As part of its strategic planning process, the board acknowledged that the organization's budget had remained relatively unchanged since the completion of its current building (about 5 years after the organization was founded). Programs were paid for by one source and there was no indicator that revenue would be increased anytime soon despite a "build it and they will come" argument. Events and annual appeals just had not produced a substantive enough level of revenue to support expanding programs. The proposed program that made the case for a new building was absent a market analysis and revenue generating plan while bearing a hefty price tag. Additionally, the organization has competitors who were doing quite well in raising money, expanding services, and even building their own buildings. The board's conclusion: merge with another organization to ensure continuance of mission into the future. A vote to begin exploring merger options was scheduled for the next month, November.

A Counter Plan

Meanwhile, and perhaps informed by the planning process, the Executive had determined but had yet to communicate to the board that an expanded building would be THE means to grow mission, program, and budget. To pay for an expanded building and unbeknownst to the board, the Executive had already set in motion the process for securing a state bond. The Executive, as noted earlier, needed board approval for a state bond while the board had committed to and already put in motion the steps to explore merger opportunities.

At the board meeting scheduled to vote on committing to a merger process, the Executive made an offer. The Executive asked that the board suspend its focus on a merger. As part of the offer, the Executive formally revealed a plan to expand the building at a cost of four million dollars; pursue program expansion; and advise that the bond request was in progress. The Executive offered that If the bond was not approved, the board could then continue with pursuit of a merger or alternately, if the bond was approved, the Executive would build the building and no merger would be sought.

Lo and behold, the bond was approved, and the board withdrew its plan for a merger. While not clear on all the details but based on executive assurances, the board believed and asserted it would not - nor did it have the ability to - raise the additional $2 million of a $4 million proposed building cost. It did however sign-off on the bond and agreed that it would support the Executive in "making this happen."

The Next Stage

One of the Executive's first steps following the board's "go" was the recruitment of a firm to assess how much money the nonprofit's 100+ annual donors might contribute toward the

required $2 million. The firm was also tasked with conducting a board education program. Not long after, two realities were confirmed: the nonprofit had very little visibility among external prospective donors and both current and previous board members were short of personal resources and not connected to funding. These realities meant that raising approximately $2 million within a three-year period would prove a challenge.

Nonetheless, the Executive was undaunted and committed to complete the board education program and use every board meeting to focus on getting board members to "step-up" and play a more active role in pursuing needed funds. During the same period, the Executive had lined-up an architect and completed the bidding process for the general contractor. The Executive had decided that an important cost-saving step would be to serve as the general manager of the construction, continue as principal fundraiser and manage the construction budget. Much of the day-to-day duties were transferred to the assistant director and time at board meetings shifted away from regular finances and program activities to what was the progress with building construction.

What Happened Next

Throughout the following year, the Executive continued to simultaneously oversee construction and run the fundraising campaign. But while the board was asking for more information about the finances of the construction, the Executive was asking more about what the board could do to raise funds. What was not always clear to board members was the precise nature of how fundraising and the particular cost of construction were proceeding. Board members were instead being reminded that the building campaign was "theirs" and they had committed, in their vote to "go," to giving or getting. Meetings frequently turned into board training sessions to "dig" up who board members knew and would link to for the benefit of the campaign. A couple members even held small house parties or related small scale public events to reach out into the community and generate both interest and funds. Results on all counts were not substantial in terms of generated revenue.

However, there was good news. One donor committed $200,000; a foundation approved $200,000 and a well-connected community leader promised to raise $500,000. That offer was later withdrawn due to competing demands facing the prospective donor. And there were a number of $1-10,000 gifts.

The Board Takes—or Tries to Take—Action

But the board, having now lost half of its members since construction began (it was down to six members) and being constantly reminded how they, the board, were individually and collectively failing, began questioning reports about progress on the campaign and the building.

Using executive-supplied financial reports from which inconsistent information seemed the constant, they determined they knew far too little and particularly what if any shortfall they would face when the building was completed, and final payments were due.

The current board chair called a "special" Executive session which resulted in members formally agreeing they had no capacity to raise any monies. They also agreed they could not see how the organization could afford any debt given the tight margins with which the organization was already operating. They believed that now was the time to clarify what indeed would be the balance due if construction continued and based

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on that, also consider limiting what construction would go forward, especially if it resulted in debt.

Out of the meeting the chair was asked to get answers to their questions as well as facts and convene again but in a called board meeting not in an Executive session. They wanted these facts prepared by the Executive and to discuss what was really going to be the costs, how much income was promised or in-hand and/or committed, and what was the strategy for completing the building if the difference in retained funds was less than that which could assuredly be raised. The board concluded that they, the Executive, and the developer needed a conversation to review what remained necessary for going forward or if they would be required to halt construction.

A New Chair, Smaller Board, Continued Construction, Borrowing, Evaluation, Retirement

The Executive was anything but pleased upon receiving the board chair's report of the board's concerns and desires for both facts and a deeper conversation about the status and future of the building project. Instead of complying with what was requested, the Executive declared that the project was too far along to accept the board's conclusions. And as a "reward" for attempting to lead an insurrection and failing to trust the Executive, the Executive in-turn managed the chair's resignation and recruited a newly recruited board member to become chair.

At the time construction was restarted, the Executive was able to identify and secure unexpended state bond money and, using her political savvy, managed to produce additional funds to help close the gap in needed construction funds, the totals of which remained fully unclear to the board.

The Executive continued to remind the board with variable "facts" that they had committed to the project and were responsible for raising the balance of needed remaining funds in addition to furniture, interior lighting, and the like. But, not relying on the board, the Executive also discovered, applied for, and received newly available federal loan funds. The loan was large enough to retire bridge loans borrowed for the project, likely complete construction gaps and provide funds for the Executive's severance.

While retirement had been the subject of a conversation held with the board just about the same time as the construction was begun, the Executive pointed out that the original employment contract contained a severance amount for which no monies had been raised or put aside over the years. The employment contract was up for renewal one year ahead of the construction's completion and the Executive wanted to be retained for at least a year after completion to ensure all went according to plan programmatically.

Closure?

In considering retirement and severance board members agreed that a performance appraisal would be helpful. This would actually be the first appraisal of the Executive, and as the Executive put it: "After 20+ years and building and then expanding a building and annually generating a $1 million dollar budget—now the board wants to evaluate me?" Getting an agreement as to what the job description was, and performance measurements consumed six months of time between the board task force and the Executive. Getting to an understanding of what a "fair" severance might be was another conversation. And how any severance would be paid for was a conversation that ran parallel to the concept. While an agreement was reached, it's been a year and little more has been moved on this subject.

The building has been completed – nine months behind plan for multiple reasons. The Executive has recruited three new board members so now there are seven in total. No additional funds have been raised but the Executive successfully got a bank to donate enough furniture to fill the building following consolidation of branches. The board continues to request numbers for the total expenditures, the debt incurred and so on – without success . Two open houses are being planned by the Executive with requests for the board's support for these events. Oh, and the board has asked specifically for what the programs in the building will be including revenue projections. The answer to this question has been offered in very broad and vague terms.

Conclusion

Popular thinking on these matters posits that a board and its executive are partners. The former, the board, defines mission, a Theory of Change and depending on its stage development, considers progress and provides direction for fiduciary (fiscal and legal) and strategic purposes. The latter, the executive, ensures that at minimum, mission is pursued and that resources are used efficiently and effectively with the best outcome.

But as illustrated by this case, the reality of figurehead boards and driven if not entrenched executives produces a different outcome in terms of who or what is the board in relation to the executive. It may be time to recognize that boards, under the aegis of executives they frequently recruit, cannot live up to the calling to be a nonprofit's surrogate owner on behalf of the public's interest.

Instead, executives may in fact more often than not be the true owners and operators of the nonprofits which they are charged to manage. Perhaps then governance should not be left in the hands of boards but in the hands of executives. Acceptance of this principle would then result in enabling executives to recruit the boards that best serve them not the other way around. And perhaps in retrospect this practice would be more representative of what is reality among nonprofits versus what is suggested as the way nonprofit governance should be.

The case is intended to highlight that the so-called partnership between executive and board may be no more than a false narrative throughout the nonprofit sector and should in-fact be rewritten to reflect more of a reality. For many, particularly founders, there is no partnership, just expectations by the founder that the board will comply with their wishes. When a board cannot or will not support the executive as desired, the executive gains the freedom to both govern and manage.

It is really up to the board if this reality is undesired.

Selected Questions for Further Study

- If an individual starts and grows a nonprofit and selects every board member, will that board ever govern and in essence "own" and lead the organization?
- Just what does it take for an executive to ensure the board governs?
- When and if should a nonprofit board exert itself as leader in order to fulfill its fiduciary duty?
- Is there and what is that point when a founder should be replaced?
- Can or should a board just surrender the nonprofit to the executive?
- If not the board, who and what intervention can be used to hold an executive accountable?

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