

# CREATING A DYNAMIC BOARD

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Does a great nonprofit organization need an exemplary board of directors? If an organization has a visionary leader, a skilled staff, loyal donors, and a substantial endowment, what does the board really add? In our consulting work, we are frequently asked to help assess board performance and identify opportunities for improvement. To get a more precise view of what makes board governance effective, we interviewed the directors or board chairs of thirty-two of the one hundred organizations named as top performers by *Worth* magazine in 2001.

We selected organizations engaged in a broad scope of nonprofit activities—from groups providing social services, such as CARE USA and Easter Seals, to organizations focused on conservation, such as The Trust for Public Land, to education-focused groups, such as Teach For America and ZERO TO THREE.

We catalogued the board practices of these well-performing organizations. As a result of this research, we concluded that a high-performing board plays three distinct roles. First, the board must shape the direction for the nonprofit through its mission, strategy, and key policies. Second, the board needs to ensure that the leadership, resources, and finances are commensurate with the vision. And third, the board must monitor performance and ensure prompt corrective action when needed. Good boards are also dynamic; they are particularly adept at understanding the external and internal context of the nonprofit and at altering their focus to respond to or anticipate changes in the environment. Composed of busy volunteers, these boards also recognize that time constraints force them to select a narrower focus for helping the organization, both as individuals and as a board.

Interviewees also stressed that high-performing boards excel at the basics, such as actively managing their composition or committee structure. We did not find concrete rules, such as “Good boards are small.” But common dictums—such as the ability to focus on important issues, run effective meetings, and make sure the right people are in

the right jobs—seem to be at the core of good performance. Strong boards invest in making sure that these tasks are done well.

To help any organization begin this process, our website includes a self-assessment tool for diagnosing board practices ([www.mckinsey.com/practices/nonprofit](http://www.mckinsey.com/practices/nonprofit)).

## SHAPING THE MISSION AND STRATEGIC DIRECTION

The first step toward achieving nonprofit effectiveness is to define a clear and compelling mission, vision, and strategy. The board has two primary responsibilities in fulfilling this role: shaping the mission and vision, and actively engaging in strategic planning and policy decisions.

### SHAPE THE MISSION AND VISION

Dr. Lincoln Chen, the board chair of CARE USA, noted that the most important question a board can ask is “Why should the organization exist?” An organization’s mission should change infrequently over time. Best practice suggests, however, that a mission should be tested to ensure continuing validity. Unfortunately, management is often so focused on day-to-day business that the relevance of the mission goes unquestioned, or the mission changes in reaction to donor interests rather than by conscious design. Good boards ensure a vibrant discussion about the mission and are willing to consider altering that mission when needed. That said, they are also the final guardians against “mission creep,” the subtle expanding of the mission

to accommodate the interests of leaders, donors, or outside agents.

Derived from the mission is the organization’s vision, a perspective of where the organization seeks to be in five or ten years. The vision should include both internal aspirations and desired outcomes regarding the social issue at the core of the mission. Good visions are quantifiable enough to allow an objective assessment of progress. The vision for an organization is equally critical for decision making, particularly in regards to the strategic plan, which provides the link between where the organization is at the moment and where it wants to be in the future.

### STRATEGIC DECISION MAKING

The mission, often described in broad terms with high-level qualitative aspirations, must be translated into tangible outcomes and a plan for achieving those outcomes. The boards we spoke with addressed their responsibility for strategy in two ways: (1) implementing a formal strategic planning process and (2) creating mechanisms to address ad hoc decisions that require thoughtful responses outside of the planning cycle.

A formal strategic planning process ensures that the board has the opportunity to revisit the environment periodically, assess the organization’s capabilities, and evaluate its success against the outcomes suggested by the mission. William Nelsen of Scholarship America noted that the “strategic planning process provides the platform for the board to debate

new programs, the performance of current programs, fundraising objectives, capabilities, and strategies.” The planning process is an opportunity to formalize a key component of the board’s strategic role: the ability to take a forward-looking view, figure out what really matters, and recognize when the organization needs to change or transition.

The distinction between management decisions and policy decisions requiring board-level resolution was not consistently defined by our interviewees. A talented board can represent a source of otherwise inaccessible consultative insight. Committee leaders and the board chair play a critical role in ensuring that discussions stay at the right level. All board members have the responsibility to question, as one interviewee worded, whether “[they’re] getting too detailed.” Management has an obligation to ensure that the materials given to the board are governance based, as opposed to managerial.

### ENSURING LEADERSHIP AND RESOURCES

A board that shapes the mission, vision, and strategy of a nonprofit is well positioned to assess the leadership and resources required for the organization to be successful. These include finding and evaluating a CEO, ensuring adequate financial resources, addressing organizational needs for expertise or access, and building the nonprofit’s reputation with important constituencies. These four responsibilities reflect the

dual nature of the nonprofit board: collective governance accountability and implementation support provided by volunteers.

### SELECT AND EVALUATE THE CEO

Dr. James Strickler, the co-chair of International Rescue Committee’s board, maintains that the “single most important role and decision of a board is the selection of a CEO.” “Thinking about the question of CEO succession with a view on internal and external candidates is a top item for our board leadership,” observed Dr. Chen of CARE USA. Good boards place a significant emphasis on the selection and subsequent development of the CEO.

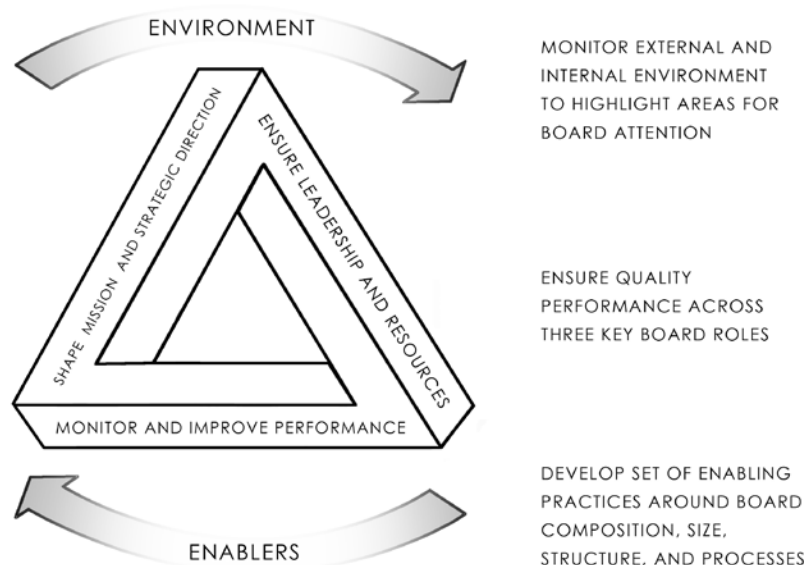
At the core of effective CEO evaluation is a focus on developing the individual. Peter Bell, CARE USA’s CEO, described a development-oriented evaluation this way: “The evaluation process is viewed by the board as a chance not only to assess the performance

of the CEO but also to provide feedback aimed at improving performance and exploring the support needed from the board to achieve the desired result.” Determining CEO compensation, a related board responsibility, must reinforce the performance feedback.

### ENSURE ADEQUATE FINANCIAL RESOURCES

The oft-quoted phrase “Give, get, or get off” underscores the importance nonprofit organizations place on the fundraising role of the board. This responsibility has two components: (1) ensuring that the level of resources developed is consistent with the approved vision and strategic plan, and (2) working effectively with the nonprofit’s development staff to help raise the necessary funds. Of the thirty-two organizations we interviewed, only two had no fundraising expectations of the board, and in both cases the CEO wanted to revisit that policy. According to one CEO,

## THE DYNAMIC NONPROFIT BOARD FRAMEWORK



“The biggest issue in general with nonprofits is the reluctance of the board members to ask for money.” In light of this statement, what do good nonprofits do to encourage their boards to successfully raise funds?

At an individual director level, boards begin during the recruiting process to set and manage fundraising expectations for board members. The fundraising expectations are based not only on the ability of the individual to donate but also on the ability to provide access to potential donors. Good boards often provide training to board members to build comfort and skills in fundraising, and they also back up the training with staff support. As Thomas Tighe of Direct Relief International stated, “We don’t necessarily need our board members to solicit funds, but we do need them to be engaged in a meaningful way, such as making introductions to potential donors. Our staff can do much of the followup.”

During a capital campaign, the board is even more important. Directors must provide financial support and exhibit commitment by providing connections to potential donors. For major fundraising drives, board leaders described a two-pronged approach. First, they emphasized the need for recruiting a committed chairperson for the campaign and for developing a sound plan to raise the required money. Second, they described the need to build commitment from directors by linking the decision to proceed with the campaign to a clearly articulated strategic goal

and to the expectations for the board to participate in the campaign. Approving the budget and writing the check are linked activities on a committed board.

#### *PROVIDE EXPERTISE AND ACCESS FOR ORGANIZATIONAL NEEDS*

Whether they were referring to “Work, wealth, or wisdom” or “Time, treasure, or talent,” all of our CEO interviewees touched on two facets of board responsibility in fulfilling organizational needs: providing expertise and providing access.

First, the interviewees emphasized the responsibility of board members to individually provide expertise in the form of professional wisdom or talent drawn from their day jobs. A well-constructed board can provide critical skills to address organizational needs, ranging from personal counsel to a CEO to legal, financial, strategic, or technical advice. Second, board members are called upon to provide access to legislative or community leaders who might support the advocacy of the organization. We were surprised by the importance that interviewees placed on this role. The Natural Resources Defense Council, for example, is involved in environmental advocacy. Its deputy director, Patricia Sullivan, puts access at the core of achieving the mission: “For us to be successful, we need the board to open doors and introduce us to policy makers.” How do boards ensure the requirements of access are fulfilled? Good boards recruit influential members, but

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#### *ENHANCE THE REPUTATION OF THE NONPROFIT*

Reputation and credibility in the community often pay great dividends to a nonprofit organization. Whether the goal is increased public involvement, greater fundraising, or more effective advocacy, reputation matters. A good board can improve an organization's reputation by virtue of who its members are and the role they play in advocating for the nonprofit. Boards have often recruited famous personalities with explicit expectations for their role in brand building. For example, NRDC recruited Robert Redford, a popular film star and well-known environmentalist, and employs his name not only to open doors to policy makers, but also to build membership support through mass mailings.



#### *MONITORING AND IMPROVING PERFORMANCE*

Beyond shaping the mission and providing resources, boards also perform the governance function of overseeing performance—of the organization and of the board itself.

#### *OVERSEE FINANCIAL PERFORMANCE AND ENSURE APPROPRIATE RISK MANAGEMENT*

While most donor decisions are based more on mission-related factors than public financial reports, the emergence of charity comparators or rating services is undoubtedly going to increase the demand for financials that accurately portray the organization's activities. For a well-run organization, boards have, at a minimum, made sure that sound accounting, internal control procedures, and annual external audits are in place to maintain the integrity of accounting reports. In addition, most boards have developed a set of practices to help them keep a finger on the pulse of the organization's financial health, including: (1) train new board members to read financial statements and understand the business model of the nonprofit. Many nonprofits use fund accounting, which requires some training for even the experienced businessperson; (2) develop a short list of closely watched metrics to alert the board to potential financial issues. These metrics could be as basic as cost, revenue, and balance sheet ratios that signal a change in results or track budget variance; and (3) require the creation of a multi-year financial plan so the

long-term impact of decisions can be assessed and results can be put in the appropriate historical and future context.

In addition to monitoring financial results, nonprofit boards, like for-profit boards, are beginning to address the question of risk. The types of risk facing nonprofits typically include financial, operational, professional liability, statutory liability, and reputation. Risk management is a sophisticated skill that requires the board to recognize sources of risk, estimate the potential exposure, and review the mitigation strategies proposed by staff. Several nonprofit leaders have predicted that their board members will increasingly be drawn into risk management.

#### *MONITOR PERFORMANCE AND ENSURE ACCOUNTABILITY*

Many nonprofit boards consider themselves the ultimate oversight authority, charged with ensuring the financial prudence and societal impact of their organizations. Not surprisingly, many responses to our query "To whom is the board accountable?" began with "Good question!" and was quickly followed by "That's a tough one." The challenge of accountability and the difficulty of measuring impact, however, are the core reasons why nonprofit boards must accept the mantle and ensure that the objective assessment of performance is central to the organization's management agenda.

So how should nonprofits think about accountability? The first step is to discuss it on the board level. William Rudnick of Second

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Harvest recounted, “We raised the question of accountability at the board and had a lively debate with several suggestions and questions about various stakeholder groups.” Ultimately, the Second Harvest board agreed on a constituency to whom they are accountable: “Americans concerned about hunger.” This definition is in sharp contrast to the traditional laundry list of service recipients, donors, and staff as the key stakeholders; but this framing moved the organization to actively seek out and collaborate with like-minded entities.

The role that a board plays in performance measurement is most critical. While performance monitoring is frequently the province of specific committees, the final responsibility lies with the board as a whole. Performance measurement is not a license for a board to meddle in operational details, however. Instead, we have found that clarity about expectations can be very liberating for staff, giving them the freedom and accountability to operate. An effective test for the clarity of an organization’s expectations is whether board and staff members can describe in a few points the impact the organization has had over the last three years and its goals for the next three years.

#### *IMPROVE BOARD PERFORMANCE*

Boards of high-performing nonprofits are self-aware and committed to continual improvement. These boards periodically take a hard look at their own performance, identify

opportunities for improvement, and change practices or leaders in order to close gaps. While many boards conduct self-examinations, they are often done informally to avoid the appearance of questioning their leadership. Questions like “How can we improve our board meeting?” may come up following a particularly frustrating discussion. However, under these circumstances, improvements are made only when sufficient momentum or leadership materializes. By way of contrast, most of the boards we interviewed appear to have accepted self-improvement as a permanent responsibility, and they have undertaken a disciplined review of their own effectiveness in the last two years.

Structurally, the most common vehicle for continual improvement is expanding the role of the nominating committee to include assessing and improving board performance. Often this is accompanied by commissioning the committee as a governance committee or a committee on the board. Nelsen of Scholarship America told us, “Changing the nominating committee into a governance committee is one of the most beneficial structural changes [our board] made.” According to Samuel Meisels of ZERO TO THREE, the governance committee is also the natural place for boards to consider committee structure or reorganization options. On one board, for example, the committee recommended a separation of the role of chairperson and CEO, thereby clarifying two key

leadership roles. In addition to its role in recruiting and evaluating individual directors, the governance committee assesses the board’s performance by formally seeking feedback from board members and management, usually through a questionnaire.

No subject is taboo in this questionnaire, and topics range from the effectiveness of meeting management to the effectiveness of committee and board leadership. This broad assessment is performed regularly, usually annually, with participation from all board members. In addition to this annual feedback, some boards have also instituted a much shorter questionnaire after each board meeting to gather members’ perceptions on whether the right topics were addressed and whether the meeting was managed well.

## ENABLING THE DYNAMIC BOARD: FOUR KEY ELEMENTS

The boards we spoke with all highlighted practices that enabled them to fulfill their key responsibilities. More common sense than revelation, these findings nonetheless indicate that the boards of high-performing nonprofits are committed to making sure the small things are done well. Broadly, these enablers can be classified into four categories: (1) careful decisions on board size and structure, (2) actively managed board composition, (3) inspired board and committee leadership, and (4) common-sense processes for running the board.

### THOUGHTFUL DECISIONS ON SIZE AND STRUCTURE

The boards of the top-performing nonprofits we studied varied in size from ten to eighty-seven members, with an average of twenty-nine members. The number of board members appears to be a determining decision from which many subsequent board attributes flow. However, size must be tailored to board goals and needs and may fluctuate over time.

Large boards have the ability to connect to many parts of a nonprofit's community and provide a strong cadre of committed volunteers and fundraisers. But large boards frequently require numerous committees, compelling committee leaders, and strong executive committees to ensure effective and timely decision making. In contrast, a smaller board is easier to manage and support, and its restricted membership

can provide the exclusivity and opportunity to influence that is attractive to some board members. However, small boards can lack the scale and diversity of expertise necessary for effective committee work.

### ACTIVELY MANAGED COMPOSITION

Composition refers to the mix of experience, skills, demographics, and stakeholder representation among individuals who serve on boards. Effective boards manage their composition as a key enabler of board performance. These boards look for diversity in composition, and they tend to manage board composition against three dimensions: (1) how well members represent the nonprofit's community of interest, (2) how much impact members can have against the board's goals, and (3) what levels of tenure and turnover will ensure ongoing board effectiveness.

Effective boards look at their own composition to determine first and foremost whether there is adequate representation from the nonprofit's community of interest. Dr. Strickler of IRC noted that "80 percent of refugees are women and children. It is absolutely important [for IRC] to strive for a board that reflects this reality." This basic need for representation drives boards to look at racial, ethnic, and gender diversity to ensure that communities from which the organization draws its mandate are accessible for all policy discussions.

Effective boards also look to composition for the impact it can have on fulfilling their many responsibilities. This is

partly captured by the familiar phrase "Work, wealth, or wisdom." Good boards ensure that board composition flows out of institutional priorities. Fundraising is almost always important; hence, it is almost always a priority in determining board composition. Other priorities, such as a focus on education and advocacy, led ZERO TO THREE to emphasize technical expertise in infant and toddler development in its composition. Some board members strengthen the brand of the organization simply through affiliation and a few high leverage activities that no number of dedicated volunteers could replicate. The challenge in including board members of very different backgrounds is to ensure all board members appreciate the unique strengths each member brings and not have unrealistic expectations that each member will conform to a single norm in how they support the organization.

### INSPIRED LEADERSHIP

The leadership provided by the board chair, committee chairs, and the executive director plays a critical role in determining how well nonprofit boards coalesce around an effective set of roles and whether they fulfill them. Leaders shape the agenda, style, and quality of deliberations. After the mission, no other factor influences the desirability of board service more than the leadership provided by a few key individuals.

Effective nonprofit leaders we talked to described using two forms of leadership: aspirational and transactional. They characterized

aspirational leadership as the leader's charisma and ability to provide motivation and inspiration to other members for engaging in shared goals and activities. Transactional leadership is more managerial in nature; it ensures that the board can produce outcomes beneficial to the organization in an efficient manner. Our interviews suggest that both styles are necessary for the overall effectiveness of the board, and the relative balance between them is, once again, a function of explicitly considering the current and prospective needs of the organization.


Continuity for the board and the organization's leadership forms another dimension of leadership responsibility. "The question of succession is always on the minds of the board leadership, so that other members are being groomed for leadership roles," commented Dr. Strickler of IRC.

#### COMMON-SENSE PROCESSES

Unlike their for-profit peers, nonprofit directors are unpaid volunteers for whom board membership is a labor of love. In fact, board members often commit to support the organization financially. Their motivations for serving usually spring from the mission but often include other elements such as the desire to network with like-minded peers or build new relationships. The processes used by a board to fulfill its responsibilities can have a tremendous impact on whether top quality members feel valued and remain involved.

Sustaining board member passion for the organization is the last hallmark of effective board processes. Board events structured to reinforce the value of the mission and build collegiality make board work more engaging. Whether it is behind-the-scenes events, informal interactions with sector innovators, or just the chance to network and enjoy each other's company, thought must be given to finding the right balance of this form of payback for hours of volunteer work.

Converting the desire to build a high-performing board into a reality requires a combination of commitment and patience. How long will it take? Our interviews suggest that the answer to this question is appropriately measured in years, not months. The actual time required depends on how much needs to be done and the level of urgency. The board of CARE USA took two to three years to redesign itself. Conversely, a situation where an organization solicited a mass resignation of directors, although an anomaly, reflects that urgency is an important design parameter in any board-building program.

Regardless of the approach taken to building a strong board, our research confirms that the best organizations consistently invest in board effectiveness and thereby capture significant benefits truly dynamic boards can provide to even the strongest organizations. 

#### ABOUT THE AUTHOR

Although we credit the three primary authors of this article, we'd like to give special recognition to **Paul Jansen**. Jansen adapted their article for use in this publication. He is the director of the nonprofit practice at McKinsey & Company's San Francisco office. He serves clients in the philanthropy, health, and international aid fields, and is a former board chair of the San Francisco Zoological Society.

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To view the full report, visit <http://www.mckinsey.com/client-service/nonprofit/resources/governance.asp>. Completing the free registration is required to view the article.