Nonprofit Leadership Overview

A Training for VT Nonprofit Child Care Providers & Board Members

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Agenda

- What is a nonprofit organization?
- What special legal, financial and values apply?
- Defining Mission, Vision and Values
- Nonprofit Governance
- Executive Director and Board Relations

Nonprofit Tax Codes

- 501(c)(1) — Corporations organized under acts of Congress such as Federal Credit Unions
- 501(c)(2) — Title holding corporations for exempt organizations
- **501(c)(3) — Various charitable, religious, and educational organizations**
- **501(c)(4) — Social welfare organizations and local employee associations**
- 501(c)(5) — Labor Unions and Agriculture
- **501(c)(6) — Business leagues and chambers of commerce**
- **501(c)(7) — Recreational club organizations**
- 501(c)(8) — Fraternal beneficiary societies
- 501(c)(9) — Voluntary Employee Beneficiary Associations
- 501(c)(10) — Fraternal lodge societies
- 501(c)(11) — Teachers' retirement fund associations
- 501(c)(12) — Local Benevolent Life Insurance Associations, Mutual Irrigation and Telephone Companies
- 501(c)(13) — Cemetery companies
- 501(c)(14) — Credit unions
- 501(c)(15) — Mutual insurance companies
- 501(c)(16) — Corporations organized to finance crop operations
- 501(c)(17) — Employees' associations
- 501(c)(18) — Employee-funded pension trusts created before June 25, 1959
- 501(c)(19) — Veterans' organizations
- 501(c)(20) — Group legal services plan organizations
- 501(c)(21) — Black lung benefit trusts
- 501(c)(22) — Withdrawal liability payment fund
- 501(c)(23) — Veterans' organizations created before 1880
- 501(c)(25) — Title-holding corporations for qualified exempt organizations
- 501(c)(26) — State-sponsored high-risk health coverage organizations
- 501(c)(27) — State-sponsored workers' compensation reinsurance organizations
- 501(c)(28) — National railroad retirement investment trust

501(c)(3) Organizations

- Meet approved purposes: "charitable, religious, scientific, educational, literary, etc."
- Get favorable tax treatment
- Fall into three main categories:
  - Public charities
  - Private operating foundations
  - Private non-operating foundations
- Restrictions on lobbying, unrelated business income, and self-dealing

Major Areas of Distinction

- Legal Characteristics
- Economic Structures
- Mission Orientation
- Culture and Norms

Legal Characteristics

- **Not For Making a Profit**: Established for a purpose other than to make a profit, usually a social purpose or member serving

- **Non-Distribution Constraint**: Precluded from distributing any surplus (profits or net assets) to those in control, unless it is another nonprofit

- **Privately Controlled**: Nongovernmental organization (NGO), typically governed by a board of citizen trustees, usually either self-perpetuated or elected by members

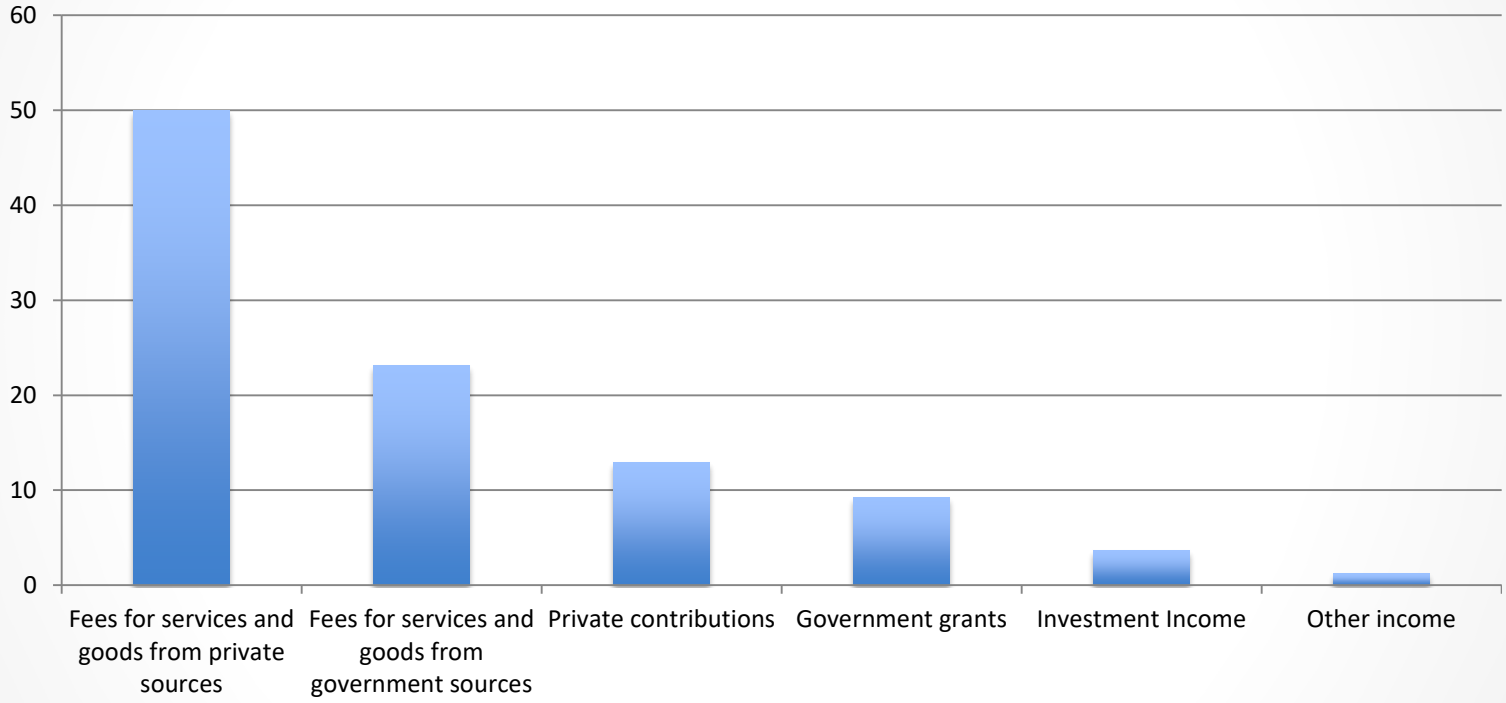
What does that mean?

- Nonprofit organizations cannot raise equity capital, issue stock, or offer profit-sharing to staff
- With no stockholders, the Board and staff must hold organization accountable
  - Answerable to the "public"
  - Oversight by IRS and state AGs or Secretary of State.
  - Child Care is further accountable to state regulations

Funding Sources

- Government grants
- Private contributions - individual & foundation
- Fees for services or goods-tuition
- Investment income

Revenue Sources



Source: NCCS calculations from various sources 2008 - 2012

Sources of Private Donations

- Foundations
- Corporations/Business
- Individuals
- Bequests

In 2018 total private contributions to US nonprofits totaled **$427.71 billion**

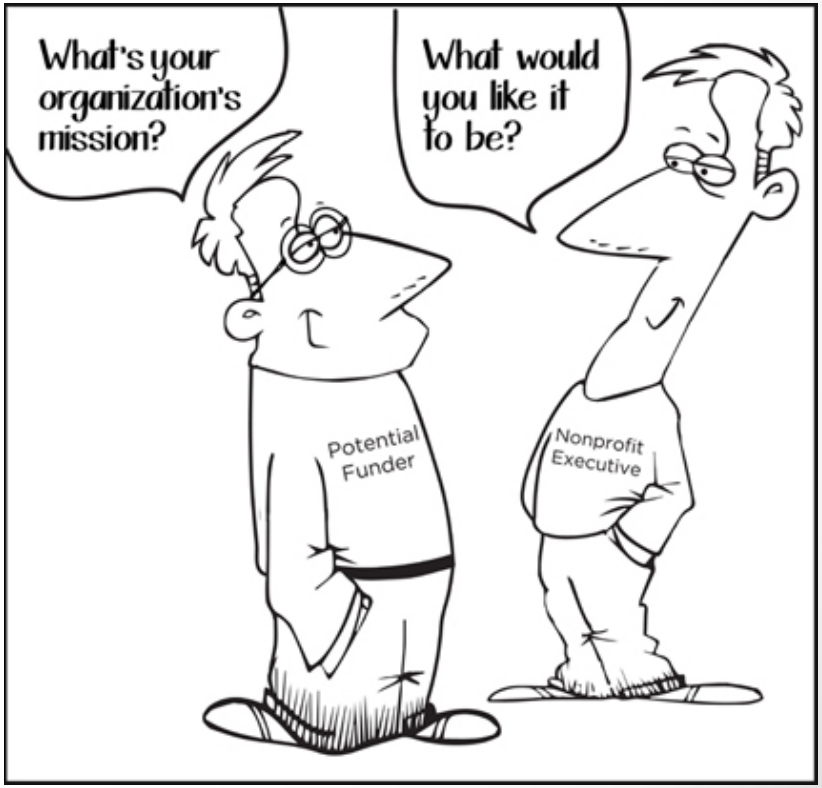
Source: Giving USA Foundation 2019

Mission Orientation

While businesses tend to be more market or profit driven, nonprofits tend to be mission driven

This has an affect on key management dimensions

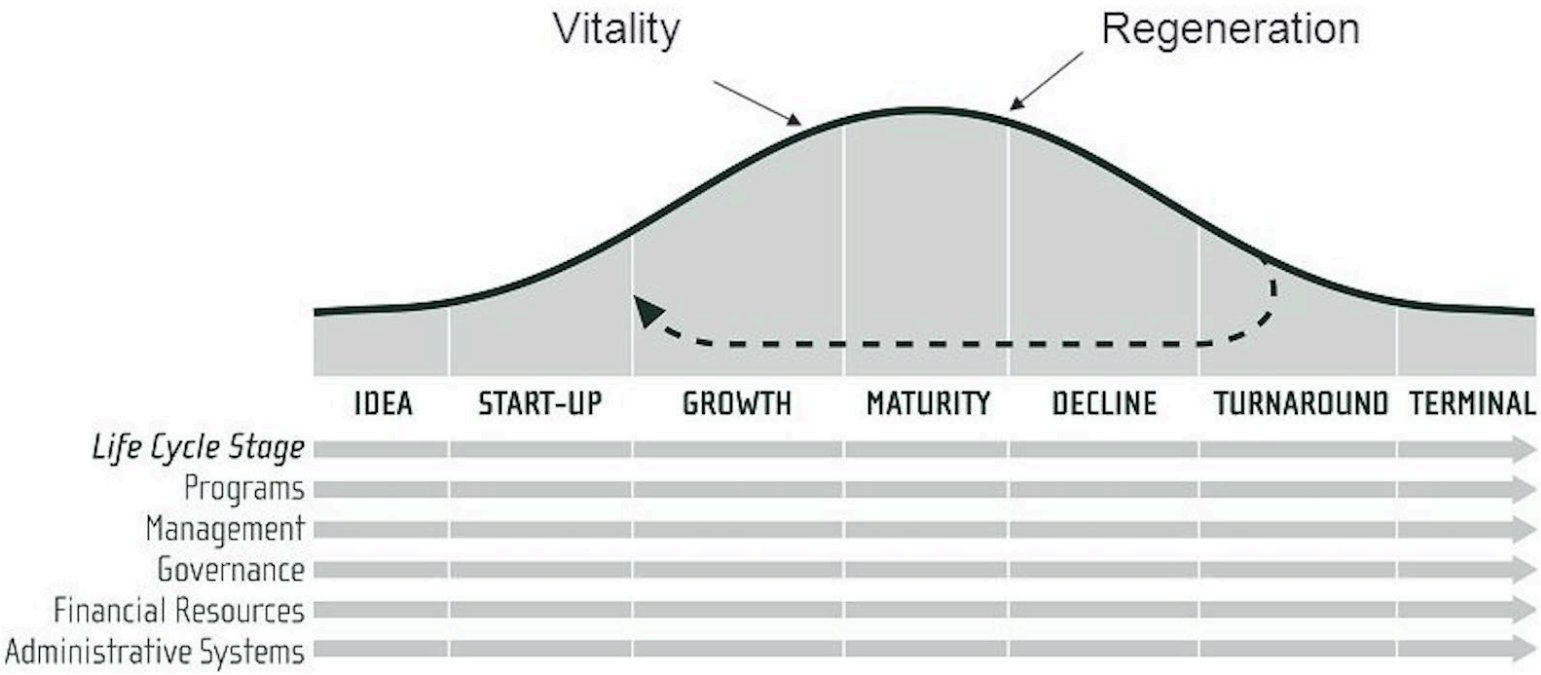
- Performance evaluation
- Competitive dynamics
- Marketing strategy
- Human resource management



Culture & Norms

- Sacrifice v. Rewards
- Passion & Commitment v. Skills & Effectives
- Need v. Opportunity
- Process & Consensus v. Quick Decision Making
- Compassionate employment, versus performance-based employment
- Lean, program orientation, versus building capacity and support systems
- Politics and funding considerations, versus program impact

Nonprofit Lifecycle



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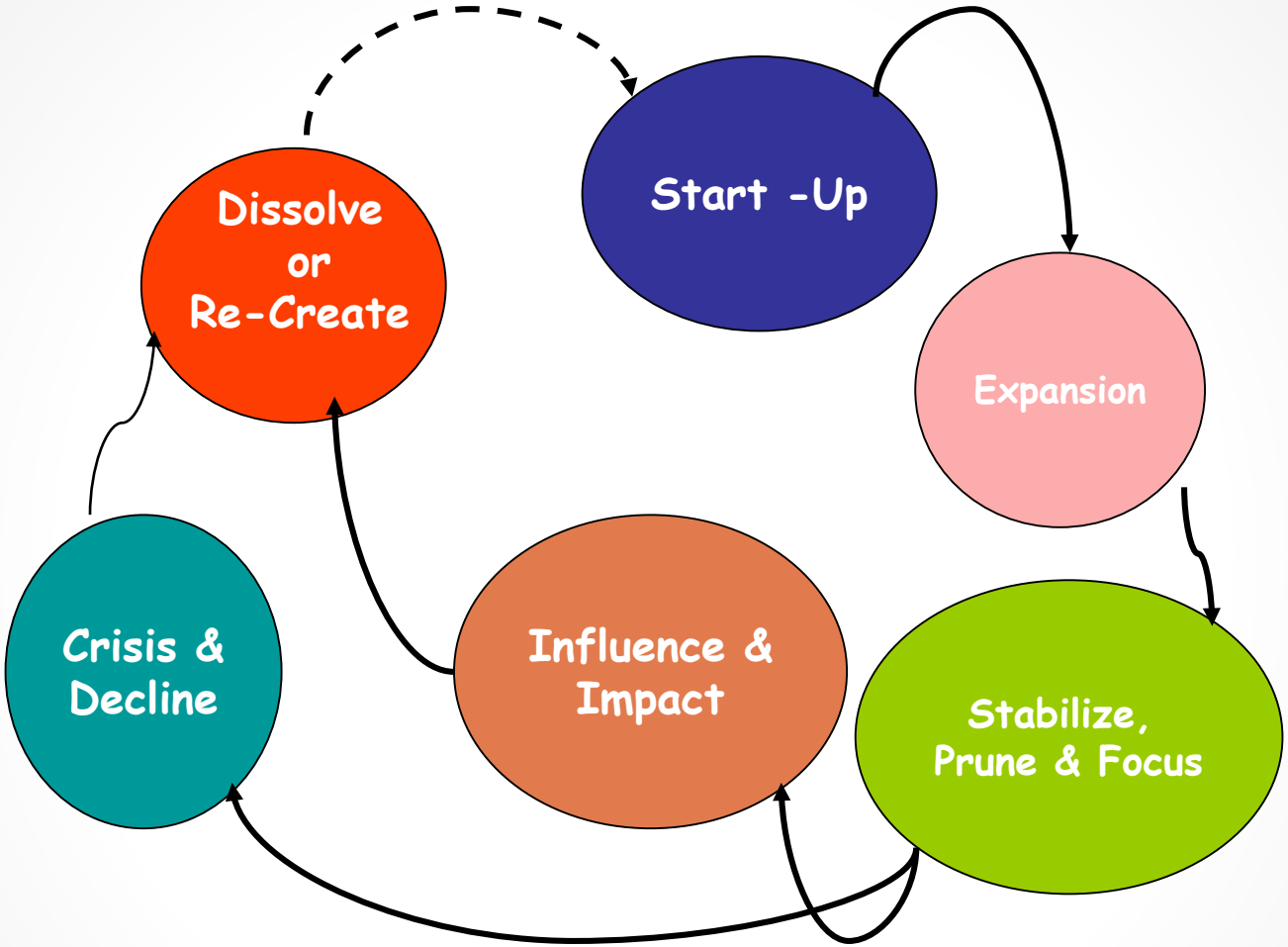

Dissolve
or
Re-Create
Start -Up
Expansion
Crisis &
Decline
Influence &
Impact
Stabilize,
Prune & Focus

Mission, Vision & Values

What do we Believe in?

Taken together the vision, mission and core values answer this question

Mission

- How you will achieve or contribute to the vision.
- Why does the organization exist?
- The **ACTION** (What, at the most basic level, does the organization do?)
- The **CAUSE** (who or what are you doing it for?)
- The **IMPACT** (why does that matter?)

What is the mission of your nonprofit?

Does it need revision?

Are the Staff and Board aware of the mission? Could they repeat it?

Vision

- How will your community be changed, made better by what you have done?
- Where do you want to end up?

What is the vision of your nonprofit?

Does it need revision?

Are the Staff and Board aware of the vision? Could they repeat it?

Values

- How do you get the work done?
- What makes you different than other organizations?
- How you know you'll reach the mission.

What are the values of your nonprofit?

What guides the work that you do?

Governing Boards

Why Do Nonprofits Bother with Boards?

- Required by law
- Advise and counsel
- Provide oversight and accountability
- Determine organizational purpose (mission & vision)
- Connection to ownership, ambassadors in community

What's Required By Vermont Law? Title 11B

- **§ 8.01. Requirement for and duties of board**

  Each corporation must have a board of directors.

  All corporate powers shall be exercised by or under the authority of, and the affairs of the corporation managed under the direction of, its board.

- **§ 8.03. Number of directors**

  A board of directors must consist of three or more individuals.

- **§ 8.12. Compensation of directors**

  Unless the articles of incorporation or bylaws provide otherwise, a board of directors may fix the compensation of directors.

- **§ 8.40. Required officers**

  Unless otherwise provided in the articles or bylaws, a corporation shall have a president, a secretary, a treasurer and such other officers as are appointed by the board.

- **§ 8.25. Committees of the board**

  Unless prohibited or limited by the articles of incorporation or bylaws, a board of directors may create one or more committees and appoint members of the board to serve on them. Each committee shall have two or more members, who serve at the pleasure of the board of directors.

Guiding Principles of Governance

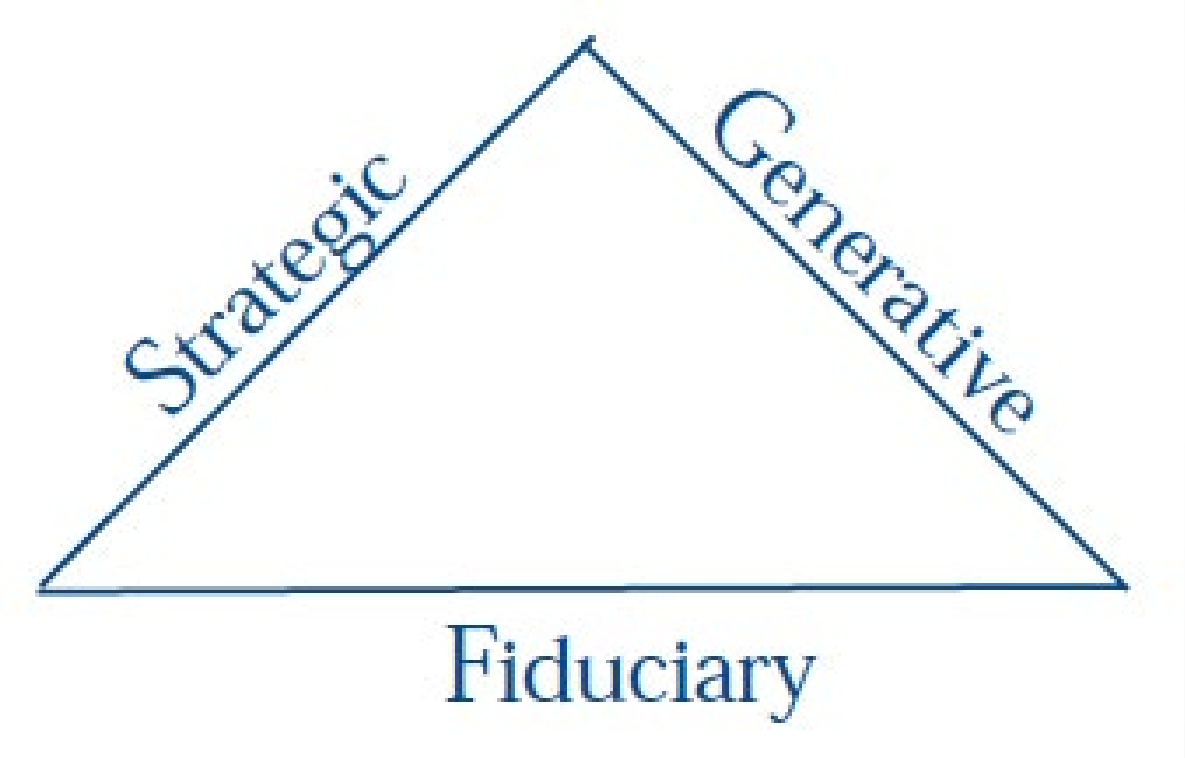
- Board exist to be accountable that the organization works.
- Board's do not need to control everything.
- Board's should control all it must, rather than all it can.
- Confidence (or ignorance) of a trusting Board may lead to rubber stamping.
- Zeal of a conscientious (or ignorant) Board may lead to micro management.

TYPES OF BOARDS

	Coveralls	Shirtsleeve	Blue Suit	Black Tie
Directors	Lots of time	Willing to work	Planning skills	Policy skills
Bd. Focus	Structure of organization	Operations	Governance	Governance
Planning	Day to day	Day to day	Long range	Strategic
Composition	Founders	Some new	More new	Different
Fundraising	Events	Events, grants	Grants, individual	Individual, institutional
Staff	No staff	Limited	Essential	Specialized

http://esc-cincinnati.org/how-well-do-you-know-the-various-types-of-nonprofit-boards/

Three Mindsets



Fiduciary

To hold in trust. Board members act as trustees of the organization's assets and must exercise due diligence to oversee that the organization is well-managed and that its financial situation remains sound. Responsibility to beneficiaries.

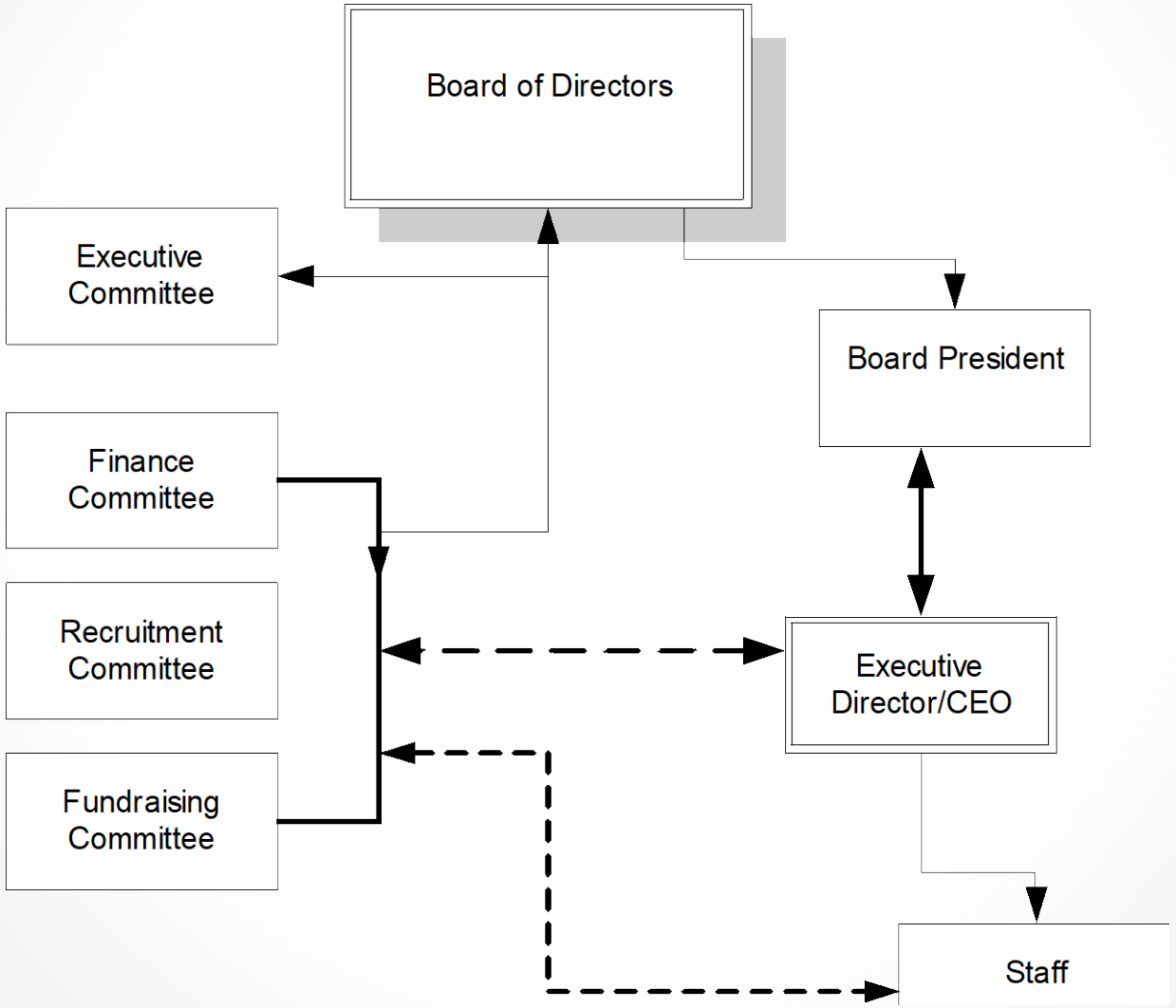
Strategic

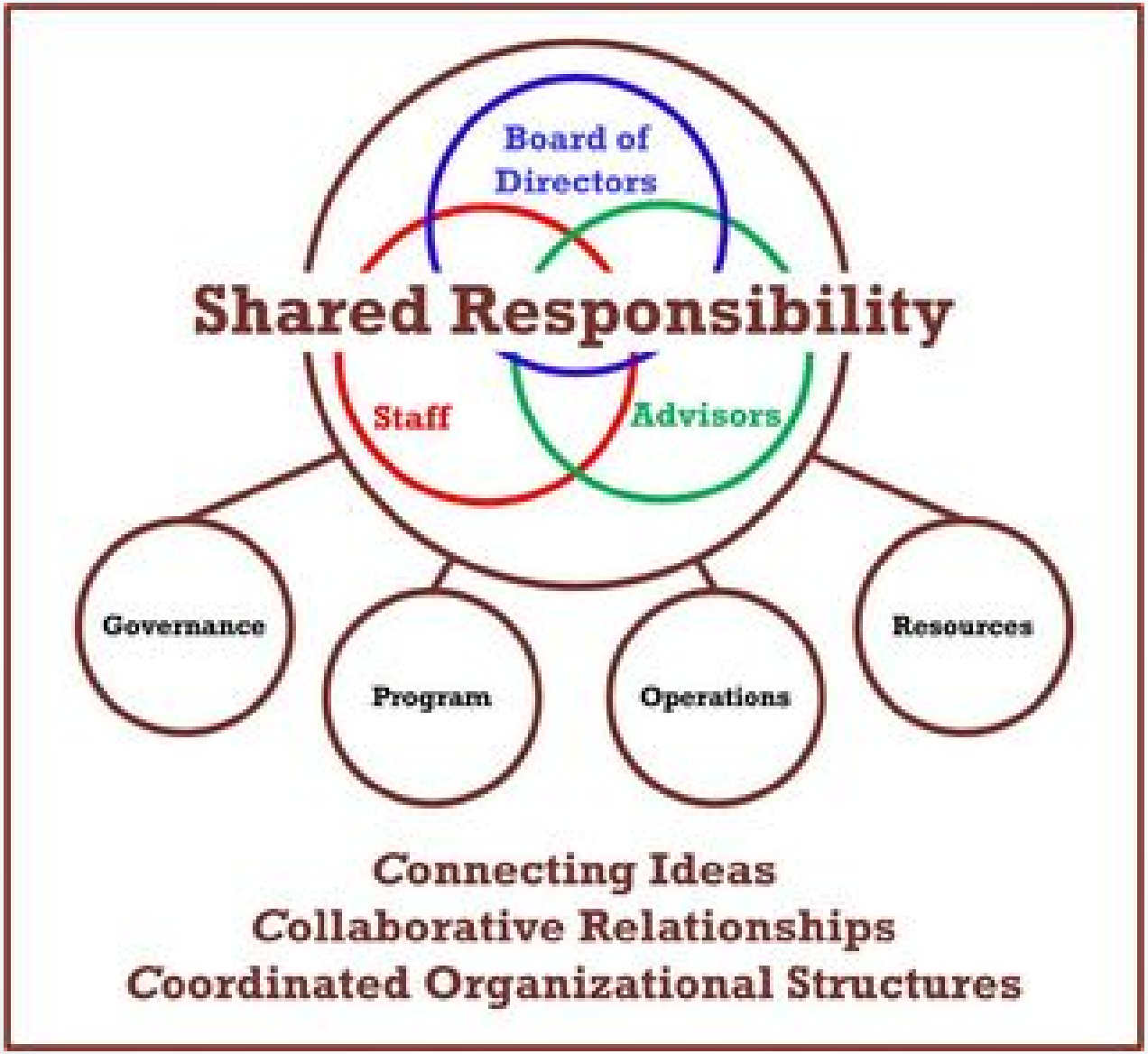
Make major decisions about resource allocation, programs and overall strategic direction. Create and monitor strategic plan.

Generative

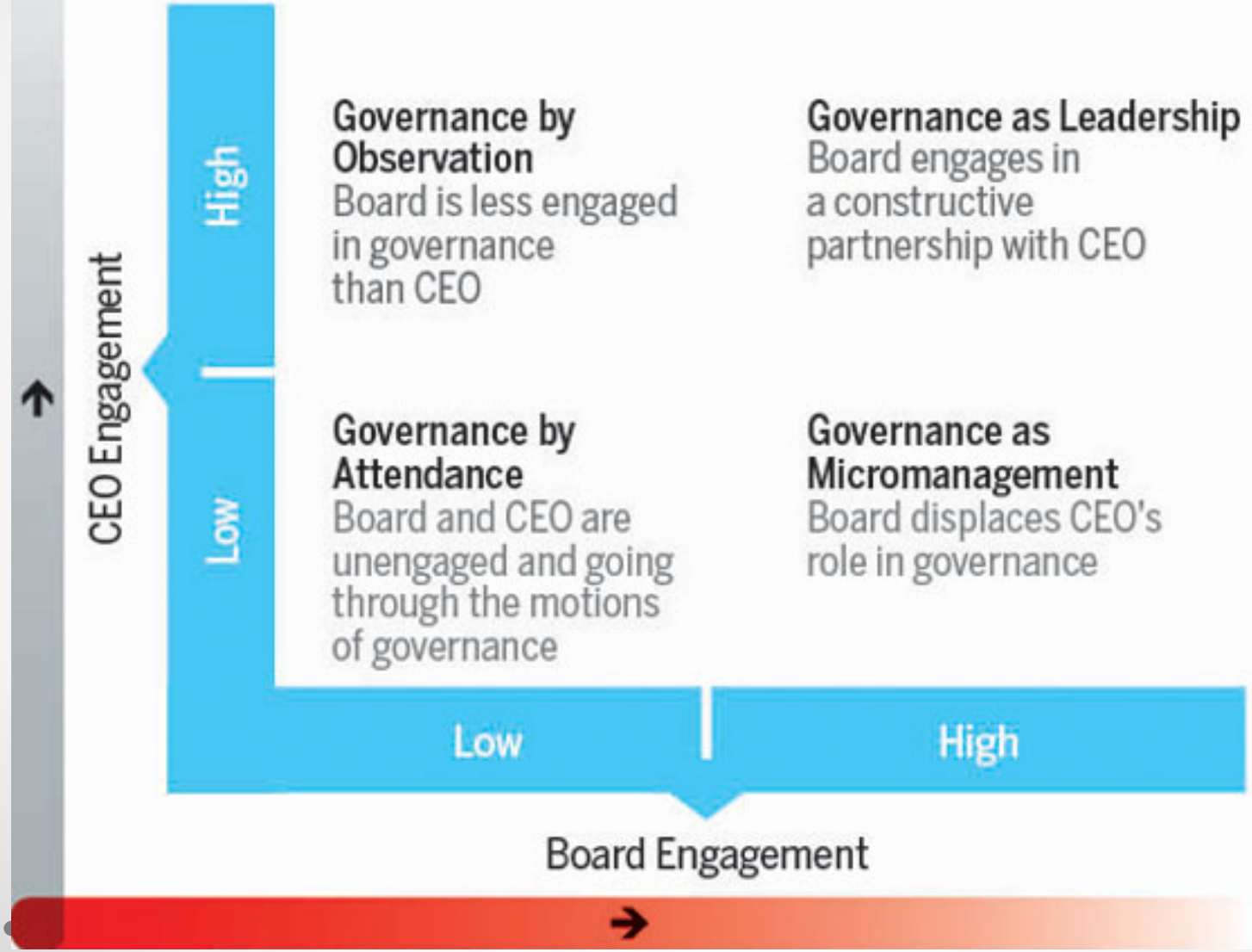
Engage in deeper inquiry, exploring root causes, values, optional courses and new ideas. Support staff leaders to improve and innovate their perception and perspective.

Traditional Governance




Board of Directors
Shared Responsibility
Staff
Advisors
Governance
Program
Operations
Resources
Connecting Ideas
Collaborative Relationships
Coordinated Organizational Structures

HOW DOES YOUR BOARD GOVERN?



Structure

Board of Directors

Assumes the legal responsibility for an organization's existence

Executive Director

Manages the daily operations of the organization

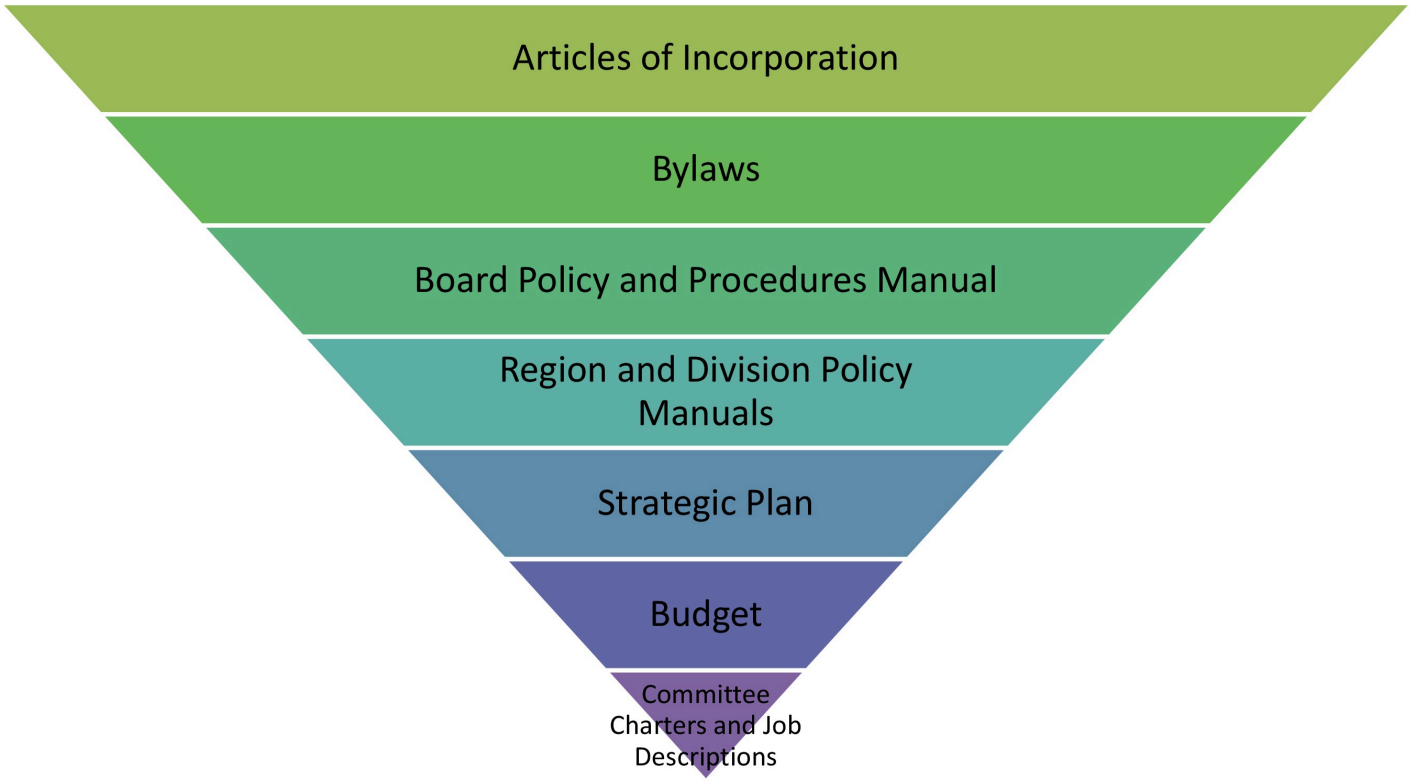
Effective or Ineffective?

Governing Documents

What are they?

- By-Laws
- Articles of Incorporation
- Conflict of Interest Policy
- Board Recruitment & Nomination Policy
- Written Whistleblower Protection Policy
- Written Gift Acceptance Policy
- Policy for Board Approval of Executive Compensation
- Board Meeting Minutes

Hierarchy of Governing Documents



What to Watch For

Time on the Trivial: too much attention given to trivial items compared to the attention given to larger more important items.

Short-term bias: Boards should have the longest ranging view, yet they deal mainly in the near term and the past**.** **Last month's financial statement may get more attention than the organization's strategic position.**

Reviewing, Rehashing, Redoing:

Boards may spend too much time going over what the staff has already done. Waste of boards talent and does not constitute leadership.

Leaky accountability/delegation: Boards often allow accountability to leak around the Executive Director. Board members may direct staff or judge their performance.

This is especially challenging when Board members are parents with children in the program

Board members lack clarity: about their role and involve themselves in operational details that are outside of their purview. For example doing the work of staff <u>when not asked.</u>

There is a difference between volunteering and overstepping.

Remember……

- Board members are volunteers, not paid staff
- Board members need to feel engaged, useful and self directed
- Board members not included in decision making are marginalized and lose interest (a problem with executive committees)
- Board meetings are an opportunity to discuss board business and the agenda should reflect that
- Each board member has something to offer
- The chair/president of the board play a key role

Board and Executive Director Roles

…

What Should Boards Do?

- Meet regularly
- Provide advise & council when asked
- Set board policy
- Determine and approve bylaw changes
- With staff, determine mission and vision
- Raise money and attend special events
- Engage in strategic planning and generative thinking
- Establish org. performance measures and monitor outcomes
- Set clear expectations for Executive Director's performance
- Act as ambassadors in the community
- Deliberate, disagree, agree and think together
- Enjoy each other's company

Board Meetings

- Should be the Board's meeting rather than the management's meeting for the Board.
- Board members should learn together – contemplate, deliberate and decide together.
- Meetings are not about reviewing the past, being entertained by staff, or helping staff do its work.
- The Executive Director should always be present but does not play a central role
- Board meetings should be more about long term future than the present – an exception is a crisis.

The Board Responsibility to the ED:

- Be clear about what you expect from the ED's performance
- Stay focused on the ends and let the ED manage the means
- Evaluate the ED to see how expectations are being met
- Support the ED and Provide advise & counsel when asked

The Exec Director Should:

- Lead the Staff & Manage the Organization
- Mange the finances (payroll, accounts, budget, cash flow)
- Develop Effective Programs
- Support the Board & Engage them in Planning
- Lead & Manage Fundraising with board support
- Implement Strategic Plan

The Executive Director is:

- The single point of delegation for the Board
- Is the one and only employee of the board
- Created by the Board (hired & fired)
- Accountable for meeting the board's expectations for organizational performance
- Responsible for supporting the board but is not accountable for what the board's job is or how well you do your job
- Responsible for the staff that s/he hires, supervise and evaluates

The Executive Director's Responsibility to Staff

- Responsible for hiring, training and supervising staff
- Responsible for evaluating staff performance based on clear expectations
- Responsible for creating a safe, accessible working environment
- Within the boundaries of an approved budget, responsible for staff compensation

What Happens?

- Great Board meetings with collaboration and consensus but still room for vigorous conversations
- Board becomes strategic and forward thinking
- Executive Director supports the board and manages the operations with autonomy and skill.
- Meetings become about the future and not about reviewing the past

Ask Yourself….

- Why did you join the board?
- Do you feel engaged, useful and rewarded?
- Do you understand the organization, its mission and programs?
- Does the board think strategically?
- Are the meetings efficient and productive?

Remember…. No organization was ever formed so it could be well governed, have good personnel policies, a fine budget, sound purchasing practices or even nicely planned services, programs or curricula.

Next Steps & Resources

- Engage in conversation – create agenda items to discuss roles, mission, etc.
- Think about strategic planning
- Develop board policy to address roles and boundaries; conflict of interest

- www.boardsource.org
- www.councilofnonprofits.org
- www.minnesotanonprofit.org
- www.compasspoint.org
- www.blueavacado.org