

RECOMMENDED GOVERNANCE PRACTICES

The nonprofit boards best equipped to lead their organizations are self-aware, function in constructive partnership with their chief executives, and are committed to continually improving their performance. Boards can improve their effectiveness by the intentional adoption of good governance practices.

The BoardSource Recommended Governance Practices reflect BoardSource's decades of experience working with tens of thousands of board leaders and conducting extensive research on board practices. The practices articulate a roadmap for boards toward becoming a strategic asset for their organization, and are arranged in three categories: Essential Practice, Leading Practice, and Compliance Practice.

- **Essential Practices:** BoardSource recommends that all boards adhere to these practices to function successfully.
- **Leading Practices:** BoardSource recommends that all boards adopt these practices to move toward board excellence.
- **Compliance Practices:** These practices address legal requirements and BoardSource's recommended process for compliance.

Boards committed to adopting these practices can find extensive information about them in BoardSource's comprehensive library of resources and publications available at boardsource.org.

ESSENTIAL PRACTICES

E1 Meeting Attendance. Every board member must make it a priority to attend all board meetings and to miss a meeting only under exceptional circumstances.

Meetings are when boards exercise their governance authority. One of the legal obligations for all board members is the duty of care. Without attending meetings — and preparing for them conscientiously — a board member is not able to participate in educated and independent decision making. As state corporation laws allow, the board may accept limited participation via teleconference, but such participation should not be considered a substitute for regular, in-person attendance. Board service is a commitment, and accepting a board position means the meetings must take priority over other obligations except in exceptional circumstances. Every board should have a meeting attendance policy and enforce it.

E2 Term Limits. The board should adopt term limits.

Regular turnover among board members encourages the board to pay attention to its composition, helps to avoid stagnation, offers the opportunity to expand the board's circle of contacts and influence, and provides a respectful and efficient method for removing unproductive members. Seventy-one percent of nonprofit boards have term limits for board members, and the most common are two consecutive three-year terms. Term limits do not prevent valuable members from remaining in the service of the organization or the board in another capacity. An exception is the family foundation that may have a limited pool of qualified and interested candidates.

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E3 Strategic Board Recruitment. The board must be strategic about member recruitment and define an ideal composition for itself based on the organization's priorities at any given moment.

A matrix for board composition facilitates the board's strategic recruitment efforts. By analyzing the present composition of the board, the governance committee — or the full board if no committee is needed — is able to best determine what qualities, characteristics, and perspectives are already present on the board. When analyzed in light of the organizational strategies, a matrix helps the board identify where gaps exist and then direct recruitment efforts to fill those gaps.

E4 Strategic Planning. The board must play a substantive role with management in developing, approving, and supporting organizational strategy.

One of the board's primary responsibilities is to set the direction for the organization. Strategic planning serves as the road map for this direction and as the tool to assess progress. The full board needs to actively participate in and own the results of strategic planning.

E5 Budget Approval. The board must approve the annual budget.

Staff is responsible for developing the annual budget and, in conjunction with the finance committee, presenting it to the board for approval. As the fiduciary body for the organization, the board must ensure that the budget reflects the overall strategic direction and advances the long-term fiscal health of the organization.

E6 Chief Executive Job Description. The board must develop a written job description for the chief executive and together with the chief executive define the annual expectations.

The chief executive can remain accountable for his or her performance only if the position is well defined and annual goals and expectations are mutually agreed upon.

E7 Chief Executive Evaluation. The board must evaluate the chief executive's performance annually; the evaluation should be written and involve the full board.

A formal evaluation, based on well-defined and mutually agreed upon expectations, benefits and protects both the chief executive and the board. Even if the board chair or a committee leads the evaluation, the full board must participate by being given the opportunity to provide feedback, approve the final evaluation, and ensure all compensation recommendations are appropriate. The evaluation should include 360-degree feedback from the organization's leadership team so the board has an opportunity to gain additional insights from those working closely with the CEO on a daily basis.

E8 Audit. Every charitable organization (excluding houses of worship and those exempt from filing Form 990) with \$1 million or more in revenue should undertake an audit annually. It is the board's role to select the auditor and meet with him or her in an executive session without staff present to discuss the results.

The board is responsible for assessing the potential benefits and costs of an independent audit and determining when it is time to conduct one. When revenues reach the level of \$1 million, the organization is usually engaged in multiple and/or major financial transactions and must rely on an independent auditor's clarification that the financial statements present fairly the financial position of the organization. If the organization conducts outside audits, the board should ideally form a separate audit committee or task force, with no overlap with the finance committee, to facilitate the added responsibilities in fiscal oversight.

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LEADING PRACTICES

- LP1 Consent Agendas.** The board should include consent agendas in its board meeting agendas. Consent agendas promote good time management in meetings. The main purpose of a consent agenda is to liberate board meetings from administrative details, repetitious discussions, and routine tasks. The recovered time should be used for meaningful discussion, allowing the board to focus on issues of real importance to the organization and its future. For consent agendas to be successful, materials for review must be written and sent to the board prior to the meeting, and board members must commit to reading the materials before approving the consent agenda.
- LP2 Executive Sessions.** The board should have regularly scheduled executive sessions. Executive sessions provide a venue for handling issues that are best discussed in private, for fostering robust discourse, and for strengthening trust and communication. Distinguished by their purpose and participants, executive sessions serve three core functions: (1) they assure confidentiality, (2) they create a mechanism for board independence and oversight, and (3) they enhance relationships among board members and with the chief executive. Those organizations that must follow sunshine/opening meeting laws should verify their state statutes concerning executive sessions (www.sunshinereview.org).
- LP3 Board Diversity and Inclusion.** The board should be intentional in its recruitment and engagement of diverse board members and foster a culture of inclusivity. To value diversity is to respect and appreciate race; religion; skin color; gender and gender identity; ethnicity; nationality; sexual orientation; physical, mental, and developmental abilities; age; and socioeconomic status. Boards should commit to diversity and inclusion by establishing written policies and practices, subject to regular evaluation, that address strategic and intentional recruitment and engagement of diverse board members and ongoing commitment to inclusivity, including equal access to board leadership opportunities.
- LP4 Board Evaluation.** The board should conduct a comprehensive self-assessment approximately every two years to evaluate its own performance. Only through structured self-reflection can board members judge their own collective performance and understand the extent of their individual responsibilities. Boards may choose to engage in more frequent evaluations, but it is usually not necessary to do a formal assessment every year. It is important to allow adequate time between assessments to implement identified improvements.
- LP5 Board Orientation.** The board should formalize its new member orientation process. The orientation process should be documented and streamlined to ensure all board members receive relevant and consistent information on their governance responsibilities, on the organization, and on the board's own expectations.
- LP6 Bylaws Review.** The board should review the bylaws periodically and ensure timely amendments when necessary. Bylaws formalize the board's structure and practices. The board's needs evolve over time, as do the external circumstances within which the organization and the board function. It is necessary to review the clauses periodically to verify their continued appropriateness and to assess what might be missing. An attorney should verify that the bylaws are in compliance with the state statutes.

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LP7 Chief Executive Serving on the Board. The chief executive should be an ex officio, non-voting member of the board.

The chief executive's input in board meeting deliberation is instrumental and invaluable for informed decision making. However, to avoid actual or perceived conflicts of interest, questions concerning accountability, or blurring the line between oversight and execution, chief executives should be non-voting members of the board, unless not permitted by law.

LP8 Board Job Description. The board should have a written job description outlining the responsibilities of the full board and of individual board members.

Board service comes with expectations and obligations. A written job description defines the collective governance role of the board and reminds it of the various activities that need to be incorporated in the board's annual calendar. The board also should draft a separate set of expectations for individual board members to help them meet their legal obligations and engage productively in the board's work.

LP9 Managing Conflicts of Interest. The board should adopt a conflict-of-interest policy that defines what a conflict of interest is and how it is managed. The board and senior staff should sign annual conflict-of-interest statements, disclose known potential conflicts, and recuse themselves from participating in discussions and voting when conflicts do arise.

Board members must adhere to a legal duty of loyalty, making decisions based on the best interests of the organization. By actively managing conflicts of interest — real or perceived — the board is better able to remain independent and unbiased in decision making.

LP10 Personal Giving. If the organization engages in fundraising, every board member should make a meaningful personal contribution according to his or her means (while not conflicting with any legal stipulations); the board should attain 100-percent board giving.

By making a personally meaningful gift, each board member demonstrates his or her commitment and trust in the organization, which also enables him or her to function as a more credible fundraiser and inspire other donors.

LP11 Board Retreat. The board should include an annual retreat in its meeting schedule.

Retreats allow the board to focus on large and complicated issues that cannot be handled adequately in a regular board meeting. Every board needs to step back at times to reflect on its own responsibilities and practices or to discuss the future of the organization long-term. An informally structured retreat setting is most conducive to strategic discussions, as well as to strengthening the interpersonal dynamics among board members.

LP12 Board Size. The board should determine its optimal size based on its needs.

The primary guide for determining board size is the board's function, which may change over time. Numerous factors influence the composition and thus the size of the board: board responsibilities, committee structure, legal mandates, phase in the organizational life cycle, need for diversity, and maintaining a manageable group. It is impossible for an outsider to recommend a standard size for all boards. However, it is difficult to imagine that a board with fewer than five members is able to incorporate all the desired qualities and capacity or that an exceptionally large board is able to engage every member in a constructive manner. Regardless of size, all board members must be engaged, as all are equally liable for the organization.

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LP 13 Committees. The board's standing committee structure should be lean and strategic and complemented by the use of task forces.

Only ongoing board activities warrant a standing committee. Other activities are best addressed by time-limited task forces, which are efficient and utilize board members' time, interest, and expertise in a meaningful manner.

LP 14 Executive Committee. If the board has an executive committee, its purpose and authority level must be defined in the bylaws.

Before forming an executive committee, the board should analyze its entire structure to determine whether that particular committee would add value. If the executive committee is given the power to act on behalf of the board, the bylaws need to define the limits of this authority; otherwise, it has the authority to make major organizational decisions that normally belong to the full board. To ensure that the full board remains in control and informed, decisions made by the executive committee should be confirmed by the full board at the following board meeting.

LP 15 Governance Committee. The board should either form a governance committee or ensure that the function of that committee is carried out.

Every board should ensure that recruitment is a continuous and deliberate activity of the full board. For most boards, a separate governance committee is the best structure to take the lead and responsibility for recruitment, ongoing board development, leadership development, board and board member assessment, and board education, and for ensuring that the board is equipped with proper guidelines and structure to do its work most effectively.

LP 16 Form 990 Posting. The nonprofit should post its Form 990 on its own Web site.

Form 990 is a public document and one of the primary tools to shed light on the organization and its finances, activities, and governance practices. By posting the Form 990 on the organization's own Web site and making it easily accessible, the board is supporting and promoting methodical transparency.

COMPLIANCE PRACTICES

C1 Meeting Frequency. The board should have more than the one annual meeting required by law.

State laws usually require at least one annual meeting for all boards, but one meeting is insufficient for boards to address all the issues to which they need to pay attention. Other structures and practices (e.g., board size, reliance on committee work, length of meetings, life-cycle position of the organization, geographical constraints) can affect the necessary number of board meetings and the optimal frequency. The board must meet often enough to ensure it fulfills its fiduciary responsibilities without compromising its efficiency.

C2 Executive Compensation. The board must formalize a process for setting appropriate compensation for the chief executive and approve the compensation package.

The board needs to establish well-defined guidelines on how to determine appropriate compensation for the organization's chief executive. If the board offers too little, it could lose the chief executive to competing organizations; if it offers too much, it risks providing excess benefits and subjecting itself and the organization to intermediate sanctions. The board should follow the IRS's safe harbor measures and rely

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on comparative data, have the compensation decision determined by independent board members, and contemporaneously record the decision-making process. The full board should approve both the process and the resulting compensation package.

C3 Review of IRS Form 990. The full board should review the Form 990 before it is filed.

Form 990 is the most widely viewed public document concerning the organization, its finances, activities, and governance practices. It is important that board members are familiar with its contents and that it accurately presents the organization to its constituents, donors, and media.

C4 Document Destruction and Retention. The board must ensure that no records are destroyed when the organization is under federal investigation.

Federal law states what must happen in the event the organization is under official investigation. All organizations should have a policy for document destruction and retention to ensure that the law is understood and respected.

C5 Whistleblower Process. The board must ensure that no employee is punished or discriminated against because he or she reported improper conduct.

Federal law states what must happen if alleged improper conduct is reported. All organizations should have a formal, written process to deal with complaints and prevent retaliation. If under investigation, the organization is responsible for showing that it follows a systemized process to address whistleblower cases.