



Governance Models

University of San Diego

Nonprofit Governance Symposium

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AGENDA

- There are many governance models.
- No one size fits all organizations.
- How you govern today is not how you will tomorrow.
- Making informed and purposeful decisions about which model is best for your nonprofit will make your board more effective.

The Range of Nonprofit Board Governance



The Range of Nonprofit Board Governance



Staff
Influenced

Board Directed

The Range of Nonprofit Board Governance



Highly
Structured

Unstructured

How do you choose the right governance model for your Board?

It Depends on:

- The phase of development your organization is in.
- Your ability to recruit Board members who have the right match of skills for your nonprofit's phase of development
- Your strategic assessment of your nonprofit.

Nonprofit organization phases of development

- Phase 1: Start Up
- Phase 2: Scale Up
- Phase 3: Prune and Focus
- Phase 4: Institutionalize and Influence

Phase 1: Start Up

- **Characteristics**
 - A few people do a great deal; energy is high.
 - Lead donors are very much part of the inner circle.
 - Programs may consume all attention until leaders realize that systems, policies, infrastructure and formal plans need to be in place if the organization is to grow and sustain itself.
- **Who are the best business and professional leaders for this phase?**

How Effective Nonprofits Work, A Guide for Donors, Board Members and Foundation Officers. By M. Festen & M. Philbin. Pub. The Forum of Regional Associations of Grantmakers.

Phase 2: Scale Up

- **Characteristics**
 - The organization figures out how to:
 - be smarter about its resources (human and other),
 - refine its programs.
 - deliver its programs further, deeper, better and wider.
- **Who are the best business and professional leaders for this phase?**

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Phase 3: Prune and Focus

- **Characteristics**
 - Problems surface that everyone thinks the organization should be past by now.
 - Often they were not dealt with before because of lack of time and resources
 - Shifting leadership often occurs and can be painful.
 - New leadership helps streamline mission and projects.
 - Some sacred cows are slaughtered
 - Some dead wood is cleared away
- **Who are the best business and professional leaders for this phase?**

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Phase 4: Institutionalize and Influence

- **Characteristics**
 - A sense of permanence becomes associated with the organization
 - If it has invested in itself over time, both the base of support and the programs
 - Other nonprofits and community leaders cite its influence and impact.
 - The organization looks outside itself as much as inside
 - Increasingly exerting leadership
 - Looking for ways to have greater impact on the field.
- **Who are the best business and professional leaders for this phase?**

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Organization Assessment

- What phase is your organization in?
- What phase is your Board in?
- Is there a gap between them?
 - Why did the gap develop?
 - How big is the gap?
 - What are the barriers to closing the gap?

Recruiting Board members with the right match of skills for your nonprofit

- Clearly define what business and professional leaders you need on your Board.
 - Based on your phase of development
 - Based on the demographics and skill sets you need to be successful at your present phase of development.
- Build a compelling case for your organization.
- Develop your recruiting process and sources.

Implications for Board Recruitment

	Start Up	Scale Up	Prune & Focus	Institutionalized
Need Board Members Who:	<p>Know why the organization should exist</p> <p>Recognize and champion shift to sustainable practices</p>	<p>Know why growth is needed and viable.</p> <p>Keep growth linked to mission</p> <p>Start organization investment</p>	<p>Know what is core to the mission</p> <p>Champion and lead pivotal transitions</p> <p>Will make In-depth organization investment</p>	<p>Know the mission field and players</p> <p>Seek opportunities on the horizon and engage them</p> <p>Maintain the professionalism of the organization</p>

Typical Nonprofit Governance Models

- **Operational**
- **Cooperative/Collective**
- **Traditional Management**
- **Constituent Representative**
- **Results-based**
- **Policy Governance (Carver)**
- **Advisory Board**
- **Patron Board**
- **Entrepreneurial Board**

Sources:

1. *"Building Effective Approaches to Governance" by Mel Gill, The Nonprofit Quarterly;*
2. [Governance Models: What's Right for Your Board](#) by Nathan Garber
3. Patricia Bradshaw, Bryan Hayday, Ruth Armstrong: ***"Non-profit Governance Models: Problems and Prospects"*** The Innovation Journal: The Public Sector Innovation Journal, Volume 12(3), 2007

Operational Model

- The board is highly involved in the governance and management of the organization.
- Responsibilities of the Executive Director and the Board are blurred.
- The Board tends to be very hands on.

What nonprofit phase of development does this model of governance work best for?

What type of Board members should you recruit for this model of governance?

What are the pros and cons of this governance model?

Cooperative/Collective Model

- Democratic governance model where responsibilities are shared between the Board, staff, volunteers and sometimes clients.
- There is no chief executive in the organization and decisions are usually made by consensus.
- The Board and staff work together as peers.
- Everyone has a shared vision and works cooperatively to achieve it.

What nonprofit phase of development does this model of governance work best for?

What type of Board members should you recruit for this model of governance?

What are the pros and cons of this governance model?

Traditional Management Model

- The Board creates committees who do the major work on policies and issues and bring their recommendations to the Board for adoption.
- Committees often model the nonprofit organization's internal structure (i.e. human resources, finance, operations, fundraising/development, etc.)

What nonprofit phase of development does this model of governance work best for?

What type of Board members should you recruit for this model of governance?

What are the pros and cons of this governance model?

Constituent/Representative Model

- There is a heavy emphasis on the nonprofit's constituents and their involvement in Board decision making.
- Several constituents are usually on the Board and are influential in setting policies for the organization.
- Constituent/representative Boards are usually very large – 20 to 40 Board members is not unusual.
- Board positions are often seats designated for particular constituent groups and those constituents may elect their representatives.

What nonprofit phase of development does this model of governance work best for?

What type of Board members should you recruit for this model of governance?

What are the pros and cons of this governance model?

Results-based Model

- The Executive Director sits on the Board as a peer, but is a non-voting Board member.
- The Executive Director may control the Board agenda and have substantial influence on Board decision making and policy setting.
- The Executive Director has wide latitude and authority as long as the Board believes that the Executive Director is achieving the “right” results.

What nonprofit phase of development does this model of governance work best for?

What type of Board members should you recruit for this model of governance?

What are the pros and cons of this governance model?

Policy Governance (Carver) Model

- Currently considered a best practice for Board governance.
- The Board establishes and monitors policy execution by the Executive Director.
- Policies are established around the outcomes or “ends” that must be accomplished.
- The Executive Director’s authority or “executive limitations” are adopted by the Board.
- The Executive Director has the ability to determine the “means” by which organizational outcomes will be achieved.

What nonprofit phase of development does this model of governance work best for?

What type of Board members should you recruit for this model of governance?

What are the pros and cons of this governance model?

Advisory Board Model

- Board members are advisory to the Executive Director rather than policy makers.
- The Executive Director may bounce ideas off of the advisory Board, but ultimately makes the decisions.
- For organizations that use them, Advisory Boards can be helpful in establishing the credibility of the organization for fundraising and public relations purposes.

What nonprofit phase of development does this model of governance work best for?

What type of Board members should you recruit for this model of governance?

What are the pros and cons of this governance model?

Patron Board Model

- Similar to the Advisory Board model, but with even less influence.
- Board members are influential individuals who have personal interest in the nonprofit's mission.
- Board members tend to be figureheads for fundraising or other purposes and do not actively engage in the work of the organization.
- These Boards are sometimes set up in addition to the nonprofit's regular Board.

What nonprofit phase of development does this model of governance work best for?

What type of Board members should you recruit for this model of governance?

What are the pros and cons of this governance model?

Entrepreneurial Board Model

- Functions more like a private corporate Board.
- Board emphasis is on innovation and maximizing its return on investment.
- Efficiently and effectively achieving results is extremely important.
- The Executive Director functions more like a corporate CEO and is often highly compensated based on results and return on investments.

What nonprofit phase of development does this model of governance work best for?

What type of Board members should you recruit for this model of governance?

What are the pros and cons of this governance model?

Excellence: Your Organization and Your Board

- **Routinely assess your organization.**
 - What is your phase of development and heritage?
 - What is your revenue today? Your aspirations?
 - What are your product and services?
- **Routinely assess your Board.**
 - Does the Board culture enable the kind of governance that is needed now?
 - Does the Board skill set enable the organization to move to the its next phase of development?
- **Routinely validate or change your definition of excellent Board governance.**

Organization Assessment

- Does your Board know why the organization is the size it is?
- Does your Board routinely manage at the strategic level needed for successful growth?
- Is the organization self-investment consistent with its growth strategy?
- Is your Board ready to modify and manage funding sources to meet its growth strategy?
- Is your Board willing to change Board members to be able to move to the next phase of development?

Organization Assessment

- Can your Board members depend on each other to assess, guide and assist with strategic planning and operations decisions for:
 - Your mission delivery
 - Technical depth in your area(s) of work
 - Network of contacts readily accessible
 - Your basic business operations
 - Business savvy
 - Technical depth in your critical areas
- Are there gaps to fill? How urgently?

Summary: Recruiting, engaging and retaining the right Board

Know what you need to successfully govern based on your phase of development.

Know what you offer.

Focus your search tightly.

Expand sources creatively.

Summary: Recruiting, engaging and retaining excellent Board members

- **Know what you need**
 - Governance skills
 - Financial contribution
 - Technical skills
- **Know what you offer**
 - Valued by your Board members
 - Unique organization attributes
 - Board member service expectations
 - Perceptions of your Board



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Governing for the Long Run

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Non profits, just like businesses, have distinct life cycles and stages of development

- We will examine three models today:
 - Phases of Organization Development
 - With a special focus on community vs institution start-up
 - Stages of Revenue Growth
 - Product and Services Life Cycle

How you govern today is not necessarily how you should govern tomorrow.

- We will examine the implications for leadership in each of the models.

Agenda

- Phases of Organization Development
 - With a special focus on community vs institution start-up
- Stages of Revenue Growth
- Product and Services Life Cycle

Phases of Organization Development

- Start Up
 - A few people do a great deal; energy is high.
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Phases of Organization Development

- Scale Up
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Phases of Organization Development

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Implications for Board Leadership

	Start Up	Scale Up	Prune & Focus	Institutionalized
Strategic Choices	<p>Know why the organization should exist</p> <p>Recognize & champion shift to sustainable practices</p>	<p>Know why growth is needed & viable.</p> <p>Keep growth linked to mission</p> <p>Start organization investment</p>	<p>Know what is core to the mission.</p> <p>Champion and lead pivotal transitions.</p> <p>In-depth organization investment.</p>	<p>Know the mission field & players.</p> <p>Seek opportunities on the horizon & engage them.</p> <p>Professional organization expectations systemic.</p>

Example: XYZ Foundation

- Organization 30 years old. Grew assets & grant-making very slowly. Highly reputed.
- Aging philanthropists looking for a way to maintain their vision offer to donate millions, catapulting the organization to major asset & grant management.
- Suddenly, dormant issues are spotlighted.
 - The Finance Committee is not engaged. Fragmented financial analysis. The Exec. Director handled it all in her head.
 - The ED shifted gears and got help with financial analysis & processes.
 - However, the Finance Committee is lagging behind. They won't engage in policy development, don't want to see more or different numbers and don't acknowledge skill gaps.
- Key issue: The Board wants to accept the donations and operate at the next level but they don't want to change anything about the way they work, especially not at the speed dictated by the rate of incoming money.

Organization Assessment

- What phase is your organization in?
- What phase is your Board in?
- Is there a gap between them?
 - Why did the gap develop?
 - How big is the gap?
 - What are the barriers to closing the gap?
- What is most highly leveraged step you can take to start closing the gap?

Agenda

- Phases of Organization Development
 - *With a special focus on community vs institution start-up*
- Stages of Revenue Growth
- Product and Services Life Cycle

Community vs Institution Based Governance

	Community Based	Institution Based
Start Up	<p>Grow from community volunteers.</p> <p>Board = founding group.</p> <p>Board is hands on; work together on the mission.</p> <p>Board role and general volunteer roles co-mingled.</p> <p>No staff, perhaps for years.</p> <p>Hiring first staff person forces role clarification & expectation setting.</p>	<p>Spin-off from larger nonprofits or created by coalitions of gov't and civic groups.</p> <p>Staffed from the outset.</p> <p>Board recruited from institutions; don't know each other & may not know much about the specific work to be done.</p> <p>Building Board ownership & leadership ongoing challenge.</p>
After Start Up	<p>May have ongoing requirement for Board to be of the community served.</p> <p>Challenged by the need to recruit new skills to the Board which require reaching outside founding community.</p> <p>Board meeting style a source of conflict: informal & social or focused & brief.</p>	<p>Board selected for beneficial expertise & contacts.</p> <p>May struggle to recruit representatives of the community served.</p> <p>Board expects to be briefed on key decisions. Staff manages operations.</p>

Example: Home Heating Assistance Org

- Board is Institution Based:
 - Mid-level executives from competing energy companies with membership as part of their job duties
 - Executive Directors of representative aid distribution agencies
 - Community activists who have in the past or are now receiving aid
 - Program managers from multiple regulatory jurisdictions
- Board meetings & committee work is focused on balancing many competing interests within the membership. Low trust level requires constant management.
- Key issue: Managing board relationships is a drain on the organization, especially hampering strategic work.

Organization Assessment

- Is your organization community or institution based?
- What aspects of your organization founding are helping or hindering governance today?
- Is your board meeting style an asset or a source of conflict?
- What aspects of your board heritage can you honor even as needed changes are made?

Agenda

- Phases of Organization Development
 - *With a special focus on community vs institution start-up*
- **Stages of Revenue Growth**
- Product and Services Life Cycle

Major growth stages

Annual revenue	Startup to < \$10 million	\$10 million to < \$50 million	\$50 million and up
Funding Sources	Diverse sources. Charismatic leader can draw from wide spectrum.	Increasingly rely on a single funding source. Funders' interests begin to outweigh charisma. Significant secondary source maintained.	One concentrated source. Funders' natural match to mission & beneficiaries is key. Secondary source may be maintained.
Risk Management	Diverse sources.	Expand payers in sources with promising growth potential. Focused transition mgmt away from low growth sources	Multiple payers of same type of work. Constant vigilance.

Major growth stages

Annual revenue	Startup to < \$10 million	\$10 million to < \$50 million	> \$50 million
Organization	Evolution from startup. Often skills, expectations and acceptance of the need for business & financial processes are uneven across the organization.	Significant investment in organization & structure. Willing to bring in pivotal new talent. Strong business & financial management becomes systemic.	Professional organization & structure built around funding model.
Strategic Choices	Able to assess growth opportunities: environment, timing, mission match. Know when to stay small.	Increasingly willing to concentrate efforts on most promising sources. Establish boundaries for restricting programs to meet funding requirements.	Vigilance on strategic horizon to maintain funding & operations. Creative management of funding & mission tension.

Example: Mandated Social Initiative Org

- Statute mandated social change organization was initially funded by a handful of the largest affected agencies.
- 5 years old & annual revenue > \$50 million, all aspects of the organization are optimized around those agencies. Job well done.
- Board is made up of senior executives from companies, agencies and regulators in the sector.
- Suddenly the mandate was expanded to include many more agencies, jurisdictions and services. All parties would like the existing organization to absorb all the growth. Immediately.
- Key issue: The organization was caught by surprise. Despite their seniority and connections, the board was not anticipating the speed which would continue to result from the strong match between funder interest and organization mission.

Organization Assessment

- Does your board know why the organization is the size it is?
- Does your board routinely manage at the strategic level needed for successful growth?
- Is the organization self investment consistent with its growth strategy?
- Is your board ready to modify and manage funding sources to meet its growth strategy?

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- Phases of Organization Development
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- **Product and Services Life Cycle**

Strategic Financial Analysis

Life Cycle Cash Flow - Product "Amazing"									
	Analysis	Start-up	Entry	Ramp	Maturity	Decline	Withdrawal	Total	
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Earned Income	0	0	100	2,000	600,000	50,000	0	652,100	
Cost			(300)	(1,500)	(150,000)	(40,000)		(191,800)	
Margin	0	0	(200)	500	450,000	10,000	0	460,300	
Other income	0	50,000	0	0	0	0	0	50,000	
Other Cost	(15,000)	(75,000)	(50,000)	(50,000)	(10,000)	(10,000)	(50,000)	(260,000)	
Net Income	(15,000)	(25,000)	(50,200)	(49,500)	440,000	0	(50,000)	250,300	
Balance Sheet Investments									
Capital	0	(150,000)	(50,000)					(200,000)	
Debt		200,000						200,000	
Cash Flow	(15,000)	25,000	(100,200)	(49,500)	440,000	0	(50,000)	250,300	

Products & Services Life Cycle

- Your organization probably has products and services in each phase of the cycle, creating layered complexity spanning years.
 - Each phase in the life cycle requires different management attention, work flow and cash flow.
- As complexity grows, information and analysis for decision making becomes more complex.
 - Strategic decisions and tactical oversight require strong data-driven analytical frameworks.

Example: Acme Land Conservation

- Grassroots community organization successfully preserving land and eco-systems. Expanding community engagement through trails, natural space access & education programs. Stewardship of land belonging to others growing as reputation for technical skills grows.
- Very engaged and hands on, the board knows the financial profile of each land & stewardship project.
- However, they have lost track of the total organization cash flow due to lack of attention above project level. Worse, they have not paid attention to the changing cost of the community programs initially started with volunteers and now staffed. Worse yet, they don't agree with the staff on what it takes to do the work.
- Key issue: Complexity has grown up around the Board, crippling their ability to make decisions because they do not have a collective understanding or agreement on the resources needed to do the work throughout each program's life cycle.

Organization Assessment

- Your organization products and services:
 - How many?
 - Where are each of them in their life cycle?
 - Which ones are net cash users and which are net cash providers?
 - When will those relationships change?
- Does your board manage with appropriate data and analysis?
 - Can the board outline the resources required for each major product line and make strategic resource trade-offs?

Set yourself up for successful governance

- Be explicit in assessing your organization, routinely
 - Phase of organization development & heritage?
 - Revenue today? Aspirations?
 - Product & services where in their life cycles?
- Be explicit in assessing your board, routinely
 - Does the board culture enable the kind of leadership needed now?
 - Does the board skill set enable the strategic decision-making needed now?

Set yourself up for successful governance

The Key is to acknowledge that governance is as concrete an organization need as cash flow.

Manage it the same way.



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