Building the Nonprofit Board of Directors
The nonprofit’s role in society is much more than the presentation of the arts, the provision of services, the protection of the environment, or the promotion of better housing. Nonprofits are the vehicles through which all citizens connect with and express many of their beliefs about what American society should be. A strong nonprofit sector is as essential to maintaining our society’s quality of life as is a good economy.

In the spring of 1998 the Illinois Facilities Fund and the Donors Forum of Chicago launched the first-ever financial study of Illinois nonprofit corporations that provide community support and services. The median annual revenue of the study’s 500 respondents was $690,000 in 1997.

Published in January 1999, Illinois Nonprofits: Building Capacity for the Next Century documented recent financial results, operating issues, key governance and management practices, data about facilities owned and leased, and attitudes about the future. The study provides a wide-angle snapshot of the many factors that make up the operations of a nonprofit corporation, as well as a close-up of the pressure points for change.

Any effort to measure a sector as diverse as that which comprises nonprofit corporations is a challenge. Performance groups and historical societies have built organizations that are different from those managing recreational facilities, caring for people who are elderly, or treating people who are mentally ill. And yet it is because their fundamental structure—governance by a voluntary board of directors—is a common bond of such strength, and the one which determines how problems are solved, that the IFF and Donors Forum are certain the study knowledge is valued across the sector.

The start-up equity of most nonprofits is the efforts, beliefs and financial contributions of volunteers. Financial growth over time cannot come from issuing stock, but from the long and slow process of building net assets through earnings and savings, and from raising charitable contributions (a requirement of tax-exempt status). This exhausting progress is well documented in the study. While nonprofit corporations have always implemented other strategies to build net assets, in recent years more nonprofits are using direct business principles in their programs; many more have identified the need to be innovative in their financial planning in order to diversify their unrestricted income sources—particularly those with a reliance on government—and they are all asking for help in doing so.

Other key findings include:

- Nonprofits operate in a fragile financial cycle: financial margins are shrinking and deficits and cash flow problems plague them;
- Private fundraising is more critical than ever as clear bipartisan messages from government indicate a tighter funding future; and
- There are far too many unacceptable facilities, and the lack of capital grants is a barrier to improvement.

Overall, allocation and productivity of resources may well be the primary strategic issue for today’s nonprofit board and executive. Many nonprofit corporations are efficient, resilient and adaptive, and many are well-positioned for the future. Nonprofit leaders bring tremendous skill, commitment, passion and creativity to their work.

One of the purposes of the study was to identify areas in which the IFF and the Donors Forum could play a larger role in assisting these leaders, through communication, information, and skill-building.

This Digest is the first in a series of issue-specific publications from the IFF which will provide stories, solutions, ideas, facts and figures as one way to assist nonprofits in their financial planning and other capacity building activities.
Overview

Building and maintaining a strong board of directors is one of the most critical ways for a nonprofit to sustain its capacity and ensure its long-term success. Therefore, this first digest in the series focuses on how to build and maintain a strong, well-functioning board.

To illustrate board development, executives and board members were interviewed from two Chicago-area nonprofit organizations that, over time, have made concerted efforts to build their boards of directors. The organizations, Jamal Place and Grand Prairie Services, vary greatly in size and age. Yet, both organizations have undergone similar processes of self-assessment and targeted recruiting to develop their boards. On the following pages we summarize their successful strategies and highlight how they achieved their goals.

It should be noted that, while both the organizations featured are human service providers, *Illinois Nonprofits: Building Capacity for the Next Century* looked at a variety of organization types, including health, culture, economic development and advocacy. This digest is intended for all nonprofit organizations.
Jamal Place

In 1993, with the onset of managed care, educator Ann Deuel saw that many children in state custody were not getting the individualized care they needed, so she set out to make a difference. Ann assembled like-minded colleagues and incorporated Jamal Place. In a converted greystone on Chicago’s West Side, this group home for 10 children began serving adolescent boys in 1995. Today, Jamal Place has an operating budget of just under $1 million and is in the process of opening a second facility.

Grand Prairie Services

Founded in 1951 as Park Forest Counseling Service in Jane Addams’ “family service” model of social work, Grand Prairie Services and its affiliates today have an annual budget of $15 million and provide a wide range of behavioral healthcare services at 14 locations throughout the south suburbs. In its nine service programs—ranging from mentoring to substance abuse treatment to emergency mental health services—Grand Prairie Services takes a holistic approach to behavioral healthcare with an emphasis on community.
Great boards consist of three kinds of people: those with skills and know-how; those with influence and connections; and those who bring money. You’re really lucky if a board member has all three.”

Joe Lassner, member of Grand Prairie Services board of directors

Examples of Board Responsibilities
- Oversee strategic planning
- Hire the chief executive
- Review the executive’s performance
- Take responsibility for financial stability
- Advocate on behalf of the organization
- Provide counsel on facility acquisition and upkeep
- Recruit and mentor new members

Every nonprofit organization is capable of building a strong and well-functioning board of directors. As is fairly typical, both Jamal Place and Grand Prairie Services started out with boards consisting of well-intended local community leaders, friends and colleagues of the executive director, and those knowledgeable about social service issues—only a few had prior board experience or proven board leadership skills. From this base, the organizations built their current, exemplary boards.

“Be sure to recognize the difference between the board of directors and the organization’s chief executive. The board gives oversight and provides accountability while the executive runs day-to-day operations. It is not the board’s job to run the organization. Hire good managers and let them manage.”

Robert Field, member of Grand Prairie Services board of directors

Often early board members are more comfortable with “hands on” tasks than strategic planning work. As a nonprofit organization matures, demands on the board change and it may become apparent that the board does not have the leadership experience to help the organization grow. This was the case with both Jamal Place and Grand Prairie Services, whose early boards of directors were dedicated and hard working—they helped launch the organizations—but they were not prepared to guide the organizations through complex funding issues and strategic planning.

The situation faced by Jamal Place and Grand Prairie Services is not unusual. As reported in Illinois Nonprofits: Building Capacity for the Next Century, almost half the survey respondents believed that they did not have the right board to carry them through the challenges of the future. Without the right board leading and guiding through organizational challenges, the nonprofit organization’s ultimate goal—to serve clients well—eventually will not be met.

Delivering essential services with few financial resources is one of the most difficult areas of management. Government policy changes, such as managed care, lead to expectations for nonprofits to provide more services with fewer resources. With these realities, a nonprofit’s structure and financing are extremely important, as is a sophisticated board of directors willing to analyze risks. A look at board responsibilities illustrates the need for a variety of skills, including financial, legal, development and communications.
Moving Forward

“The accreditation process helped us polish our existing board and clarify board functions... we realized that even with excellent programs, strong leadership and a great staff, our board was essential for moving ahead.”
Ann Deuel, Jamal Place executive director

Outside influences are often the impetus for board development. As an organization moves forward in its mission, it must react to changes outside of its control and proactively plan to adapt to new challenges on the horizon. By scanning the environment for external changes that may significantly affect the organization’s behavior, a nonprofit can make adjustments to the makeup of its board of directors to meet these new demands.

At Jamal Place, the need for board development became apparent in 1997 during the required self-study portion of Council on Accreditation certification. This process, in which Jamal Place thoroughly examined board involvement in planning and decision making, highlighted the need to formalize board procedures and develop a more structured board. As a result, Jamal Place rewrote its by-laws, created a formal committee structure, produced its first board orientation manual, and prepared to recruit new members.

Grand Prairie Services had two significant periods of concerted board development—first when the field of mental health was experiencing rapid advancement in patient treatment methods, and again when facing impending change in government payment policies, better known as managed care. To weather these changes, the board recruited new members with specific skill sets: several university professors at the cutting edge of clinical and family services to guide the organization on treatment issues; and several bankers and lawyers to deal with complex financial planning.

Whether facing a crisis or working proactively, nonprofits can and should take strategic steps to plan board development.

These steps include:

- Assessing the current and future needs of the organization
- Comparing the needs with the skills of the current board
- Recruiting new board members
- Training new and existing board members

**Assessing needs**
In July 2000, the Jamal Place board undertook a thorough self-assessment at its strategic planning retreat. By completing a survey entitled “Are we doing a good job?” the board rated itself in 16 areas ranging from understanding the organization’s mission, to compliance with federal and state policies, to board diversity. Survey results were presented, and areas of improvement were made topics of discussion and planning. Using these results as a baseline, the board plans to re-survey and evaluate its progress every year.

**Comparing needs with skills**
When Jamal Place identified a need for a stronger board fundraising committee, it recruited three individuals with development backgrounds. Those new members soon realized what little fundraising experience the established board members had. Recognizing that for a fundraising strategy to be successful all board members need a high comfort level with their skills, the three presented a training session about perfecting the fundraising “ask” at a subsequent board meeting.
**Recruiting new members**
Grand Prairie's and Jamal Place's common strategy of asking board members to use their professional skills on the organizations' behalf is a win-win situation. It creates powerful opportunities for board members to use their expertise to give back to the community, and it provides nonprofit organizations expert know-how without having to pay outside consultants. When recruiting new members, finding individuals with needed professional skills is imperative, as is ensuring a well-balanced, diverse board with representation from the constituencies the organization serves.

Recruiting new members is often the job of a nominating committee that researches candidates and presents a slate for board consideration. Jamal Place's and Grand Prairie Services' nominating committees mainly recruit via word-of-mouth and member connections.

While experience serving on other boards of directors, professional skills or a unique perspective on the nonprofit's industry make a board member valuable, several additional characteristics comprise the building blocks of a good board member.

**A Good Board Member has:**
- Deep concern for the nonprofit's mission
- Desire to serve the community
- Time and flexibility to attend board and committee meetings
- Ability to make financial contributions
- Enthusiasm to promote the organization within the community

**Training board members**
To serve effectively, new members must learn all they can about the organization. Both Jamal Place and Grand Prairie Services host new member orientation sessions with facility tours and meetings with staff leadership and program directors, and provide orientation manuals that outline the responsibilities of members.

**Board efforts to increase membership diversity**
resulted in the creation and implementation of one of Grand Prairie Services’ most innovative programs. While studying the mission churches in rural New Mexico, Grand Prairie’s CEO came up with a solution to a problem the organization had attempted to solve for several years—getting the local Hispanic population to come to Grand Prairie for services. Based on the mission-church model, Grand Prairie decided to offer services to people through their churches and schools. By asking a principal and a parish priest, both of whom serve largely Mexican populations, to join the board, Grand Prairie developed an “in” with the community and was able to establish the nationally acclaimed Nueva Vista program.
“A nonprofit board of directors must have a vision of where the organization is going.”
J. Patrick Murphy, C.M., chairman of Jamal Place board of directors

A well-developed board sets the policy for the nonprofit organization. *Illinois Nonprofits: Building Capacity for the Next Century* found 86 percent of respondents' boards are actively involved in their organizations' policy setting and decision making.

To best set policy and guide the vision of the organization, nonprofit boards must take part in long-range planning. At Grand Prairie Services, annual planning has been integral to the organization for the past 20 years, while Jamal Place has completed the first of what is to be a yearly strategic planning retreat. The organizations' long-range planning efforts have three main elements in common:

- Big-picture planning
- Detailed problem solving
- Use of outside counsel

**Big-picture planning**

Grand Prairie Services' annual comprehensive assessment and planning process was instituted when three critical issues familiar to many organizations demanded board attention: organizational growth; tightening of and changes in the structure of government funding; and advances in office technology. At the first day-long session in 1980, a group of Grand Prairie stakeholders developed a strategic plan for the following year and mapped intermediate- and long-term goals for the organization. Every year since, they've measured their progress and updated and evaluated their goals. The meeting continues to draw members of the community, staff, board, affiliate board members, consumer advocacy council and funders—as many as 80 people total.

Each meeting focuses on a topic, such as “What might we be able to do to increase our funding base?” Participants divide into work groups with specific assignments, and then report back to the larger group. With this level of involvement, participants take ownership in the process and thereby develop responsibility and accountability.
Great ideas generated at the meeting are presented to the board and leadership council for implementation. As one board member said, “This is not the kind of planning that gets put on a shelf...it drives what we do.”

In addition to its annual stake holders meeting, every four years Grand Prairie Services board members and leadership participate in a strategic vision and planning meeting. These meetings began in 1994, when the board chair recognized that radical changes in the government’s system of funding were coming. With only a short period of time to fill the projected deficit, the organization needed to creatively find new revenue generating resources. In an effort to stay ahead of these changes, the chair also saw the need to use business models in the program areas as well as in the business office.

One of the innovative cost-cutting measures devised at a strategic vision and planning meeting was the creation of an administrative service organization called the Grand Prairie Servicing Corporation. Based on the “shared resources” business model, the Servicing Corporation allows Grand Prairie Services and its affiliates to eliminate duplication of back-office operations, such as human resources and accounting, and take advantage of economies of scale by participating in group purchasing. Meanwhile, Grand Prairie Services and its sister agencies continue to deliver services as separate entities with their own funding sources, clients and boards of directors. By reducing the overhead costs faced by every organization, the Grand Prairie Servicing Corporation has enabled behavioral healthcare providers in the south suburbs to better serve the community.

**Detailed problem solving**

Annual planning meetings are also a time to address the details that help the board function. For several years, Grand Prairie Services was plagued with low attendance at monthly board meetings. The solution, devised at an annual planning meeting, was to mail members an update from the president prior to the meetings. By reading the report ahead of time, board members are able to keep meetings focused and under an hour-and-a-half long, thereby increasing attendance.

**Outside counsel**

Both Grand Prairie Services and Jamal Place have used outside “experts” to help with their long-term planning. Jamal Place furthered its plans for an independent living program for residents who turn 18 years old by seeking help outside the organization. By inviting a director from a similar agency with an established independent living program to speak at Jamal Place’s day-long strategic planning retreat, board members were able to ask questions and discuss concerns with a local expert.

Long-range planning allows boards to set policy based on a thoughtful and thorough examination of issues that do or could affect the goals and financial health of the organization. This process of sharing ideas, with or without the assistance of outside counsel, is integral to policy setting, whether the issues are big-picture or small details.
Illinois Nonprofits: Building Capacity for the Next Century findings show that many nonprofits need to devote more time and effort toward board development. As Grand Prairie Services and Jamal Place have demonstrated, devoting the extra time and effort does pay off. With hard work, planning, determination and a little luck, nonprofit boards of directors can be transformed. A board that starts as a group of friends making a difference in the community can evolve into an innovative, forward-thinking, policy-making body for a multi-million-dollar organization.

The featured organizations have several things in common:

- Both boards began with members who were committed to the issue, but not necessarily familiar with or savvy about board leadership.

- Both have very strong, well-respected individuals in the top management positions.

- Both saw a need for changes in their board’s function and role to allow the organization to grow and flourish.

- Both are looking for creative ways to lessen their reliance on government funding.

Jamal Place’s and Grand Prairie Services’ experiences have illustrated that:

- The board of directors sets policy for the nonprofit organization.

- It is necessary to strategically plan board development to maintain a diversity of personalities, perspectives and training.

- Orientation and ongoing training are essential to a well-informed board of directors.

- It is imperative that the board of directors participate in long-term planning.

- Nonprofit organizations and their boards must set goals and re-examine those goals yearly.

Finally, many resources on board development are available. Nonprofit boards of directors should not hesitate to seek additional guidance as they work toward building a stronger board.
The following resources have been used by Jamal Place and Grand Prairie Services.

**The Grantsmanship Center**
1125 W. Sixth Street, Fifth Floor
P.O. Box 17220
Los Angeles, CA 90017
Phone: 213.482.9860
www.tgci.com

**Executive Service Corps of Chicago**
30 W. Monroe Street, Suite 600
Chicago, IL 60603
Phone: 312.580.1840
www.esc-chicago.org

**National Center for Nonprofit Boards**
1828 L St., N.W., Suite 900
Washington, DC 20036
Phone: 800.883.6262
www.ncnb.org

**Aspen Publishers**
“Nonprofit Organization Management” workbook
Phone: 800.638.8437
www.aspenpublishers.com

David Dangerfield, DSW
Executive Director
Valley Mental Health
5956 S. 900 East
Salt Lake City, UT 85121
Phone: 801.263.7100
www.vmh.com

**Defining Financial Health**

The IFF and the Donors Forum of Chicago define financial health as a nonprofit’s ability to maintain programs without interruption, to meet all financial commitments, and to end each year with positive net assets. In addition, a financially healthy nonprofit has a board of directors that assumes responsibility for the financial stability of the organization and has management that integrates financial and program planning.

Successful nonprofits operate with proactive strategies to define appropriate and balanced relationships with clients and constituents, with the government, with funders, and with the community, using dedication to mission as the driving force.

For a copy of *Illinois Nonprofits: Building Capacity for the Next Century*, or add a colleague to the mailing list for the Capacity-Building Digests, e-mail iffmail@iffund.org or call 312.629.0060.

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