The Enterprise Foundation

Board Basics

GOVERNANCE

A Primer for Community Development Organizations

Launched in 1982 by Jim and Patty Rouse, The Enterprise Foundation is a national, nonprofit housing and community development organization dedicated to bringing lasting improvements to distressed communities.

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About This Manual

What are board basics?

Board basics are the fundamental cornerstones of strong, effective nonprofit organizations. They provide the structure and define the roles and responsibilities of the board for governing and progressing the organization. Board basics are critical elements of start-up, growing and mature organizations.

Board Basics is designed for board members of nonprofit community development organizations who are learning to successfully govern their organization or who need a refresher course. The information in this manual explains the basics of how to start or improve the way your organization is governed. It covers topics such as:

- Mission, vision, activities and values
- Board responsibilities
- Board officers and committees
- Financial oversight
- Legal risk
- Stages of development

This manual is one of the books within the *Governance* series of The Enterprise Foundation's Community Development Library™. The series provides detailed information on:

- Building and managing a better board
- Building board leadership
- Evaluating the organization
- Evaluating the executive director

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Introduction

The board of a nonprofit organization sets the standards, objectives, goals and philosophies of the organization. It answers the question of why another organization should be created when there are others doing similar work. Throughout the life of the organization, the board sets policy and supports and promotes the organization.

A board of directors that functions well is the cornerstone of a successful nonprofit organization. Boards function well when the directors share an understanding of the purpose of the organization and the roles and responsibilities of the board.

This manual will help boards gain insight into those shared understandings. It is designed for new and old boards, with experienced or inexperienced directors. Many boards can improve their performance. This manual provides basic descriptions and examples suitable for boards at *any* stage of development. More detail and in-depth exercises on these and other board development topics can be found in *Building and Managing a Better Board,* another manual in the *Governance* series of the Community Development Library.

Mission, Vision, Activities and Values

By codifying the mission, vision, activities and values of the organization, the board sets forth what the organization is, what is important to it and how it will perform its work. Scripting these statements is the first work of the board.

If your organization needs to write its mission statement because it is a new organization or because you need to rethink the mission, then give yourself enough time to explore everyone's ideas, thoughts, contributions and even word choices, as the results will define your nonprofit for years to come.

Once you have agreed on the concepts of your mission, vision, activities and values, you must then state each of them concisely in one or two sentences. This will not be easy; the adage "I would have written it shorter, but I did not have time" applies here. Remember, these statements can be used in organizational documents, such as your articles of incorporation and applications for tax-exempt status, and will appear on most of your printed communications pieces, such as your annual report, marketing sheet, pamphlets and brochures.

Your organization will benefit from the work you put into developing well-thought-out and well-written statements. By committing to them, you can decide how you *want* to fulfill your mission rather than attempting the dozens of ways you could try. Believing in and acting on these statements will also help you avoid drifting into projects that are irrelevant to your mission.

Here are some examples of missions, visions, activities and values. Study how the sentences are organized and the choice of words, including the active verbs.

MISSION

Your organization's mission is a one- or two-sentence statement that answers the question, "How will the organization's beneficiaries (clients or customers) be changed because of our work?" Here are two examples:

- The Enterprise Foundation's mission is to see that all low-income people in America have the opportunity for fit and affordable housing and to move up and out of poverty into the mainstream of American life.
- Business Opportunities for Leadership Development, Inc. (BOLD) exists to prepare inner-city youth for leadership in their communities, in business and in local politics.

Start by brainstorming why you, as individuals, banded together. What is the common goal that brought you together?

VISION

Your vision is a one-sentence statement that answers the questions, "If the mission is successfully met, how will the community be changed or affected? What kind of community will exist?" Here is a sample statement:

- Safe Place, Inc., envisions a community where every child grows up in a safe, nurturing environment.

ACTIVITIES

The activities statement describes the business or general activities you will use to achieve the organization's mission. It is generally one sentence. Here is an example:

- Incubators, Inc., helps low-income residents pursue *their entrepreneurial goals* by providing start-up capital, training, and office space and support.

VALUES

A statement of values describes an organization's underlying beliefs that shape and give reason for the mission, vision and activities. Here are three examples:

- Genesis Service Corporation believes that people with mental and physical disabilities should receive housing and human services without discrimination.
- New Hope Housing Starts believes the market does not naturally ensure quality, affordable housing for every citizen.
- Welcome Home, Inc., believes every child needs a safe place to call home.

Board Responsibilities

As the governing or policy-setting body of the nonprofit organization, the board has obligations and responsibilities to the organization, the community and even the federal, state and local governments. Directors are charged with fulfilling the organization's mission today and ensuring its financial viability to fulfill its mission in the future. This means managing its resources, human and financial, and providing leadership, oversight and, to some extent, protection of the organization. It does this primarily in two ways:

1. *By doing what it takes to achieve the organization's mission.* Each board member is required to do what is necessary to make the work of the organization successful. Depending on the board's stage of development, this could include:
   - Doing the work of the organization
   - Managing those who do the work
   - Setting policies and overseeing the operations
2. *By ensuring that all resources are used only to achieve the mission.* Board members are responsible individually and as a group for the prudent and reasonable use of an organization's resources.

   The sections in this manual on Financial Oversight and Legal Issues and Risk provide more detailed guidance on a board member's fiduciary duty. In the simplest terms, fiduciary responsibility is "being responsible for those resources that do not belong to you." To fulfill fiduciary responsibility, each board member, and the board as a whole, must exercise at least its duties of care and loyalty — the cautious use of resources and avoidance of personal gain.

Fiduciary responsibility extends to some outsiders, such as donors and the federal government. When an organization agrees with its donors to accept and spend money in a certain way, the board is obligated to honor the donor's intentions. Likewise, when the organization promises the Internal Revenue Service that it will function as a nonprofit organization and will conduct certain activities to achieve and maintain tax-exempt status, it is obligated to the federal government to organize and operate in that manner.

Fiduciary duty also includes ensuring that the organization is current with all federal, state and local corporate and tax filings and the fees that may be associated with them. For example, just because an organization receives federal tax-exempt status does not mean that it is exempt from paying federal withholding taxes. These taxes must be paid.

Directors are charged with fulfilling the organization's mission today and ensuring its financial viability to fulfill its mission in the future.

In addition, if an organization fails to file the appropriate federal, state or local informational or tax returns or other corporate documents, the organization may be monetarily penalized. Finally, failure to file the appropriate state or local tax-exemption registrations (such as for state tax-exempt status, for real estate tax exemption, etc.) may result in the organization having to pay these taxes until it achieves the appropriate status. The board should consult a local tax attorney or accountant to develop a list of required filings, fees and taxes.

OTHER BOARD RESPONSIBILITIES

Other actions and responsibilities of an effective board strengthen the nonprofit organization. They include:

Planning for the future. The board should be proactive in planning for the long-term stability of the organization once it moves beyond the stage where day-to-day survival takes all of the board's attention. This level of planning addresses resources, environmental factors, staffing, the mission and anything that can contribute to the organization's long-term success.

Renewing board vitality. Each board member is responsible for keeping the board vibrant and effective by identifying and recommending potential board members. Active and experienced board members are a crucial asset, but so are excited and dedicated newcomers. New directors often bring a fresh perspective and new ways of looking at old challenges.

Selecting, supervising and evaluating the executive director. One of the most important responsibilities of the board is to ensure that there is competent leadership in the organization. The process for selecting the executive director should be well-planned and thorough, including:

- Determining required and preferred qualifications
- Having a clear and accurate written job description
- Ensuring that most, if not all, board members have an opportunity to meet the candidates
- Checking references
- Conducting thorough contract negotiations

The board should also actively supervise the executive director through regular communication and feedback, but without meddling in day-to-day operations. Periodic, regular evaluations should also be conducted at least once per year. See *Evaluating Your Executive Director,* another manual in the *Governance* series, for more information.

Participating in fund raising. A board as a whole and board members individually should actively participate in fund raising by endorsing fund-raising activities and providing individual financial support. Participation demonstrates leadership, commitment and confidence in the organization.

Linking with the community. The board is responsible for creating and maintaining strong community ties. After all, as the representative owner, the board should seek opportunities to relate to the neighborhood, public officials, the local faith community, the media and others who have a stake in the organization's work.

Resolving internal grievances and matters. A board should be able to rely on its staff to resolve disputes and grievances. However, at times, particularly when the matter may involve legal action, the staff should bring the matter to the board, who should review it with the assistance of legal counsel. Then the board should decide whether to support or overrule the staff's resolution of the matter. Clear policies and procedures for the staff and for handling grievances often minimize board involvement in dispute resolution.

Assessing its own performance. A board should strive to conduct an annual self-assessment, most commonly through confidential survey forms. An assessment can identify disagreements about board, staff and committee roles and performance; misunderstandings about policies, procedures and responsibilities; a need to revisit the mission and programming; and general strengths and weaknesses of the board. Follow-up meetings to analyze and respond to the assessment should also be conducted.

Board Officers

The leadership and management of the board is generally shared by three or four people — the officers. The four most common offices in nonprofit organizations that comprise the nucleus of your board are described below. The specifics regarding officer positions, the number and type of officers, the manner in which officers are elected or chosen, specific officer duties, how to fill vacancies in officer positions and other matters should be described in your bylaws. Also, state law may dictate the minimum number of officers the organization must have and which positions, if any, cannot be shared by the same person. Officers do not necessarily have to be board members, although in many organizations they generally are.

Note that the titles of chair and president, and vice chair and vice president, are often used interchangeably. However, depending on the size of the board and organization, they may be separate positions.

CHAIR OR PRESIDENT

- Presides at board, executive committee and annual meetings
- Oversees the work of all committees and generally appoints committee chairs
- Supervises and supports the executive director
- Speaks for the organization publicly
- Presides at official functions, such as groundbreaking ceremonies and dedications
- May have fiduciary responsibility to sign checks (if so designated in bylaws or financial policies)
- Signs contracts, loan documents and other legally binding documents

VICE CHAIR OR VICE PRESIDENT

- Assumes the role of the chair or president during absence or disability of chair or president (may become chair or president if absence or disability becomes permanent)
- Chairs the nominating committee (if so designated in bylaws or by policy)

SECRETARY

- Takes, prepares and distributes the minutes of all meetings of the board and executive committee and the annual meeting
- Oversees maintenance of records of meetings, policies and membership (if any), as well as the board list, officer list, committee lists, current bylaws, etc.
- Ensures legal filings with state and local government offices are current
- Reviews policies and bylaws and presents recommendations for amendment
- Attests to contracts, loan documents and other documents
- Serves as custodian of the corporate seal (if any)

TREASURER

- Oversees the fiscal affairs of the organization
- Develops (in consultation with staff) the annual budget and presents it to the board for approval
- Supervises the financial staff
- Monitors the budget
- Ensures financial reports are produced regularly
- Ensures federal, state and local tax filings are current
- Reviews all major financial endeavors for fiscal soundness
- Serves as the internal auditor in smaller organizations
- May chair the finance committee (if so designated in bylaws or by policy)

Board Committees

Committees often serve as the arms and legs of the organization, doing much of the work at the board's direction. There are no hard and fast rules, so you should develop your committee structure to make sense for your organization. For example, many boards use committees to do some of the work, while others work only as a "committee of the whole." Some boards name only board members to committees; others include nonboard members on all or some of their committees. The committee structure is generally described in the bylaws. Bylaws and policy should clarify the types of committees, how chairs are appointed, membership and other matters.

Generally, there are two types of board committees: standing committees and *ad hoc* committees. Standing committees are established by the bylaws and function on an ongoing basis. *Ad hoc* committees are created by the board to address particular issues. They are then dissolved. A board may also have advisory committees, comprised mostly of nonboard members from the community who can provide expertise or insights on a particular topic.

It is important to remember that the basic task of committees is to *recommend* action to the board. Unless specifically stated in the bylaws, in a board resolution or by policy, committees do not have authority to act on behalf of the board. A simple rule to follow: *Committees recommend; the board decides.*

Here is a list of the most commonly established committees. Their descriptions will help you think about how to organize your own groups.

THE EXECUTIVE COMMITTEE

The executive committee is generally comprised of the board officers and sometimes the chairs of the standing committees. This committee can be particularly important in the earlier stages of development. Usually the executive committee meets frequently in order to make the board-related day-to-day decisions in between board meetings. Minutes of meetings should be sent to the full board. Interim decisions of the executive committee must be ratified by the full board at later meetings.

Possible roles:

- Plan the agenda for board meetings.
- Coordinate the activities of the other committees.
- Hire, supervise and evaluate the executive director.
- In crisis, manage the organization's affairs (if so empowered).
- Oversee long-range and short-range planning.

THE NOMINATING COMMITTEE

This committee develops the composition of the board and is useful for boards at all stages of development.

Possible roles:

- Monitor the mix and characteristics of the board and identify the need for board members.
- Identify, recruit and prepare the slate of prospective board members and officers.
- Monitor board member performance.
- Train and orient board members.
- Maintain the board manual in consultation with the secretary.

THE FINANCE COMMITTEE

This committee helps the board understand the financial health of the organization. It is particularly important in the board's more mature stages of development.

Possible roles:

- Monitor the keeping of the books, monthly reporting and preparation of financial statements and audits.
- Track the organization's financial condition.
- Develop the annual budget.
- Monitor investments.
- Develop and recommend financial management policies, including asset, debt and risk management.

- Oversee compliance with federal, state and local tax and tax-exempt laws and regulations.
- Oversee buildings and grounds.

THE FUND-RAISING COMMITTEE

In a nonprofit's continuous search for dollars, this committee can be very important. Unfortunately, it can be the most frequent cause of board burn-out as its members are often used as the only fund raisers without participation by the rest of the board. This committee is useful during any stage when focusing on fund raising and should work in consultation with the treasurer.

Possible roles:

- Plan and conduct fund-raising events and capital campaigns.
- Develop the annual fund-raising plan.
- Monitor fund-raising activities.
- Develop and monitor fund-raising policies.
- In consultation with the treasurer, finance committee and accounting and legal advisors, monitor compliance with federal regulations regarding tax-exempt status, fund raising and public support.

THE PROGRAM PLANNING COMMITTEE

Some boards find it useful to have a program planning committee to regularly review the organization's ongoing work, to keep track of the needs and trends of the organization's customers and to help set priorities each year. This committee's purpose changes as the organization develops. In the earliest stages, before an organization has staff, this committee can:

- Develop an annual plan, including assessing program needs in light of mission, financing and trends.
- Monitor viability and effectiveness of programs, projects and activities.
- Develop policies for projects.
- Implement projects.
- Interface with the community to determine constituent and customer needs.

THE PERSONNEL COMMITTEE

As the "owner" of the organization, the board sets the expectations as well as the rules for its employees and then ensures they are met. This includes monitoring compliance with laws set by the local, state and federal governments. Knowing what these laws are and adhering to them is important because, in some instances, the board as a whole and directors individually can be sued for failure to take care of employee needs.

Possible roles:

- Hire and fire personnel.
- Develop and review wage and salary policies.
- Develop, review and recommend changes to personnel policies.
- Serve as the grievance committee.

A simple rule to follow: Committees recommend; the board decides.

THE VOLUNTEER COMMITTEE

Volunteers are often the lifeblood of a nonprofit, especially when an organization does not have the financial resources for paid staff. Accordingly, the work of the volunteer committee never ends, especially in an organization's early stages.

Possible roles:

- Recruit and train volunteers.
- Supervise volunteers.
- Recognize volunteers.

Financial Oversight

The board is legally responsible for ensuring the organization is financially healthy, with appropriate financial management practices in place. This is one of a very few areas in which a board has few choices about how it operates. What can the board do to operate responsibly?

Regularly review current financial statements. This review should be at least quarterly, but monthly is better. The board can either delegate the detailed financial review to its finance committee or review the statements as a committee of the whole. Working through a finance committee often makes sense with a larger board.

Ask questions. Board members should feel free to ask about anything they do not understand or are concerned about. They should hold a workshop on how to read and understand financial statements.

Develop and implement a financial policy. The board should adopt written accounting and financial management policies and procedures, whether they are prepared by staff or paid experts. The board must understand how money flows into and out of the organization. It must have safeguards in place to both prevent misuse of funds and quickly detect it should it happen.

Hold staff accountable. The executive director and the financial staff are responsible for carrying out the policies and decisions of the board. They are also responsible for explaining how the financial statements reflect the organization's operations.

Conduct a financial audit annually. Audits are critical for informing the board and stakeholders of the organization's financial position and health. Plus, if you receive federal, state or local government funds, these agencies may insist on more intensive audits of your financial statements and your operation. Smaller nonprofits may prefer compilations or other less rigorous accounting reports to more costly audits.

Use budgets and financial projections as planning tools. Budgets and financial projections are the financial components of program and organizational plans. This kind of financial statement is your best calculation of what will happen in the future — a prediction. To increase the accuracy and effectiveness of your budget, and to monitor progress in achieving the organization's plan, compare your actual experience in a given period to its budget.

QUESTIONS OF DEBT

One area in which an organization can get into trouble is taking on too much debt and not being able to repay it. Most debt is not free. It costs interest to borrow money and may involve fees. Using financial projections can help a board think about the organization's future income, expenses and cash flow when the debt must be repaid.

When it reviews financial projections, the board should make certain all costs are considered. Here are some questions the board can ask when it thinks about taking on debt:

- How much debt do we already have?
- Will we have enough cash on hand to pay the interest, fees and debt principal when they come due, as well as normal operating costs?
- What will we do if we do not have the cash available to meet our obligations?
- Do we have assets we can sell to generate the cash?
- Does the debt come with restrictions (also called loan covenants)? Can we comply with them?

Loan repayment can be structured in many different ways. Know what your options and opportunities are before you agree to a loan. The board should also consult an attorney to review loan documents and to explain any unclear provisions or obligations.

Legal Duties and Risk

DUTIES AND STANDARDS

Each board member is a fiduciary of the organization who has the individual responsibility to act in accordance with legal standards for boards. These standards are the duty of care, duty of loyalty and duty of obedience. Fulfilling these duties provides the best protection against legal liability.

Duty of Care. As described earlier, the board as a whole has the responsibility of protecting the assets of the organization. Failure to do so can be considered a breach in the board member's duty of care. The duty of care means that each board member must act in good faith and in the best interests of the organization. "Acting in good faith" includes acting honestly and with reasonableness. "Reasonableness" refers to making decisions in the same manner as an ordinary, prudent person would make under similar circumstances. In making such decisions, the board member may rely on information and reports prepared by outside experts, committees and others as long as it is reasonable to rely on the judgment of those persons.

To avoid liability, board members should stay well informed by attending meetings, reading board materials, participating in discussions and asking questions. Because of the duty of care and the expectation that board members will be active decision makers, board members cannot vote by proxy.

Duty of Loyalty. A board member must place the interests of the organization above all other interests when making board decisions. Failure to do so can be considered a breach of the board member's duty of loyalty. A "conflict of interest" giving rise to a breach of loyalty generally occurs in two ways:

- A board member makes decisions out of self-interest or in the interest of only part of the organization, instead of in the best interest of the whole organization. This type of conflict often occurs when the board member fails to disclose that a business transaction considered by the board will financially or otherwise directly benefit the board member or the board member's family.

Example:

A board member encourages the board to choose a particular management company whose fees are higher than other companies and even above the normal management rates. The board votes to hire the management company. The board member, however, failed to disclose that the board member's wife is part owner of the company. The board member may be liable for the difference between the fee paid and the fee the organization would have paid if the board had chosen a more reasonably priced company.

To deal with this type of conflict of interest, the board should establish a clear conflict of interest policy that sets forth procedures for disclosing financial and other interests by board members and staff, voting by the interested board member on the particular transactions, record keeping of disclosures and votes, and other matters. Boards should consult an attorney or other resource materials for sample policies.

- A board member, for his or her own benefit, takes advantage of an opportunity that the board member learned about by fulfilling his or her duties on the board when the whole organization could have benefited from the opportunity.

Example:

The board asks a board member to investigate properties for redevelopment of affordable housing. The board member finds an appropriate property, but endeavors to purchase it to create his or her own business venture instead of bringing the opportunity to the board. If by taking this opportunity, the board member created a loss for the organization (for example, it had to buy more expensive property elsewhere), the board member may be liable for that loss.

In addition to conflicts of interest, loans by the organization to officers and directors can also be considered a breach of loyalty because the board would be deciding to use the organization's assets to benefit an individual. Some states ban such loans completely. The board should check with a local attorney and include appropriate provisions in the bylaws.

Duty of Obedience. A board member must adhere strictly to the provisions of the organization's governing documents, such as the Articles of Incorporation and bylaws, and to internal policies and procedures. Board members should also be familiar with and act in accordance with federal regulations concerning tax-exempt status, taxes in general and fund raising. As fiduciaries, boards and board members must also honor the stated intentions of their donors or be willing to decline the gift if the intentions cannot be met.

Other. What if the employees of an organization act in such a manner that gives rise to a tort claim (for example, a negligence claim due to a traffic accident, defamation, etc.)? Generally, directors and officers are not personally liable for such claims unless they had knowledge of the action and, either by act or omission, authorized, approved or otherwise participated in the action.

However, based on the duty of care, board members can also be liable if they fail to adequately hire, supervise or discipline their employees. For example, if transporting passengers was an expectation of an employee's job and the board failed to check the employee's driving record when hiring the employee, board members could be liable in a traffic accident claim. Failure to adequately check references may lead to other potential claims.

PROTECTIONS

A complaining party may sue one board member, any board member or all board members. If the complaining party is successful in its claim, the board members may be jointly and severally liable, meaning that a final judgment may be the responsibility of each and all of them. A board as a whole and individual board members, however, can take several steps to ensure that they are protected against legal claims and liability.

First, as outlined earlier, each board member should strive at all times to fulfill his or her *fiduciary duties.*

Second, the *bylaws and policies* of the organization should be drafted to clearly establish authority to act, what may justify removal from the board or an officer position (for example, missing numerous meetings), how conflicts of interest should be handled, whether loans to directors and staff are allowed, and other matters.

Third, the board should receive *periodic training on legal issues and risks,* conducted by a local attorney, the organization's insurance carrier representative or other outside professionals.

Fourth, the board should receive *training in the federal and state laws of immunity*. Under the federal Volunteer Protection Act and many state laws, officers and directors of nonprofit organizations may be immune from legal liability if they act in accordance with fiduciary duty and do not act criminally or with malice, willful misconduct or gross negligence.

Some laws also require, however, that the organization have director and officer liability insurance with coverage limits in order for the immunity laws to apply. The board should consult with a local attorney on the immunity laws and learn the parameters of their protections. Remember, however, that just because immunity laws may exist, a complaining party may still file an action, hoping the immunity laws will not apply in that particular situation.

Fifth, the organization should be established in such a manner as to provide *indemnification* for its directors and officers. "Indemnification" occurs when the organization agrees to pay legal costs, judgments and other expenses for its directors and officers if they are sued in their capacity as directors and officers. Indemnification, however, may not apply when the director or officer has breached his or her duties or has acted in a way that is outside the immunity laws (for example, criminally, with willful misconduct, etc.). Indemnification provisions should be included in the organization's governing documents so the board's protections are clear. Again, state law may control or provide guidance on indemnification.

Finally, in addition to other insurance that covers accidents, fire and other casualties, all organizations should carry *director and officer liability insurance* (also known as "D&O insurance"). D&O insurance protects the organization and its directors and officers from losses and expenses incurred through legal claims (and the indemnification process, if applicable).

Protection through D&O insurance usually does not cover fraudulent or dishonest acts or when board members act with malice, gross negligence, willful misconduct or in other ways outside the immunity laws. Nor does D&O insurance generally cover criminal or civil fines or penalties resulting from failure to pay federal income taxes.

The board can also purchase protection for employment practices liability to cover claims of sexual harassment, wrongful termination and discrimination.

In some instances, the federal government may also require fidelity bond coverage for organizations that receive large amounts of grant money. This insurance safeguards the organization's assets against malfeasance or wrongdoing by the organization's staff.

Stages of Development: Why Your Board Is Different

Boards, like people, go through different stages of development. Although the basic responsibilities and duties are generally the same for all boards, the way your board operates will differ from that of other boards. As it and the organization mature, the board's approaches will change.

DIFFERENT NEEDS, DIFFERENT BOARDS

Your organization will have different needs at different times in its life, and the board must adjust to meet them. Nonprofit boards typically go through four stages of development, and understanding them will help you understand your organization's changing needs. Because there are few ironclad rules about how nonprofit boards *must* behave, view these stages as models, not prescriptions, to help you decide what works best for your organization.

Different board development experts use various terms to describe these stages, and we have come up with our own. They are:

- The **Coveralls Stage** = foundation building
- The **Shirtsleeve Stage** = working board
- The **Blue Suit Stage** = managerial
- The **Black Tie Stage** = governing

Like people, boards often exhibit the traits of more than one stage at any one time. This is natural and not necessarily to be avoided. However, understanding the typical stages of development can help you decide whether or not your board is healthy, no matter what stage it's in.

This matrix gives a quick visual comparison of the characteristics of the four stages.

Stages of Board Development

	Coveralls	Shirtsleeve	Blue Suit	Black Tie
Important Director Attributes	Lots of time, willingness to work	Willingness to work, planning skills	Planning skills	Policy skills
Board's Focus	Organization's structure and operations	Operations	Governance	Governance
Board's Planning	Day to day	Day to day	Long range	Strategic
Board Composition	Founders	Founders and recruits	Founders and recruits	Recruits and maybe founders
Committee Structure	Works as a whole, possibly with working committees	Work as a whole with one or two committees	Working committees	Oversight and policy-making committees
Board's Fund-Raising Activity	Events	Events, grant seeking	Grant seeking, individual solicitations (Staff does events.)	Individual and institutional solicitations (Staff does events and grant seeking.)
Staff's Role	No staff	Focus on operations	Focus on operations, assist board in defining roles	Focus on operations, serve on the board

CHARACTERISTICS OF THE COVERALLS STAGE

This is the building block or foundational stage. It occurs either during the nonprofit's start-up or when there is a significant change in the organization's operation requiring the board to lay a new foundation. As the name implies, the Coveralls stage requires a lot of work, time and energy on the part of the directors. Here are some typical characteristics of a board in this stage:

- In the case of a start-up operation, the initial board is busy *creating a viable organization*. It is usually composed of founding board members who volunteer to establish the mission of the organization, file the incorporation documents, develop and adopt bylaws, file for tax-exempt status, set up bank accounts and information management systems and take care of other start-up activities.
- Doing the work of the organization is the board's focus during the *day-to-day operations* stage. Typically, the organization has no paid employees, so if anything is going to happen (providing service, filing forms or seeking money), the board has to make it happen.
- If the board is engaged in formal *planning*, this activity usually lasts for a few months at most. With its very survival at stake, the organization's immediate needs consume most of the board's attention.
- Most Coveralls board members are *founders* and most likely are residents of the community. They are usually willing to "be" the organization, doing everything from licking stamps to managing the finances. In this stage, the founding directors typically press their friends and associates into service to add to the board's skills or simply to have enough bodies to do the work.
- If there are *committees*, they are organized to carry out much of the work of the board. Otherwise, the board usually functions as a committee of the whole, making decisions together about every aspect of the operation.
- This board often *raises money* through small events, personal requests or small grants from local foundations.

CHARACTERISTICS OF THE SHIRTSLEEVE STAGE

At this stage, the board is often exhausted, especially since its members usually hold full-time jobs and volunteer as directors. But because the organization is not yet fully staffed, directors still roll up their sleeves and do the work. Here are some of the characteristics of the board at this stage:

- The board *hires an executive director* to do the work the directors do not want to do or have time to do. It still wants day-to-day involvement and focuses on short-term needs rather than long-term planning. The executive director may serve on the board. The board should have established clear policies and guidelines for overseeing and evaluating the executive director.
- The board's *composition* usually has not changed much from its earlier stage. However, if there are vacancies, the board may put together a nominating committee to fill them.
- The board probably expects the *executive director or other key staff to do fund raising*, mostly from grants. The board should establish clear lines of authority and clear reporting and communication requirements for the staff to carry out these tasks.

CHARACTERISTICS OF THE BLUE SUIT STAGE

By this stage, the directors are ready to hand off the day-to-day work. The board's "let's roll up our sleeves and get to work" attitude gives way to the desire to manage the work and leave implementation to the staff. Here is what is typical of this stage:

- *Directors supervise the day-to-day operations* but do not perform the actual work. They want to give up the hectic pace but not control of the operation. The division of responsibilities between directors and staff must be clear and respected. Tension arises when directors give day-to-day responsibility to the staff and then take back control at unexpected times.
- The board *recruits professional staff* to administer and implement the programs.

- The directors are on the cusp of a major change in their roles and responsibilities. The budget is growing, and the *staff needs the board to think about the future and help raise money.* However, the board often is not ready to do this. There are no committees charged with planning for the future, and the directors have not yet exchanged their "doer" hats for their "overseer" hats.

  This situation often leads to conflict between the board and staff, particularly between founding directors and management staff. The trouble is that management and the board clash in their expectations about who should play what role: "It's the board's job to raise money!" "That's why we hired an executive director!" Recognize that this can easily happen and work to keep the roles and responsibilities clear. Let each person do his or her job.

CHARACTERISTICS OF THE BLACK TIE STAGE

This is the stage at which the board has begun to govern, having fully released the daily work and operations to the staff. Directors are no longer involved in the daily decisions that go into maintaining the business. Rather, they have traded their short-range spectacles for long-distance binoculars and have begun to think and plan more broadly and strategically. Here are some characteristics of this stage:

- The board has *clarified* board and staff roles and responsibilities.
- The board has *hired competent management* and provided the resources to hire staff to operate the organization's programs.
- The board continues to *provide the governance* — the policy-making, strategic planning and evaluation needs of the organization.
- Board and staff usually *share fund-raising responsibilities* and understand their respective roles and responsibilities.

THE BLACK TIE STAGE — THE FINAL STEP?

The Black Tie stage is not necessarily the last stage an organization will reach. Over the life of the organization, the board slips from stage to stage, often bridging stages. A board could move into any of the four stages under certain circumstances. For example, the departure of an executive director or the board chair, especially the founding chair, can have a big effect on everyone. Or the changing needs of the organization's customers or environmental changes may require a radical change in the way the board does business. When such circumstances occur, board members are forced to change hats once more. Changing circumstances require a responsive board, and an effective board has the insight to see the need for change and the flexibility to make adjustments.

WHAT THIS MEANS FOR YOUR BOARD

You can use the stages of development as a barometer to help you decide whether your board should change the way it functions. By recognizing where your board is in the four stages, you will have a better idea about what is going on. Before rushing into any changes, learn specifically what your organization needs and then decide how you as a board will respond to those needs. Remember that you want to make change only where it serves the best interests of your organization.

THE ENTERPRISE FOUNDATION

The Foundation's mission is to see that all low-income people in the United States have access to fit and affordable housing and an opportunity to move out of poverty and into the mainstream of American life. To achieve that mission, we strive to:

- Build a national community revitalization movement.
- Demonstrate what is possible in low-income communities.
- Communicate and advocate what works in community development.

As the nation's leader in community development, Enterprise cultivates, collects and disseminates expertise and resources to help communities across America successfully improve the quality of life for low-income people.

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