



N.C. Center for Nonprofits



HandsOn
NORTHWEST NORTH CAROLINA

What Makes an Effective Board of Directors?

Roles, Responsibilities, and Effective Practices

- A nonprofit board has two main roles: (1) it governs the work of the organization and provides oversight to ensure that its mission is implemented effectively and ethically; and (2) it supports the organization and ensures that it has sufficient resources to carry out its work.
- Board members' responsibilities include: (1) ensuring that the organization is in compliance with federal, state, and local nonprofit laws and regulations; (2) fundraising by giving personally and through their own contacts *and* with their time and expertise; (3) hiring, supporting, and if necessary firing the Executive Director/Chief Executive Officer (ED/CEO); and (4) setting financial, governance, and management policies for oversight of the organization. Some examples of these policies include:
 - *Conflict-of-interest policy.* The federal Sarbanes-Oxley legislation and the Internal Revenue Service's redesigned Form 990 strongly suggest having a conflict-of-interest policy for use by board, staff, and volunteers. This policy is required in North Carolina for any nonprofit that receives state funding.
 - *Personnel policies.* The board should approve written policies that outline the norms and expectations for employment and the rights and benefits of employees. To be fully compliant with the Sarbanes-Oxley law, nonprofits should have a written whistleblower policy. Board members also are responsible for making sure that compensation and benefits for the ED/CEO and other staff are fair and appropriate for their experience, education, and the requirements of their positions.
 - *Financial policies and procedures.* The board should approve policies for internal controls, purchasing, reserve funds, and investments.
- Financial oversight is another key board responsibility. Appropriate board roles include approval of the annual budget and regular review of financial statements, balance sheets, and cash needs.
- Certain practices can help a nonprofit board improve its effectiveness. These include orientation for new board members and continuous training for all board members, an enforced attendance policy for board meetings, annual evaluation of *and* support for the ED/CEO, succession planning for the ED/CEO and the board, and the board's regular assessment of its work as a whole and of individual board members.
- Having committees can help some boards do their work. There are no set rules about what committees a board should have. Typical ones include executive, fundraising, finance, audit, nominating/board governance, and personnel committees. Ad hoc committees or task forces are a good way to meet needs that are time-limited or that have a specific, one-time purpose.
- One of the primary roles of the board chair is to create a culture of mutual respect and accountability that helps the board as a whole and board members as individuals take their roles and responsibilities seriously. The chair is the lead partner with the ED/CEO in setting the context for the board's work, and a strong partnership between the two is critical for a nonprofit's effectiveness.

Board Composition

- The make-up of a nonprofit board should reflect a variety of perspectives of a diverse group of stakeholders in the community (e.g., representatives from under-represented constituencies, those the nonprofit serves, young people). Board members should be informed about the organization's cause and trusted by those the organization serves.
- While North Carolina law requires only one person to be on a nonprofit board of directors, this is not a recommended practice. The size of the board should be based on what is needed for the particular board to do its work effectively and efficiently, taking into account the need for an appropriate mix of skills, backgrounds, perspectives, and business and civic roles within the community.
- To encourage new ideas and the highest levels of commitment and energy, term limits for board members are strongly recommended. Identifying and recruiting new board members who are knowledgeable about and committed to the nonprofit's mission is an ongoing process and a critically important aspect of effective governance.

Board and Staff Relations

- While the ED/CEO reports to the board as a whole, most organizations consider him or her an equal partner in leading the organization. All decisions about the hiring, promoting, and firing of other staff are the responsibility of the ED/CEO and not of the board of directors.
- The board decides the particular salary of the ED/CEO, but it does not set specific salaries for any other positions. The board should set the salary ranges for the other positions, and the ED/CEO should then decide the particular salaries for other staff within those ranges.
- If board members try to micromanage the organization, it may be because of a lack of clarity about the issues for which their special expertise, skills, and perspectives *are* needed. High-performing boards need to be engaged in discussions and decisions that make the best use of their time, talent, and expertise.

Board Resources

- Blue Avocado (www.blueavocado.org).
- BoardSource (www.boardsource.org).
- Board and Staff Helpline, a confidential service for organizations that are Members of the N.C. Center for Nonprofits. Members can also access hundreds of Frequently Asked Questions on the website. Visit www.ncnonprofits.org/infocenter.asp.
- BoardNet USA (for recruiting board members) (www.boardnetusa.org).
- CompassPoint Nonprofit Services (www.compasspoint.org).
- Free Management Library (www.managementhelp.org).
- Internal Revenue Service (IRS) (www.irs.gov/charities/index.html).
- N.C. Center for Nonprofits (www.ncnonprofits.org). To join, visit www.ncnonprofits.org/joindonateaffiliate.asp, or call 919/790-1555, ext. 100.
- *Principles & Practices for Nonprofit Excellence: A Self-Help Tool for Organizational Effectiveness* (www.ncnonprofits.org/principles.asp), published by the N.C. Center for Nonprofits. Provides 108 specific benchmarks for well-managed and responsibly-governed organizations.

HandsOn Northwest North Carolina and the N.C. Center for Nonprofits have created a close partnership to provide a seamless continuum of support services to Winston-Salem/Forsyth County nonprofits. These partners work closely together to ensure that services to local nonprofits tap all existing statewide and local resources and avoid duplication and the waste of resources. Visit HandsOn Northwest North Carolina at www.nonprofit-connections.org (or call 336/703-3029) and the N.C. Center for Nonprofits at www.ncnonprofits.org (or call 919/790-1555, ext. 100) to learn more.