



GOVERNING BOARD EFFECTIVENESS FOR FAITH BASED ORGANIZATIONS

A STRATEGIC INITIATIVES RESOURCE

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The Stewardship Role of Governing Boards

One of the most significant influences on institutional and leadership effectiveness for faith-based nonprofit organizations is the role and function of the group charged with its legal oversight – the governing Board. When mission drift, operational dysfunctions, financial exigency or other crises occur, it is not unusual to find the root causes in the lack of clarity regarding policies, practices and procedures that guide the Board’s oversight of mission and personnel. For tax-exempt nonprofit entities in the United States, it is the Board that is legally, morally and functionally responsible for the supervising of the organization’s stated mission as well as the personnel and procedures to fulfill that mission.

Perhaps at no other time in recent history has the maximum effectiveness of faith-based organizations been more needed. Funding limitations and escalating costs are damaging the public safety nets historically available to assist individuals in crisis. Key to achieving such effectiveness in advancing God’s plans and purposes is the quality, performance and commitments of the next generation of both nonprofit Board and executive leadership. Governing Boards and their CEO’s must nurture greater partnerships to ensure the relevance and success of their God-appointed callings. We anticipate that a substantial majority of current CEOs will leave office in the next few years. In light of the accelerated rate of leadership turnover at both the CEO and Board levels, it is essential that faith-based governing Boards perform with the highest levels of effectiveness. Given the sacred callings of the organizations these Boards lead and the critical need for the services they provide, much greater attention must be given to those principles and practices that promote the highest levels of God-honoring stewardship.

Added to this mandate is the fact that these organizations now must do their ministry in an era of expanded scrutiny and, as a result, increased accountability. The failures of industry and related financial systems, and the resulting calls for better oversight triggered by the Sarbanes-Oxley legislation, make it necessary for governing Boards to be pro-active legally, morally, ethically and operationally. And the visible leadership and fiduciary abuses of some high profile faith-based organizations and leaders demands greater assurances that “all things are done decently and in order before God and man”.

To those ends, Boards must enhance their functions of monitoring, evaluating and guiding the mission of their ministry and service organizations. While administrative leadership (CEOs and their executive teams) carry the primary responsibilities for implementing the mission, Boards must strengthen commitments to both their explicit duties - as defined by accrediting, certifying,

best practices and governmental requirements - as well as their implicit “promises” - holding in trust the mission and integrity of the organization on behalf of its stakeholders. Guarding and guiding the missional promises of the organization, serving in essence as “stewards of the calling”, is the highest responsibility of a faith-based, nonprofit, governing Board.

We believe that one of the most important aspects of the Board’s successful stewardship of the organization’s promise is its clear delineation of *executive leadership expectations, limitations and operating parameters*. In our experiences, the majority of “going concerns” crises occur as a result of a lack of a clear understanding of policies and practices established by the governing Board regarding institutional goals, values, performance expectations and accountability measures.

Unfortunately there is a tendency of faith-based Boards not to closely manage and hold accountable their CEO’s with such specificity and clarity. There are numerous reasons for this reality. In some cases there is a theological resistance to “touching God’s anointed” feeling that the leader was brought to the organization by a “divine call” so full support and trust is needed rather than close scrutiny and questioning. In many faith-based organizations, the Board consists of the close friends and confidants of the CEO making it difficult, because of those loyalties, to exercise the depth of oversight required. Faith-based Boards also recognize that the vast majority of leaders are serving sacrificially so tend to make allowances for idiosyncrasies in light of the difficulty of finding new leadership willing to work for the “pay and perks” available.

And, while true for many nonprofits, Board members are busy with their own personal and professional obligations and only able to donate limited attention and time assuming that given the spiritual contexts of the organization and its personnel, minimal scrutiny is required. Finally, some CEO’s of faith-based nonprofits discourage and/or aggressively resist in-depth oversight by their Boards making it difficult for the Board to fulfill their moral as well as fiduciary responsibilities as overseers.

Perhaps one of the most sobering realities facing faith-based nonprofit Boards is the estimate that significant numbers of the current senior leaders of these organizations are eligible for retirement in the next few years. While some of these CEOs may stay on beyond the traditional retirement age and be available for continuing assignments, many prefer and plan to move on. Most should leave office to make room for new ideas and skill sets needed to address the emerging challenges and opportunities.

This “baby boomer” retirement bubble is placing a significant drain on the pool of eligible and qualified candidates prepared to step into these vacancies. Many organizations have done little to groom the next generation of leaders due to budget reductions that have substantially reduced middle management ranks – the place historically from which most senior executives rise. Also, the current generation of leaders often is so consumed with the multiple and competing demands of their assignments that little energy is left to invest in developing replacements and mentoring successors.

Given these realities, governing Boards must be deeply invested in the organizations they superintend. The increased scrutiny of nonprofits, the accelerating pace of leadership changes, as well as the growing demands for the services offered by faith-based organizations, provide governing Boards with a unique opportunity to evaluate their current effectiveness, better ensuring the organization’s missional, functional, operational and structural viability.

In reality, however, some Boards do not function at the highest levels of effectiveness and, as a result, do not know their institutions well enough to guide the senior leadership. One of the first questions Boards need to ask is, *Do we have a clear and viable vision for our mission in order to guide and evaluate our performance as steward overseers?* The second is, *Do we fully understand the current conditions and future opportunities we are asking our organization and its leadership to address to ensure integrity and success?*

In light of the turnover rate of executive leadership, Boards must assume a greater and more pro-active role in the operation and direction of their organizations. Rather than merely “reviewing and commenting” and then either “approving or rejecting”, Boards must proactively “guide, govern and monitor” in order to fulfill their stewardship obligations. And we emphasize again, that Board/CEO relationships make or break organizational effectiveness. It is with these realities in mind, that we offer some key principles, practices and procedures designed to help the Boards of faith-based nonprofits fulfill their sacred callings as stewards of their organization’s mission and promise.

Keys to Faith-Based Governing Board Effectiveness

The goal of this material is to assist Boards of faith-based organizations and institutions to determine their current levels of governing effectiveness by using best practice insights to achieve the level of function required to fulfill their stewardship calling. It is not possible in this presentation to cover all of the facets needed for success. As a result we choose to focus here on what we believe to be the most essential keys to governance effectiveness that can serve to open the doors for continuing in-depth Board development.

We believe that Boards need to pay particular attention to those elements of their oversight that speak specifically to mission, core values, fiscal accountability and viability, program effectiveness and executive limitations – all of which impact mission, corporate identity, functional integrity and ultimately success. Using a policy-guided perspective, we suggest several *governance keys* for clarifying, projecting, enhancing and measuring organizational and leadership effectiveness. Given the acceleration of leadership transitions, we feel one of the most important tools for improving governance is the delineation of *executive leadership expectations, limitations and operating parameters*. As noted, organizational crises often occur as a result of a lack of clarity about expectations and agreed upon objectives between the governing Board and its CEO - particularly in areas of institutional goals, values, performance expectations and accountability measures.

After reading this material we believe your Board will have:

- An overview and understanding of seven important “Keys” to unlock faith-based Board effectiveness,
- An assessment framework for evaluating and improving your Board’s performance based on the “Keys” to effectiveness”,
- And insights about policies and practices needed to support the Board’s important governance responsibilities and practices.

We include **assessment questions** throughout this material to help your Board better evaluate how it measures up against these keys to governance effectiveness. These questions will provide the basis for developing diagnostic tools that can be used to help you better understand your Board's functions and processes.

There are many excellent sources for information and assistance in the areas of good governance for nonprofit organizations. Much of our thinking is based on *The Nonprofit Board Answer Book: A Practical Guide for Board Members and Chief Executives*, (Second Edition. Jossey-Bass, BoardSource 2007). This is an expansion of the first *Board Answer Book* by Robert C. Andringa and Ted W. Engstrom. Andringa and Engstrom spent the majority of their careers working with nonprofit organizations with the goal of improving organizational effectiveness through Board and CEO development. They both had particular interests in faith-based organizations because of their own personal journeys and priorities. A second book by Andringa and Fredric L. Laughlin, *Good Governance for Nonprofits* (Amacom 2007), also is recommended for its significant help in developing a policy oriented approach and management tools for effective Board governance.

Also there are many excellent consultants working in the area of faith-based Board governance. We can provide a listing of these accomplished professionals whom we believe take seriously their sense of calling to serve your needs.

When this material is completed your Board should have an increased confidence in its capacity to successfully govern your organization answering the question, *How well do we and can we lead?*

Key: Trustees View Themselves as Called Stewards

We believe that the most effective faith-based Boards see themselves as *overseers* and *divinely called stewards* of their organization's vision. They believe that they hold the mission of the organization as a sacred trust, a spiritual calling, over which they must serve as "faithful stewards" as defined by Jesus' teachings. In that context, these overseers exhibit **five essential qualities**.



Passionate Commitment: The foremost characteristic of a faithful overseer is a *passionate commitment* to that which moves and touches the heart of God. In the Great Commandment Luke 10:27 Jesus calls us to love God and what He values – loving our neighbors as ourselves. Unless the vision and mission of the faith-based organization is anchored in and fueled by love for God and those He loves, the Board’s work will lack the passion and purity of motivation needed to fulfill the organization’s divine destiny. As faithful overseers, responsible for setting the tone and direction of the organization’s mission, Boards need to ask how what they are doing reflects and extends God’s love for those for whom His son died.

Assessment: Do we as a Board demonstrate a passionate commitment to the vision and mission of our organization that is consistent with the calling and sacrifice of Jesus Christ?

Expectations of Excellence: A second principle of stewardship effectiveness is the quest for *excellence*. Scripture emphasizes that we are to bring gifts to God of the highest quality – without spot or blemish Num.19: 2. Paul states that Jesus’ ultimate goal was to present God with a *radiant church without stain or wrinkle or any other blemish but holy and blameless* Eph. 5:27 NIV. In governance work, it is important that Trustees strive for the highest standards of excellence for and through the organizations they guide. Board members of faith-based institutions have an obligation to expect that the highest possible levels of performance and service be rendered to those whom their organization serves. In addition, those who govern must set that standard through the excellence of service they personally provide through their boardsmanship.

Assessment: Do we as a Board have an expectation of professional excellence for our organization? Is this organization getting the best we have to offer or is it receiving the “leftovers” of our time, resources and commitments?

Integrity: We live in an age of growing distrust and skepticism – particularly of leaders and corporate entities. The persistent revelations of misuses and abuses in both public and private sectors, including some highly visible religious settings, make it essential that we do all things with appropriate openness, transparency and integrity. Jesus’ exhortation to let *our “Yes” mean “yes” and our “No” mean “no”* Mt. 5:37 must guide our attitudes and interactions as governing Boards. There are times when the ability to communicate all the details of our deliberations and decisions should be constrained by legal and moral factors. However, as much as possible, transparency and openness should be the hallmarks of how the Board does the business of your ministry. In religious settings, because of our desire to inspire, encourage and motivate, there is a tendency toward exaggeration. While we should publish our successes and achievements, these always need to be offered with clarity, honesty and of course humility. Crisis communications are among the most critical responsibilities of the Board. When employees, supporters and those we serve are appropriately apprised of the circumstances, they join with us in prayer and other constructive ways to help resolve the challenges.

Assessment: How open is the Board in communicating our decisions? Do we have mechanisms in place to regularly and responsibly share our rationale and decisions? Are we accurately projecting the results of our organization’s ministry and service to our various stakeholders? Do we have a crisis management and communications plan in place that shares appropriate details and enlists support for resolution?

A Culture of Evidence: Effective Boards promote and ensure excellence in their boardmanship by creating *cultures of evidence*. This is one of the most important commitments of an effective stewardship-oriented Board. There are many types of information and formal reporting effective Boards need to monitor the vitality and viability of their organizations. With increased outside scrutiny it is even more critical that Boards track actual performance objectively and thoroughly employing best practices according to the highest of ethical as well as legal and fiduciary standards.

Assessment: Does our Board have the quantity and quality of information needed to ensure that all that is done in this organization is pleasing both to God and honorable before man – that our work is done *decently and in order* | Cor 14:40?

Efficiency and Effectiveness: Motivated by love for God and those the organization serves, Boards need to facilitate excellence by creating cultures of evidence that model integrity and promote accountability. As a result, the best of faith-based nonprofit Boards require the highest levels of *efficiency* and *effectiveness* possible. The financial and human resources entrusted to your organization are given sacrificially requiring that they be used wisely and prudently. One Chief Financial Officer of a faith-based NPO said that his great privilege and calling was to see how God could use him *to make a dime do a dollars worth of work*. Another CEO of a ministry told his staff that when they spent the money contributed to them to remember and give thanks for *some elderly woman who likely was giving up her lunch money in order to be a faithful monthly partner in the ministry's work*. Using finances, people and other resources respectfully requires that our clients be as *efficient* as possible while constantly monitoring the *effectiveness* of the investment of those resources.

Assessment: How are we as the Board evaluating efficiencies? Do we require evidence that the efficient investment of our resources is producing the most effective results in keeping with our organization's goals and objectives?

In summary, we believe that the most effective faith-based Boards demonstrate the qualities and characteristics of *faithful stewards* – the essential motivations of compassion, excellence, integrity, accountability, efficiency and effectiveness. As a result, they govern with a clear, uncompromised commitment to the Scriptural essentials of good works done with God-honoring motivations and God-provided means that model the stewardship mandates of those who intentionally follow Jesus Christ.

Having laid a basis for why and how Board members of faith-based nonprofits should be serving, we turn next to some insights about what these members need to bring to their duties and how they should function as they perform their stewardship responsibilities.

Key: Effective Board Stewards Understand Their Contributions

Robert Andringa¹ identified *five responsibilities and contributions* that characterize the *best practices* of strong Boards. We explore his insights as the second key to unlocking effective faith-based boardmanship. While not every Board member will possess every quality equally,

¹ The Engstrom Institute, *Board Governance*, A Downloadable Resource, www.engstrominstitute.com, pg.11 2008.

called Board members have an understanding of and commitment to the full development and deployment of these responsibilities within the limits of their own potential.



Wisdom: Called Board members help formulate, negotiate, determine, and monitor wise policies and make informed, objective decisions. They are available to advise staff when called upon and offer suggestions to the administrative leadership team. This wisdom comes out of a lifetime of professional experiences as well as personal spiritual growth. The Apostle James suggests several hallmarks of the wisdom needed for effective governance that apply to the Board member's functions and attitudes within the faith-based NPO James 3:17 NKJV.

Purity of purpose and motivation guide the most reliable Board members in their work. They avoid personal agendas and hobbyhorses that are not in keeping with the mission of the organization. They are on the Board to serve rather than be served. These wise stewards are *gentle peacemakers* who make decisions for the greater good in ways that promote and preserve the unity of the Board. While deeply committed to the essential principles and practices of the organization, they *yield* to the collective wisdom of their colleagues and are *merciful* to those whose opinions and actions may conflict with their own.

The decisions they make are without *partiality* and consistent with their true character and convictions and thus without *hypocrisy*. In their dealings with one another, and with the staff, they model a servant's heart and demonstrate the *good fruit* of the Spirit-filled life of love, joy, peace, patience, kindness, goodness and faithfulness Gal. 5:22 NIV.

Assessment: What is the overall tone of our Board's culture and approach as it offers wisdom for the mission and vision of the organization? Does our Board demonstrate a spiritual wisdom characterized by the *fruit of the Holy Spirit*?

Work: Called Board members faithfully attend committee and Board meetings. They come with their “homework” finished, able to understand and contribute to the essential processes of governance. Effective Board stewards understand that their position carries with it a duty to be well prepared and meaningfully involved. They study meeting materials thoroughly taking particular note of those aspects that address the mission of the organization, support the staff responsible for implementing the mission and speak to their fiduciary responsibilities as overseers of a tax-exempt charity.

Outside of Board meetings, they take off their governance “hats” and put on their volunteer “caps” working on behalf of the organization’s needs and activities. They often help with a fund raising campaign, a special public relations event, willingly mentor a staff person, deploying their talents and passions for the advancement of the organization’s vision and mission.

Assessment: Do the majority of our Board members meaningfully and productively engage in activities, functions and duties that advance the organization? Do we *work at* our boardmanship duties and tasks? Do we come to our meetings well prepared?

Wealth: Called Board members are committed to being *donors of record* each year. When able, they pay their own expenses and may help other members of limited means pay theirs. They model sacrificial giving. Moreover, they willingly encourage others in their circles of influence to be financial contributors.

Given the challenging financial times when contributions to nonprofits generally have declined, Board members need to make their own giving *sacrificial* to help motivate others to support. Their giving adds credibility to the organization’s requests for support. Board members who are willing to make fund raising calls with the CEO, and also are personally invested financially, provide a testimony of commitment that often makes the difference in getting a positive response to a major gift request.

Assessment: Do our Board members sacrificially invest in the responsibilities of giving and getting the financial resources needed to advance our organization’s vision?

Witness: Called Board members help integrate precepts with practice in setting policies and monitoring processes that are consistent with the best standards of the Christian faith. They recognize that since the organization represents a ministry of Christ, only the highest standards of ethics and performance are acceptable. They *walk the talk* setting an example for staff, “clients” and supporters faithfully following Christ in the marketplace, at home and in the church.

In addition to their *walk*, they also *talk* up the organization seeking opportunities to make it known. Many faith-based organizations fall into a best-kept-secrets gap. Most do not have all the resources or the resident talent to market their mission to those in need or to those who could support. Board members provide an important means for getting the organization better known through their circles of influence - colleagues, clients, church and community relationships. Hosting an awareness gathering in their home, inviting representatives of the organization to speak to their employees and service organizations or sponsoring staffers to participate in community activities and become members of service clubs that can help expand the awareness of the organization.

Assessment: Do our Board members model and carry out their responsibilities to be pro-active

ambassadors of the vision and mission of our organization?

Wallop: Called Board members bring their knowledge and experience to bear on their Board work in ways that only they can do. They ask themselves, *What one thing could my position and network accomplish that others on this Board could not?* As serious Christians, they sense that God has a unique and distinctive contribution for them to make to the life, culture and mission of the organization. And they are willing to be stretched beyond their areas of expertise in order to serve where needed seeing these challenges as opportunities to grow professionally, spiritually and personally.

Assessment: Do we as Board members know and deploy our unique contributions to the organization? Are we also willing to work outside of our comfort and experience zones allowing God to use us as a means to leverage our personal and professional influence for the organization?

Key: Effective Board Stewards Know the Nature of Their Authority

Another important key to Board effectiveness and good stewardship involves knowing the nature and limits of our *authority* and *responsibilities*. Understanding the function we are exercising in our various Board tasks, and the parameters of authority implicit to those roles, is important to effective boardmanship.

Robert Andringa suggests a helpful metaphor of the “three hats” Board members wear to clarify the nature and limits of authority within which Board members operate. Knowing these boundaries is critical to minimizing conflicts and maximizing effectiveness.

What Hats Do We Wear and When?

<p>Governance Hat – represents the legal authority to govern the organization.</p>	<p>Only worn in a properly called Board or committee meeting with a quorum. Decision-making authority only exists when part of the official governing body. No individual Board member has “governance hat authority”. CEO is only accountable to governing policies set by the Board not to any individual Board member.</p>
<p>Volunteer Hat – carries no governing or legal authority</p>	<p>Goes on when leaving a Board or committee meeting. Worn when <i>advising</i> the CEO, when fundraising, helping staff (alone or in a group) and when serving under the supervision of the staff.</p>
<p>Implementer Hat – carries limited authority but is seldom worn.</p>	<p>Seldom worn since staff usually implements board policies. Worn when a Board resolution or the CEO gives a Board member authority to implement Board actions/directives. Hat removed when assignment is completed. A CEO Search Committee, for example, may have implementation authority to conduct a search and recommend candidates.</p>

Jesus told the story in Matthew 8:5-13 of a Centurion who had come to him for the healing of his servant. Jesus offered to go with him. This military commander declined, explaining that he understood the parameters of Jesus' authority. As one himself who was both under authority and exercised authority, he knew that all Jesus had to do was to speak the healing and it would be accomplished. Jesus commended the officer's understanding of authority as an example of great faith.

When Board members serve with a clear awareness of the parameters of their authority, they demonstrate that they understand their responsibilities. Living and serving in that awareness is an exercise of faith. We have discovered that much of the conflict between Boards and CEO's occurs as a result of a lack of clarity about the boundaries and parameters of authority. These conflicts and confusions most often are the result of individual Board members not understanding that unless specifically delegated to them by the whole Board or the Executive Committee on behalf of the Board, they have no individual authority to set policy or direct staff.

Assessment: Is there evidence that our Board individually and collectively understands the realms and limitations of our authority?

Key: Effective Board Stewards Understand The Way They Function

Nonprofit Boards function in a variety of ways depending on the experiences and convictions of the members, nature and condition of the organization, leadership style of the chief executive officer, influences of stakeholders (employees, beneficiaries and benefactors) and the patterns of similar successful organizations. Boards often operate in a self-imposed but usually unintentional vacuum. This can be the case if members are on the organization's Board primarily to support the CEO as a friend, mentor or colleague.

It is not uncommon for Board members of smaller faith-based organizations to serve on other Boards. Those with such experiences often want to make the Board look and function in ways that are familiar and comfortable to them from other settings.

Assessment: What is the makeup of our Board? What factors, as a result of that makeup, influence our governing because of these connections and relationships?

How do Boards really function? Is there a *best* way to function and under what conditions? James C. Galvin, President of Galvin & Associates in Winfield, IL, an organizational consultant specializing in faith-based nonprofits, provides a helpful summary of the **five ways Boards operate**.² No Board fits completely into any one of these categories. Look for characteristics across the categories that describe how your Boards function.

² James C. Galvin, Galvin & Associates, Winfield, IL, www.galvinandassociates.com ©2003 James C. Galvin & Associates, Inc.

Five Ways Nonprofit Boards Function

Working Board	Managing Board	Policy Governing Board	Ratifying Board	Failing Board
<p>No CEO or perhaps an acting director</p> <p>New start-up or small organization</p> <p>May or may not be incorporated or have 501c3 status</p> <p>Board essentially doing the work of the CEO as a team</p> <p>Board heavily involved in the work</p> <p>Focus on day-to-day operations</p> <p>Immediate time horizon</p> <p>Primary role of board is recruiting volunteers and raising funds</p>	<p>Weak or immature director/CEO, needs help running the place</p> <p>Emergency situations, between CEOs</p> <p>Board members know a lot about the work</p> <p>Focus on administration and operations</p> <p>Assign tasks to CEO</p> <p>Hands on and proud of it</p> <p>Intermediate time horizon</p> <p>Primary role of board is making decisions</p>	<p>Capable and competent CEO, experienced staff know more than the Board about the work</p> <p>Clear division of duties</p> <p>Focus on board work, concerned with values</p> <p>Up-to-date policies in writing</p> <p>Future-oriented, long time horizon, operates on strategic level</p> <p>Hands on / hands off, delegates to CEO</p> <p>Primary role of Board is setting policy</p>	<p>Hire a good CEO and stay out of his way</p> <p>Approves what the CEO brings</p> <p>Organization OK, but board in decline</p> <p>Focus on stability, status quo</p> <p>Hands off, getting lazy, out of touch, unaware</p> <p>Old and stale policies, little accountability</p> <p>No term limits, reunion of old friends</p> <p>Primary role of Board is rubber stamp and cheer leading</p>	<p>Members resigning, can't fill all the positions, high turnover, organizational fragmentation</p> <p>Financial mess, consumed by cash flow pressures</p> <p>Relational strife, distrust among Staff/Board</p> <p>Looking to the past, way behind the staff</p> <p>Not strategic, crippled by firefighting</p> <p>Confused, aren't sure what to do</p> <p>Primary role of Board is ensuring survival</p>

Working Boards usually exist in smaller and start-up organizations. They operate less formally with minimal structures, policies and systems. Not only do the Board members do Board work but they also do, out of necessity, what staff and volunteers do in larger and more mature settings. Working Boards create the vision and mission of the organization as well as actively implement their decisions. Boards can move into this modality in times of leadership vacuums or significant organizational stress and crisis.

Managing Boards have formal Board meetings, respond to staff reports but actively manage the organization. They make most of the major decisions, establish/control budgets and usually give leadership to the fund raising and marketing efforts of the organization. If problems or needs arise, they step in to meet the need and resolve the problem. Many faith-based organizations have Boards that function this way – particularly those that are denominationally related or have large numbers of beneficiaries as Board members who desire to keep the organization as they remember and were served by it.

Policy Governing Boards delegate responsibility to the CEO and the staff for the day-to-day management of the organization. They understand the differences between policy and administration – governance and management – working diligently to respect those distinctions. Governing Boards are policy-focused using clearly defined parameters to guide their service and the work of the staff. Great faith-based Boards follow a policy-based approach in their stewarding of the organization, honoring the distinctive functions and established authority of Board and staff.

Ratifying Boards essentially follow the vision and direction of the CEO. This type of Board is common in founder-led organizations. It also exists in organizations led by high profile, visionary chief executives. The Board members respond to, provide advice on and occasionally raise concerns about the CEO's agenda. They rarely conflict with the expressed desires and direction of the CEO. Galvin suggests that ratifying boards sometimes look like governing Boards except that they are not really leading the organization or providing high levels of meaningful accountability. This type of Board also is found frequently among faith-based organizations. The major problem with this approach is that insufficient monitoring of institutional leadership and process is occurring.

Failing Boards are in a continuing state of conflict, divided about organizational mission, unable to reach consensus on essential functions and frequently dominated by one or two strong personalities. Resources are eroding, the core mission lacks relevance and frequent staff resignations due to Board conflicts contribute to ineffectiveness usually leading to an unhappy, messy demise. While we have few organizations in this modality at this time, some marginal faith-based organizations have the potential to degrade into this type of function if fiscal, policy and missional issues are not quickly addressed.

Gavin provides a helpful narrative to illustrate the differences among these five operational styles.

*Think of these five ways of functioning as a lifecycle of a board. When an organization is nothing more than an idea passionately held by a small group of people, the group is functioning as a **working board**. With limited resources and time, they struggle to realize their vision and get the new organization off the ground. Over time they hire staff. Now larger and more established, more management and oversight is needed than in the early days. The board stops doing the work and moves to managing the workers. Raising funds becomes a bigger concern than when they only had volunteers. They slowly begin functioning as a **managing board**. Then the organization becomes larger or more established and they develop leadership talent in the organization. The CEO is managing the organization and so is the board.*

*Frustrations increase on both sides but neither knows what to do. Then someone suggests that they make the transition to a **policy-based approach**. It is new and feels strange because they*

*haven't done it that way before. But if successful, they immediately start functioning as a **governing board**. Over time, they get a bit lazy and stop watching over the organization so closely. "After all," they might say, "the CEO is doing a great job and we have nothing to worry about." They abdicate their authority and let the competent CEO lead the board as well as the organization. At that point they drift into functioning as a **ratifying board**.*

*As time goes on they get a new CEO, face a terrible financial crisis, or find their organization becoming increasingly irrelevant. They aren't sure how to respond. Arguments increase, relationships fracture, and board members resign. The organization is in a death spiral and they don't know how to pull out. They take a hard look at themselves and realize they are a **failing board**.³*

While conditions and circumstances may require that a Board change its style of operation and function, most Board governance researchers and practitioners see the Governing Board model as the *best practices* option.

Assessment: In light of the five models above, how does our Board function the majority of the time? What benefits and limitations do we experience functioning in this manner?

Key: Effective Board Stewards Govern Rather Than Manage

If the governing Board model is the preferred way to operate, how do faith-based nonprofit Boards become Governing Boards? What principles and practices are most helpful for developing and maintaining a Governing Board model? While no approach is perfect all the time for every organization due to a wide range of factors, Galvin's Governing Board model is the one that we believe fits best the *faithful stewards and overseers* parameters we have considered in this presentation.

John Carver developed the Policy Governance Model in 1990. Galvin and Andringa are among many who utilize various versions of this highly developed model, but *adapt* it rather than *adopt* it, for most Boards. Here we provide some additional insights to help you adapt the governance model.

What distinguishes *governing* from *managing and administering* is the Board's delegation of responsibility to the organization's CEO and senior staff for operating the business of the organization within clearly established, approved and monitored policies. Governing Boards are *policy-focused* using *clearly defined parameters* to guide the operating and oversight of their own and the staff's work. However, a full implementation of a policy verses administration style of governance is often challenging in faith-based settings.

It is not unusual for faith-based organizations to have Boards that function more like working or managing boards than governing Boards. Sometimes the lack of resources and/or sudden change in leadership personnel requires Board members to be *implementers* – to both administer as well as govern. In some recent cases we have seen a Board member become the Interim/Acting CEO to guide the institution through a crisis. In such settings, clearly articulated

³ The Engstrom Institute, Board Governance Theme, *Board Governance - Let's End the Policy-Based Debate*, James C. Galvin. www.engstrominstitute.com,

policies, approved by the whole Board, must establish the operating parameters needed to ensure that as Board members function administratively, they are guided and guarded by the Board as a whole. There is a significant potential for conflicts of interest without such Board defined policies and procedures. Policies protect as well as guide, clarifying the differences between the *governance hat* and the *implementer hat* as one works across the two arenas of service.

Given the challenges facing many faith-based organizations due to financial distress, accelerated turn-over of executive leadership and loss of relevance of historic mission, some Boards spiral down into *failing* or at the very least flailing modalities as they seek to adjust to the challenges. The *implementer hat* is worn almost exclusively as Board members jump in to save the organization. Policies that are put in place well ahead of potential crises ensure that process rather than panic, that collaborative wisdom rather than ego and personal agenda, inform the Board's responses to critical issues and exigent times. A policy approach to governance establishes contingency and emergency response parameters that help navigate difficult times with wisdom, grace, humility and courage.

Space does not allow for a detailed cataloging of all the specific policies that a governing Board should consider. Robert Andringa has provided a helpful template for a Board Policy Manual that is available at www.TheAndringaGroup.com/pages/bob_andringa and click on the Board Policy Manual (BPM) link for downloading and use. We recommend that particular attention be paid to the following areas for policy formulation and monitoring.

- Clear, compelling statements of *organizational vision* and *institutional mission*
- A description of the *core values* needed to guide the organization in fulfillment of its stated mission and implied promises.
- A clarification of the *moral owners* to whom the organization feels accountable and responsible along with a description of the organization's *beneficiaries*.
- An overview of the *major functions* as well as the *primary strategies* the organization uses to serve its beneficiaries, keep faith with its moral owners and fulfill the promises implied in its declaration of mission.
- A summary of both *short and long-term goals* to achieve its stated objectives along with the *monitoring tools* (key performance indicators) to measure success and validate results.
- Clear delineation of *executive parameters* that guide the CEO and administration in the implementation of programs and services to fulfill the missional promises of the organization.

This last area of policy formulation is of particular importance to faith-based organizations. As mentioned earlier, this is where we find the greatest potential for significant conflicts and ministry disruption. It is not uncommon for Boards of these organizations to be more *ratifying* than fully *governing* in nature. Many of these are headed administratively by strong, charismatic personalities around whom the mission of the organization revolves and upon whom the organization's success heavily rests. Many of these Boards are made up of individuals who either have a personal relationship to the CEO or a significant history of support and respect for the one who leads the mission. Theological orientation and nuances about the dangers of *touching God's anointed* can influence the willingness to direct and at times challenge the CEO in some of our more conservative and denominationally-affiliated settings.

Board members of faith-based organizations often feel unprepared personally, spiritually and theologically to give direction viewing the staff as superior in professional experience, spiritual condition, biblical knowledge and vision. The fact that many who choose to lead these organizations do so at significant personal sacrifice causes the Board to resist unnecessarily burdening or limiting their already over-worked chief executive. Charismatic, visionary leaders may view a policy approach as restricting of their ability to lead the organization aggressively and entrepreneurially. And some CEO's may view such a policy-guided direction as an expression of a lack of trust and confidence.

In reality, policies that are thoughtfully developed and wisely administered free the CEO and staff to give more time to the *ministries of the ministry* knowing that the important parameters that govern the *business of the ministry* are in place. The policy-guided approach minimizes confusion helping Boards and CEOs understand their functions, responsibilities and outcomes. The policy approach also allows the Board to focus on the larger issues of strategic visioning since many of the administrative necessities that too often consume Board agendas are routinized. In Parts Four and Five of Andringa's Board Policy Manual template there are several specific policies that should be considered to help clarify Board/CEO relationships, expectations and parameters

Faithful stewardship requires a doing of God's work God's way for His ultimate glory. Policy-based governance uses the Scriptural concepts of collaborative discernment, consensus agreement and responsible oversight to guide and guard the effectiveness as well as the integrity of the important work your organization does to advance Christ's Kingdom.

Assessment: How can we encourage a policy-based approach most helpful for managing the challenges ahead for our organization? Do we have the appropriate policies in place to help guide the work of our CEO and staff?

Key: Effective Board Stewards Monitor Performance and Results

Another important key to faithful Board stewardship involves the consistent monitoring of clearly established benchmarks and performance objectives. With appropriate policies in place to govern mission implementation, the best Boards use *key performance indicators* (KPI's) to perform their fiduciary responsibilities. While we have available a more detailed strategic initiatives presentation on this topic, we provide an overview here because of the importance of KPI's to the faithful stewarding of your organization's vision and mission.

One of the most sobering realities we have discovered in our work is that many faith-based Boards have only a limited understanding of the actual current conditions of their organizations "health and well being". It is essential for governing Boards to know where the organization is on a regular basis in terms of fiscal stability, program effectiveness, market position, key performance indicator trends and other "going concerns" matters in order to govern effectively. Boards need to regularly and systematically review the organizations most critical "dashboard indicators" to determine strengths, weaknesses, vulnerabilities and potential opportunities.

One of the best ways to monitor progress toward the achievement of the goals of the organization is through a set of *Key Performance Indicators* (KPIs). The best KPIs are connected to the goals and objectives of the organization's strategic plan. These indicators can

cover a wide range but generally involve financial, business process, client service results and in the case of faith-based organizations, indicators of spiritual impact. These spiritual impact outcomes can be among the most challenging to evaluate due to their highly subjective and anecdotal nature.

Historically Boards focus principally on financial indicators to measure and determine the health of the organization (return on investment, operating margins, profitability, liquidity, etc.). These have the advantage of being easier to measure and more commonly understood, especially for those Board members with business and for-profit backgrounds. However, it generally has been concluded that organizational excellence cannot be achieved if only the financial perspective is considered. One of the reasons for this is that financial measures typically are focused only on the short term and do not adequately address the long-term performance of the organization. Additionally, focusing primarily on short-term financial indicators misses the opportunity to understand other aspects of the organization that are direct contributors to overall success. Furthermore, a financial-only perspective makes it difficult to link with many of the most important goals of the strategic plan.

Over the last two decades a broader set of KPIs have been developed to look at other aspects of the health and growth in order to give a more comprehensive perspective. The best Boards combine financial indicators with other measures to create a more complete picture better reflecting the vision, mission, and strategy of the organization.

Another important aspect of the Board's monitoring is the regular assessment of both the Board's and CEO's performance. We recommend an annual review by the Board of CEO efforts based on the goals and objectives established for the previous year. Every three years, or whenever the contract period expires, the Board should facilitate a comprehensive evaluation of the CEO providing opportunity for appropriate feedback from staff, beneficiaries, benefactors and other key constituents. Information gathered should be used to reward performance, set new goals and where necessary clarify expectations.

In addition, the Board should self-evaluate each year as well as ask the CEO for an assessment of Board performance. Using the "Keys" and the "assessment" questions we have considered in this presentation is a helpful starting point for such Board evaluation.

Assessment: Does our Board consider more than just financial indicators when evaluating the performance of the organization and leadership? Do we have a relevant and meaningful set of key performance indicators to measure progress toward achieving the goals of the strategic plan? What critical factors that are essential for our organization to achieve its vision are not being addressed by the measures currently used by the institution's leadership? How well are we evaluating both our own as well as our CEO's performance?

Key: Effective Board Stewards Nurture Their Calling

We believe that the most effective faith-based Boards pay attention to the nurturing of their spiritual vision and calling as faithful stewards. In a very real sense, Board members are privileged to be a part of a microcosm of the "body of Christ" I Cor. 12. You have come together in the context of a "community of faith" to collectively discern and oversee God's business for your

organization. You do that business best as mutually interdependent beneficiaries of one another's gifts, graces and insights.

The most effective faith-based Boards pray, worship and grow together spiritually as well as do the business of the organization responsibly. They remain connected to one another outside of regularly scheduled meetings *rejoicing with those that rejoice and weeping with those that weep* Romans 12:15 because they have a sense of spiritual connection and responsibility that goes beyond the mere business of their organizational affiliation. For many faith-based Board members, this affiliation with those of like-minded faith and purpose becomes one of the greatest rewards for their participation.

In addition, effective faith-based Boards use the results of their performance evaluations to improve governing skills, better orient new and returning Board members and keep abreast of issues, strategies and opportunities in their organization's field of service. There are many excellent resources available to help Boards refine their skills as steward overseers. Perhaps one of the most comprehensive is Board Source www.boardsource.org/ - an excellent repository of information, strategies and other materials to help your Board grow and mature professionally.

We recommend annual Board retreats with a prominent part of the agenda given to skill set development as well as spiritual nurture. The use of Board Development consultants also can be an effective way to expand horizons and enhance skills. We encourage an in-depth Board retreat every couple of years utilizing outside resources to focus on good Boardmanship issues and practices.

One of the most valuable resources for nurturing faith-based Boardmanship is to hear the stories of the lives changed by the work of your organization. In the final analysis your work together is about touching and changing individuals in some specific way fulfilling our Lord's Great Commission and Great Commandment mandates. Whether we are proclaiming the Gospel, offering relief through the distribution of shelter, food and medicine, producing media to tell the story of Jesus' love or hundreds of other "callings" that make up the faith-based organizational universe, we are informing and hopefully transforming lives. Hearing the stories of people touched by our organization's efforts renews vision making our diligent attention to policy and performance a rewarding outcome of our careful stewardship. Effective faith-based Boards see all of their governance efforts as a means to the ultimate end of fulfilling our Lord's calling to serve His purposes in our generation.

Assessment: How well are we nurturing our spiritual calling as faithful stewards of this organization's mission? What professional development and training does our Board need to function at the highest levels of effectiveness? Are we hearing enough of the stories about lives touched, changed and transformed by our organization's efforts?

Summary on Effective Faith-Based Board Governance

These are such important and we believe critical days for faith-based nonprofit organizations. It appears that the needs for the ministries, services and other "callings" such organizations steward have never been greater. The strategic partnership between governing Boards and

operating CEOs must be strengthened and enhanced. I believe that the “Keys” covered in these materials will help your organization unlock its highest potential and greatest effectiveness.

It has been my privilege to serve faith-based organizations for over four decades in a variety of senior leadership roles as well as an executive coach and organizational consultant. And I am committed to helping your organization develop the informed and effective leadership required for the daunting challenges and unprecedented opportunities in your future. I am committed to helping identify and supporting those called to lead your organization into a future that is filled with the potential to, as Charles Wesley’s hymn challenged, *serve the present age our calling to fulfill*. I would be privileged and available to partner with you in this grand adventure of serving God’s purposes for His glory in this generation and those to come.

If we can be of further assistance to you as you address your Board’s effectiveness, please do not hesitate to contact us at:

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Dr. David Gyertson served as Distinguished Professor of Leadership Formation and Renewal at Regent University in Virginia. He taught Doctoral level courses in the School of Education as well as the School of Global Leadership and Entrepreneurship. David also served as a Senior Fellow with the Engstrom Institute of the Christian Leadership Alliance with a special research and consulting focus in Executive Leadership for Nonprofit organizations. And he served as a Senior Fellow for the Council for Christian Colleges and University in Washington, D.C.

Gyertson has a broad and varied background in higher education, publishing, consulting, executive coaching, ministry and media.

He has held senior leadership positions in religious, charitable and business environments, including international and cross-cultural settings. Currently he is a consultant with the Dingman Company, a retained executive search firm, as well as the Headmaster of Maranatha High School, a Christ-centered college preparatory academy in Pasadena California. He conducts Board leadership and professional development seminars for a wide range of organizations including churches, colleges and universities, schools and other major entities such as the Salvation Army.

Gyertson was President of Regent University, as well as Asbury University (Kentucky) and Taylor University (Indiana). He holds a Ph.D. from Michigan State University with a concentration in higher education administration and management. He is an ordained minister having served senior pastoral positions in Methodist and Presbyterian settings.

David is published widely in the fields of applied theology, colonial and church history, higher education and leadership studies. His primary work on Board Governance, which was published by the Christian Leadership Alliance in the fall 2011, is "Faithful Stewards: Board Governance Principles and Practices for Faith-Based Nonprofits". His book chapter "Christian Leadership and the Identity and Mission of an Organization" was published in "Christian Leadership Essentials" edited by David Dockery (B & H Publishers 2011). Also, Gyertson edited and contributed to "Nonprofit Leadership in a For-Profit World (Standard Publishers 2011) that chronicles the insights of fourteen of to-day's most influential Christian leaders. Gyertson serves on the Board of Biola University in California and Christian Broadcasting Associates in Toronto, Canada.