

Is this NFP Board for you?

Many join Not-For-Profit (NFP) boards for the obvious reasons of giving back to the community that enriched them. Selfishly, joining an NFP board is also good for further developing your personal network. Equally, getting involved in worthwhile discussions is also good brain candy, a benefit in its own right.

With over 100,000 NFPs in Canada – some with charitable status and some not (and there is a difference) – care should be taken at outset as not all NFP boards are the same. You should do as much due diligence on the NFP as it does on you, for it to be a positive experience. Once you have confirmed that you are interested in the cause, as expressed in the mission and purpose, ask 5 further questions.

The 1st question is – are the financial accounts and statements in good order? Many NFPs have audited financial statements as that is important for charitable status. Check for deficits for the past several years. If the deficit is continuous, it may be inevitable for the NFP to run out of money. Check the ratio of overhead expenses to program ones. Efficient organisations run at 20-40% overhead for money raised, for example. Savvy donors typically only will give to NFPs where their donation is directed to programs rather than overhead. Ask about sources of funds: private donations, corporate sponsorships, government grants, Non-Governmental Organisation (NGO) support, subscriptions, etc. These sources need to be sustainable for ongoing operations. Some NFP boards ask that all directors also make a contribution.

The 2nd question – are financial statements produced on a timely basis. Financial reports should include Profit and Loss (P&L) as well as a Balance Sheet; bonus if a cash flow statement is readily available. With computer software (shrink wrap) allowing downloadable transactions from bank accounts, statements should be available within 1-2 weeks after month end. Reports should also include any variances to budget. Timely reporting is an important indicator of management attention, efficiency and effectiveness.

Board composition and dynamics is an important 3rd question. Critical areas should be covered: accounting, legal, fund raising (if a charity), human resources, marketing, etc. As a board member you are providing oversight as well as critical experience to guide the NFP; so must others. Too many board members may suggest too social a board or that getting a quorum is difficult. If quorums are difficult is there disinterest? Determine if the board is a working board. Many NFPs do not have the broad range of expertise required and rely on board members to step in, to augment expertise and occasionally capacity.

The 4th question – what is the governance board process? Is it based on the principle of “nose in, fingers out”? While no CEO wants or welcomes back seat driving, there should be an environment of critical collaboration. Some boards are satisficing ones rather than maximising ones. Specifically, satisficing boards check that management makes satisfactory decisions; nothing wrong or untoward. Maximising

boards check that management is making the very best decisions, not just ones that are acceptable. The latter encourage fulsome discussion and examination of options and alternatives for major decisions. Studies indicate that better decisions are always made when options are presented for subsequent discussion. The alternative is expedient decision making.

The 5th question – what are the major risks that face the NFP in the coming year? Risk management at a board level is a good indicator of governance as well as management. These risks should be well understood, with clearly developed mitigation strategies.

With so many NFP boards to choose from it is important to get the right fit – for you as a prospective board member and for the NFP.