

THE GIFT OF GUIDANCE

Serving on a Nonprofit Board

SPRING/SUMMER
2008

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When I teach nonprofit governance to business leaders, I ask them to whom they owe their fiduciary responsibility when they serve on a nonprofit board. They frequently list out all the stakeholders of a nonprofit organization—funders, the community, the employees, etc. Their actual fiduciary relationship is to the clients, the beneficiaries of the services that the organization is committed to serve. Regrettably, clients rarely appear at the top of the list. It's critical for a board member to know this because it means they understand that their primary governance responsibility is to ensure that the organization is effectively delivering on its mission and has the systems in place to know it is being successful.

— ALLEN GROSSMAN, *Harvard Business School*



You are seated at the board meeting of a small community college, and must decide whether to accept a large donation from a controversial religious leader or shut down the college. You serve on the board of a public television channel, and Congress has threatened to stop funding public broadcasting, citing your area as an example of unnecessary redundancies. You are on the board of a charity which provides portable ultrasound devices in third world countries for pre-natal care, but have discovered that these devices are being used predominately for gender-selection abortions. Are you prepared to react?

Serving on a nonprofit board is similar to an elected or appointed government role. You are selected to represent society's interests and oversee an organization which has received the privilege of tax-exempt status. As such, you have a responsibility to direct the organization's resources in the most ethical and reasonable manner. As a board member, you have an obligation to contribute your own resources, time, expertise, contacts, and money to the fulfillment of an organization's mission.

What do you get in return? In some cases, you get prestige, and in most cases, a sense of fulfillment and influence: the chance to leave a legacy and to make your community better than you found it. Board service further provides an opportunity to learn and develop new skills and work with interesting and highly dedicated individuals. Nonprofit work can be one of the most fulfilling aspects of your life.

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SCHWAB CHARITABLE™

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ON A CHARITABLE NOTE



This issue of GIVING is devoted to the topic of serving on a nonprofit board. Research conducted by Schwab Institutional in July, 2007 found that forty percent of retired, affluent Americans serve on boards (including nonprofit boards). We suspect the percentages may even be higher among Schwab Charitable donors. If board work is something you are considering, I want to encourage you. It is very powerful to combine your charitable contributions with your expertise and time to achieve maximum impact on the causes you care about the most.

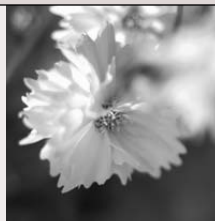
I have served on more than a dozen nonprofit boards ranging from very small organizations to very large charities. Years ago, when I was president of the Junior League of San Francisco, we did a survey of the charities the Junior League was funding. A Junior League grant consists of three parts: a monetary gift, a cadre of trained volunteers and an individual to serve on the recipient's board of directors. We surveyed grant recipients over the previous ten years about what was most valuable to them, and the answer surprised us. Almost all of them said the most valuable part of the grant was the board member (volunteers ranked second and grants third). These were small, local, human services agencies, which did not have the cache to attract experienced, big name directors, and struggled with insufficient resources and staff. Their answers speak to the incredible value and importance of board service.

Some of the most rewarding experiences in my life have been related to my service as a board member. I would be hard-pressed to have an equivalent effect through granting alone. I made some of my best friends working in the trenches of volunteer boards. Sitting on volunteer boards kept my mind stimulated during the years I spent raising children rather than working for pay. I have received much more than I have given, and each board has presented another even more interesting opportunity around the corner.

Whether you currently serve on a nonprofit board, or are simply considering service, I hope you find this article useful and informative.



Kimberly Wright-Violich
President
Schwab Charitable





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IMPORTANT ANNOUNCEMENTS

Lower Grant Minimum

We've recently lowered our grant minimum from \$250 to \$100 to allow you even greater flexibility with your grant recommendations.

Save a Tree and Give Your Postal Carrier a Break

Sign up for e-grant notification today, and help Schwab Charitable go green! If you would like to stop receiving a paper copy of the letter sent to the charities you have recommended, please call a Donor Relations Specialist at 800-746-6216 or email your request to ask@schwabcharitable.org. Once activated, you'll receive an e-mail as soon as each grant check is mailed, with a link to a copy of the actual letter via our online Donor Center.

Record 2007 Results

In 2007, the Fund received more than \$1 billion in donations, our most successful fundraising year on record. These results are expected to place Schwab Charitable among the top ten fundraising charities in the U.S. and the largest in the State of California. Based on grant disbursements you generously recommended, Schwab Charitable is also among the top ten largest grantors in the U.S., with \$300 million granted in 2007 to over 35,000 charities throughout the country (including domestic affiliates of international organizations). Thank you for allowing us to be part of your generosity!

Why serve on a nonprofit board?

Donating money to a nonprofit organization is a gratifying experience, but for those who have the time and interest to get more involved, serving on a nonprofit board allows for even greater engagement. To be a truly effective board member and help create an exceptional board, you must care passionately about an organization and be willing to commit the necessary time and skills to help it thrive. A happy and successful board member will be engaged equally by the heart (passion) and the brain (understanding and commitment).

Once you have found a good match for your desired level of involvement, interests and skills, there are still some questions which need to be addressed (see page 4, *Checklist for Joining a Nonprofit Board*). Do your research, and then before making a commitment, seek an opportunity to work directly with the nonprofit. Opportunities might include, but are not limited to, volunteering for the organization, attending a board meeting or serving on a committee. These are all great ways to contribute to the organization, while gaining experience working with both board members and management.

Key responsibilities of a nonprofit board member

Responsibilities can range from strategic vision to fundraising, personnel decisions

to legal and regulatory adherence. One important role of the board is the hiring of the Executive Director (ED). Veronica Samoulides, former Board President and current board member of Mission Learning Center (a community literacy organization in San Francisco) recalls of her time in a leadership role on the board: "The worst experience was probably a bad hiring decision we made for the ED. We moved a little too quickly, didn't do enough due diligence and didn't trust the collective 'gut' of the Board. The ED was only in place three months, but we did a fair amount of damage to the organization in terms of trust with the staff and funders." Wading through the applicant pool can feel like a drawn-out process, but holding out for the right match is well worth the wait.

"It is the responsibility of an effective board member to commit to being fully engaged and taking the time to do it right," says Tom Saunders, a Schwab Charitable Fund donor, and a board member at The University of Virginia Investment Management Company, the New York Historical Society and the Heritage Foundation, and a former member of the governing bodies of the University of Virginia, the Virginia Military Institute and the Thomas Jefferson Foundation. He suggests, "There's no particular magic to the time commitment per se. The real measure of a successful board member is whether one adds value to the institution."





Nonprofit board service differs from for-profit board service

Celia Roady is a partner at Morgan, Lewis & Bockius, LLP of Washington D.C., who specializes in representing tax-exempt organizations throughout the country. Roady explains the distinction between the responsibilities of for-profit and nonprofit boards as follows: “If it’s a for-profit organization, your obligation is bottom-line oriented: to help the corporation make a profit for the shareholders. If it’s a nonprofit organization, your obligation is broader and more diffuse. The ‘shareholders’ are the public, and your responsibility is to make sure that the organization’s mission is carried out in the public interest.”

In his 2 1/2 day program called *Governing for Nonprofit Excellence*, Harvard Business School professor Allen Grossman teaches that what works in a corporate boardroom may or may not work in a nonprofit boardroom. “Nonprofits aren’t operating in a market that’s coherent,” explains Grossman. In the for-profit world, success is easily identifiable, but metrics of success do not exist off the shelf for most nonprofits, and developing them is a long iterative process. “It’s not for the board to design the metrics, but they must keep asking the questions to ensure that enough resources are allocated internally to develop them.”

How important is it that a board member helps with fundraising?

In addition to giving time, energy and service, board members are often also asked to

contribute financially for the honor of serving. Board members are typically expected to “give or get” (donations), sometimes extended more ominously to “give, get or get off.” Some boards are very focused on fundraising and expect large gifts from each and every board member. Others are focused on using board members to supplement the staff. For organizations that are struggling financially, it can mean both. This can be a particular challenge if you are on the board of a smaller nonprofit. Samoulides laments, “If you’re not working for a large organization, there is a constant struggle for public funds, identifying private donors and breaking through the clutter to motivate people to become financially involved.”

One of the biggest obstacles to giving is the concern that your donation will be ineffectively spent by the organization. Seeing the struggles of a small, resource-constrained organization with a noble mission first hand, board members often feel more comfortable with the impact of their donation and compelled to increase their giving. Participating personally in allocating resources on a board may also educate a donor about the tradeoffs required to run a nonprofit. As Scott Rhoades, a Vice President in Finance at Charles Schwab & Co., Inc. and the Treasurer for St. Dorothy’s Rest, an Episcopal camp in Northern California, observed, “Recognizing that we [at St. Dorothy’s Rest] have to be very careful about how we use our money, I’ve started to be much more discerning about how I want to give.”

Are there any potential pitfalls of service on a nonprofit board?

Serving on a board presents risks as well as rewards. Board members should be familiar with tax rules and the state and federal laws that govern the organization they might join. Understanding differences between 501(c)(3) and 501(c)(4) organizations, and between public charities and private foundations can be indispensable for understanding the do’s and don’ts of fundraising, lobbying, and running programs. Though the Sarbanes-

Oxley Act of 2002, which tightens the rules for corporate governance of publicly held companies, generally does not apply to nonprofits, it has influenced the level of care nonprofit boards are taking in fulfilling their duties. Roady observes, “One post-Sarbanes-Oxley influence that you see is an emphasis on board orientation. New members that join the board now typically get some orientation about basic board responsibilities as well as any special legal aspects of the organization, and that then helps them with issue-identification down the road.”

Boards often struggle with striking the right balance between over-involvement and under-involvement. Roady has found it is a more common mistake in larger organizations to defer to management too often. “The role of a nonprofit board is to trust but verify,” confirmed Roady. “Boards should be independent-minded and should not function as a rubber stamp for management proposals.” An uninvolved board in the normal course of events is harmful to an organization as it may prevent the organization from achieving or sustaining a higher level of performance. Boards tend to be most engaged when an organization is starting up or in crisis. Over time, however, an organization may drift into practices which either are inappropriate (e.g., rarely holding meetings) or have the appearance of being inappropriate. Appearance is critical in the management of nonprofits since reputation is the single most crucial asset for fundraising.

The rewards of board membership

Samoulides identifies personal growth as well as contributions to the community as benefits of her board service: “By far the most valuable lesson I’ve learned is one of patience – it’s a marathon, not a sprint. That applies both to our attacking of the literacy problem as well as our financial challenges. Sometimes both can seem daunting and it’s easy to overlook the small steps forward we’re making – the difference in one child’s life or a small grant from a new foundation.”

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CHECKLIST FOR JOINING A NONPROFIT BOARD

Joining a board is a commitment to be taken seriously. Here are some ideas to help you find the nonprofit that is right for you.

1. Connection

What do you believe in? Where do you want to make a difference? Ideally, what is your passion?

2. Alignment with Mission and Strategic Plan

Obtain a copy of both and ask how board members support strategy. Does the mission connect with your personal philosophy and goals? Is it clear how the mission will be accomplished? How do they measure success in achieving their short-term goals and broader mission?

3. Cultural Fit

Does the board reflect the community served? How cohesive is the board? Are the board members people that you could work well with? Do you feel they would welcome your input? Do they share your values? Is the board diverse? Different perspectives ought to be represented on the board.

4. Financial Commitment

What percent of the board makes a charitable contribution to the nonprofit? Are there bylaws or policies that define board members' obligations to contribute and at what level? Does the fundraising commitment allow a board member to fulfill their obligation by canvassing friends and/or securing donations from others, or specifically contributing themselves?

5. Clearly Defined Roles

What are the roles and responsibilities of a board member at a given nonprofit? Be wary of coy responses about simply getting involved and making a difference.

6. Time Commitment

How many hours a month does a board member devote to the organization? How often does the board meet? How often do the committees meet? What events will board members be expected to attend? Are there policies regarding board attendance? Be ready to spend preparative time in advance of board meetings and time in committee work in addition to attendance at the meetings.

7. Role of Executive Director

Is the Executive Director/CEO someone you have confidence in? Be sure to meet with the Executive Director/CEO to find out their vision for the organization, the biggest challenges and greatest opportunities facing the organization, what they need from a board member and to get their perspective on board dynamics.

8. Finances

Request copies of the current budget and historical revenue and expense documentation, cash flow reports and IRS form 990 or 990-PF. Is the organization fiscally solvent? Does the organization have a problem meeting payroll or tend to be in the red? If so, you may end up spending more time as a board member addressing fiscal issues. This by itself should not dissuade you from service, but it is something to consider carefully.

9. Board Development Opportunities

Is there board training and/or orientation? Are there other opportunities to learn? Are they interested in you because of a specific skill you bring? If so, does that mean you will have less opportunity to serve on committees where you can learn something new?

10. Compliance

Does the organization have a conflict of interest policy, a code of conduct policy, whistle-blower policies, document destruction policies, and personal liability insurance for directors and officers? Is there an audit committee?

11. Personal Skills

What are your skills? What value can you add to good governance? Will the organization allow you to engage and use your skills on its behalf?

12. Nonprofit Lifecycle

In what stage is the organization? Is it a start-up? Is the organization scaling up or down? Is it in crisis? Are you prepared to be responsible for the amount of work the answer implies?

REFERENCE MATERIALS ON BOARD SERVICE

Printed Materials

The Nonprofit Board Answer Book,
Boardsource (2007)

*The Source: Twelve Principles of
Governance that Power Exceptional
Boards*, Boardsource (2005)

*Principles for Good Governance and
Ethical Practice*, Panel on the Nonprofit
Sector (2007)

Good to Great and the Social Sectors,
Jim Collins (2005)

*Governance as Leadership: Reframing
the Work of Nonprofit Boards*, Richard P.
Chait, William P. Ryan, Barbara E. Taylor
(2004)

“Working on Nonprofit Boards:
Don’t Assume the Shoe Fits,” F. Warren
McFarlan, *Harvard Business Review*
(Jan 5, 2008)

Online Resources

www.bridgestar.org

www.bridgespangroup.org

www.boardsource.org

www.nonprofitpanel.org

*To contact us, write to
Schwab Charitable
101 Montgomery Street
San Francisco, California 94104.
Call us at 800.746.6216
or send an e-mail to
ask@schwabcharitable.org.*

Tom Saunders points to the satisfaction he gets from seeing the fruits of his labor during his lifetime: “Making commitments or providing financial support that makes things happen, funding academic chairs or a particular research center that would not otherwise have been established — that’s extremely rewarding and satisfying.” Speaking of his influence on future generations through his service with the Thomas Jefferson Foundation, Mr. Saunders reflects, “My real return on an investment of time and resources is the value I hopefully add to an institution which is very important to the American people and essential to the preservation of the founding principles of this country.”

The most rewarding aspect of service may be influencing the next generation of nonprofit leaders and board members. According to Rhoades, “Board service clearly indicates a commitment beyond writing checks. When I’m doing board-related activities on a Saturday morning and my kids ask me where I’m going, they can see that I’m involved; it piques their curiosity.” Serving on a nonprofit board leverages a person’s power to improve society and to change the world for the next generation. For many board members it works both ways: their service benefits society, and that service betters them as well.

OUR ESTEEMED BOARD MEMBERS



Pictured here are the current Schwab Charitable board members, each an experienced philanthropist and nonprofit board member in his or her own right, with a strong commitment to our mission of increasing charitable giving in the USA. From left to right: **Sanford Robertson** (Democratic Leadership Council, Tech Museum of Innovation – San Jose, University of California President’s Board on Research and Economic Development), **Charlene Harvey** (Golden Gate National Parks Conservancy, the WELL Network, the Campaign for the Presidio and Golden Gate National Parks, the San Francisco Foundation), **Brooks Walker** (San Francisco Museum of Modern Art, Walker Art Center – Minneapolis), **Beth Sawi** (Alameda County Community Food Bank – Oakland, Ms. Foundation for Women – New York), **Charles Schwab** (All Kinds of Minds, the Charles & Helen Schwab Foundation, San Francisco Museum of Modern Art, the President’s Advisory Council on Financial Literacy)