

INEQUALITY AND NONPROFIT BOARDS

Is Your Board “Normal”?

BoardSource’s 2014 Nonprofit Governance Index

by Ruth McCambridge

BoardSource’s most recent report on nonprofit board practices shows, among other trends, that lack of diversity in board leadership with respect to race, gender, and age persists. And as YNPN’s communications and network engagement director Jamie Smith warns, “Until we make our boards and executive leadership more diverse, our sector won’t be operating at its full potential.”

Editors’ note: BoardSource’s *Leading with Intent: A National Index of Nonprofit Board Practices* (formerly known as the BoardSource Nonprofit Governance Index) is a series of studies that track and analyze trends in nonprofit board leadership, practices, and composition. BoardSource’s 2014 report, released on January 27, 2015, is based on responses from 878 nonprofit CEOs and 246 board chairs, who shared quantitative and qualitative data about their boards’ composition, policies, practices, and performance in a survey conducted in summer 2014. (The report can be downloaded for free from the BoardSource website, www.boardsource.org/eweb/.)

In this article we concentrate on just a few of the findings, so we urge our readers to take a look at the full report. We do caution the following: First, the data is self-reported and therefore prone to subjectivity—and that subjectivity, by the way, comes from a place that is older, whiter, and more male than we all wish it were. Second, the fact that the respondents are by definition people who have been in touch with BoardSource—and therefore have evinced some interest in good governance practice—makes the index not entirely representative (although, according to Vernetta Walker, BoardSource’s vice president and programs and chief governance officer, previous research suggests that the findings are still representative of the larger field). With that said, the information gives us a backdrop of impressions that can help guide future thinking and action vis-à-vis nonprofit boards.

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IS YOUR BOARD OUT OF STEP WITH THE NORM? BEFORE you ponder this question you may want to review *Leading with Intent: A National Index of Nonprofit Board Practices*, BoardSource’s

newly released report on trends in board leadership.¹ As the report makes clear, in some cases these norms may reflect good standards of practice, but in others, not so much.

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Are You in the Norm? 12 Indicators against which to Compare Your Governance

Based on the findings in the report, your board is in a *very small* minority if:

1. You pay board members an honorarium (98 percent do not);
2. Your CEO/executive director is a voting member of the board (88 percent are not);
3. You do not have directors' and officers' insurance (96 percent do);
4. You do not get an annual financial audit (89 percent do);
5. You do not have a whistleblower policy (88 percent do);
6. You do not have a document retention and destruction policy (86 percent do);
7. You do not have a written conflict-of-interest policy (97 percent do);
8. You do not distribute the Form 990 to the board before filing your taxes (85 percent do).

These practices are generally recommended as components of good governance, although when it comes to number 4, some groups are small enough to be able to replace the audit with financial statements—and, frankly, some still question the real need for D&O insurance (number 3). But you are also in a small minority if:

9. You do not have a white board chair (90 percent are white);
10. You do not have a white executive director (89 percent are white);
11. You have a board chair who is forty years old or under (91 percent are over forty);
12. You have an executive director who is forty years old or under (94 percent are over forty).

If BoardSource's respondents are indeed relatively representative, these last four points indicate a lack of diversity in leadership in the sector overall. It's this lack of diversity in leadership (and a few related issues) that *NPQ* will focus on in this short review of some of the findings.

But first, it is important to recognize that boards have shrunk. This trend isn't new; according to this index, over the twenty years between 1994 and 2014, board sizes have diminished by almost 20 percent, from an average of 19

members in 1994 to 17 members in 2004 and to 15.3 members in 2014. While there are still some large boards, more than 80 percent of boards have fewer than twenty members.

Also, the thought that boards must be packed with influential connectors seems to be going the way of the dodo—at least for many organizations. This fits well with the idea that boards should know how to interact effectively with larger systems of governance and support. “Interacting effectively” in these times means that board members are connected enough to the organization and its stakeholder environment—rather than to influential individuals external to that environment—to ensure proper communication with stakeholders. This means too that board members should be capable of listening with an educated ear for the tremors and trends in the organization's environment—and a lack of diversity on the board interferes with the capacity to accurately “listen.” What follows is a summary of some of the key points in the report having to do with issues of diversity.

Racial and Ethnic Diversity on Boards Have Progressed Very Slowly

While there has been progress in racial and ethnic diversity on boards, it has been slow. As noted above, 80 percent of board members are white. This compares with 91 percent, as reported ten years ago in the 2004 *Nonprofit Governance Index*, but given the diversity of the country's population, it still comes up wanting. Add to this the fact that, as we mentioned earlier, 89 percent of executive directors/CEOs are white (recognizing that executive directors are indeed an important guiding force in governance) and 90 percent of board chairs are white, we see a firm cultural lock in governance leadership that should be unacceptable in this sector. Again, the larger the organization—in terms of financial assets—the less racial and ethnic diversity there is in governance. When we look across nonprofits like this it is easy to see that there is a problem, but individual organizations are the level at which these changes will finally be made. The governance index findings “show a lack of concerted planning and follow-through.”

Gender Diversity Is Still Sensitive to Size

Conforming to the findings of other studies, women in leadership tend to dominate in small and midsize organizations, but the picture changes as nonprofits get larger. As the report indicates, more than 65 percent of small and 75 percent of midsize organizations have female CEOs, compared to just 37 percent of large organizations. The same dynamic exists on the board and in the board chair position, but as the report states, “the larger the organization, the more likely the chair is to be white, over 40 years and male.”

Board Members Are As Old or Older than They Were Twenty Years Ago

According to the index, boards appear to have stagnated on building young membership or even become less inclusive of youth over the past twenty years. In 1994, more than half of board members were reported in the index as being between thirty and forty-nine years old.² The 2014 index does not use the same age spans, so it is difficult to compare exactly, but in 2014,

84 percent of board members are reported to be older than forty. In other words, only 16 percent of board members are younger than forty.

And executive director longevity was impressive across all sizes of nonprofits. A whopping 41 percent of the CEOs who responded had been in their positions for ten years or longer, and 80 percent had been in their positions for three years or longer. This is higher than in 2004, when only 71 percent had been in their positions for three years or longer.³ Additionally, prospects for future longevity are surprising, with 50 percent of all current execs saying they have no plans to leave, and another 25 percent saying they may leave in the next three to five years—which, in our experience, could mean anything.

This is an interesting trend, given that there was an alarm sounded early last decade about an anticipated mass exodus of leaders. It is described in *Next Shift: Beyond the Nonprofit Leadership Crisis*, a 2007 report by Frances Kunreuther and Patrick A. Corvington, as “a rising sense of alarm in the nonprofit sector about the future of

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its leadership. Study after study has pointed to an impending crisis, with roughly 75 percent of executive directors/CEOs reporting that they plan to leave their jobs within the next five years.”⁴

As it stands, only 34 percent of responding boards have written executive succession plans, and considering the age and longevity of the CEOs, this could spell big problems. For any number of reasons, leadership succession should be seen as a sector-wide challenge that needs to be addressed through the development of much deeper and younger leadership benches on the boards and in executive leadership in every nonprofit.

While the 2014 index does suggest that board members under forty increased from 14 percent to 17 percent between 2010 and 2014, the proportion of board members under forty in 1996 was higher than this year, at 19 percent. Thus, little movement is apparent on this front, and combined with the advanced ages of CEOs and leadership (as shown in points 11 and 12 above), this may spell problems in terms of nonprofit resonance and relevance in the future.

Because the report’s data on the ages of leadership were so striking, we asked staff at the Young Nonprofit Professionals Network (YNPN) about the implications. Trish Tchume, YNPN’s national director, took the following stand:

The case for diversity and inclusion tends to focus on “reflecting the communities we serve.” While this is a strong reason in and of itself to work toward greater inclusion on boards, there is a much more straightforward reason to seek diversity: Our visions for a change are far too complex and the possible solutions to address these challenges are far too vast to rely on a narrow set of people to bring them to bear on our organizations.⁵

Budget Size Matters to Diversity

A number of board characteristics change with organizational size as figured by annual budget, and many of these have to do with inclusion. For instance, most board members in nonprofits are older, with 84 percent in the over-forty category.

(And when it comes to CEOs, forty may be the new twenty; a full 94 percent of CEOs responding to the survey reported that they were over forty.) The larger the organization, the greater the percentage of older board members. At small organizations, 80 percent of board members are over forty; at midsize ones, 85 percent are over forty; and at large ones, it goes up to 90 percent. A similar proportional dynamic exists regarding the gender of board members: small, 52 percent female; middle, 47 percent; large, 40 percent. And boards of small organizations were only slightly more racially diverse than those of midsize or large organizations.

Big-Picture Governance Requires the Ability to Work through Diverse Networks

As David O. Renz suggests in his article “Reframing Governance II,” the systems that govern an organization exist in the organization’s external environment as well as within the board. Boards that do not act on this point end up abdicating some of the most powerful decisions to others:

Governance is not just about organization; it’s an essential function in addressing a particular issue or need in our community. But for so long, individual organizations have been the appropriate unit to address problems, and we assumed that it always would be this way. But now, for the most critical and substantive community issues and problems, single organizations can no longer appropriately match the scale of these issues and problems. We’ve found it increasingly essential to develop alliances and coalitions—extraorganizational entities—to address the multifaceted complexity of these critical needs and issues. And the most successful systems we’ve developed to govern these alliances reflect the same scale and complexity as the alliances themselves.⁶

For many nonprofits, their work is bounded, limited, and facilitated by public policy, yet according to the index, few boards see themselves as responsible for monitoring the impact of public policy on their organization; 37 percent do, at least to “some extent,” and this category is sensitive

to size, with smaller organizations doing less of it. Even fewer, 33 percent, try to affect policy by educating policy-makers “to some extent.”

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In a time of massive societal disruption, nonprofit boards remain relatively stable. Though they have not changed much, some of the changes they *have* made seem positive. The adoption of practices to improve accountability (and, presumably, lessen the potential for conflicts of interest) is good, and the fact that boards have become smaller could be quite positive under the right conditions. But the lack of inclusion of younger people and people of color on boards and in the position of executive director seems to point to an unwillingness to join in and make best use of the current societal disruption.

Young people have a different experience base in the political and social uses of networks, which relates to the ability to approach big questions. Additionally, smaller boards can do their best work for the good of a larger community if those boards have an understanding of how to interact effectively with a larger, more diverse, and unbounded governance system of stakeholders. This cutting edge of governance requires cultural wisdom—and that means the wisdom of younger leadership must be courted and engaged. As Jamie Smith, director of communications and network engagement at YNPN, puts it:

Until we make our boards and executive leadership more diverse, our sector won't be operating at its full potential. Beyond missing out on opportunities to learn from diverse perspectives, we're operating in a way that's unsustainable and completely unnecessary. . . . There's an abundance of young and diverse leaders who are looking to be engaged. The question is, why aren't we engaging them?⁷

It's a good question. Is the problem coming from a tendency to self-protect and self-perpetuate through recruitment practices that depend on the networks of current board members?



What else may be at play? Whatever it is, Smith thinks there is no other way forward but to break through whatever barriers are holding back change, because otherwise nonprofits are atrophying in the midst of rapid learning and change. “Cross-generational leadership that blends the wisdom and experience of senior leaders with the curiosity and creativity of younger leaders makes our sector stronger,” she says. “Not just immediately, but in the long term, as we prepare for the current generation of executives and board members to retire.”⁸

NOTES

1. BoardSource, *Leading with Intent: A National Index of Nonprofit Board Practices* (Washington, D.C.: BoardSource, 2015), leadingwithintent.org/wp-content/uploads/2015/01/LWI-Report-2.pdf.
2. BoardSource, *Nonprofit Governance Index 1994* (Washington, D.C.: BoardSource, 1994).
3. BoardSource, *Nonprofit Governance Index 2004* (Washington, D.C.: BoardSource, 2004).
4. Frances Kunreuther and Patrick A. Corvington, *Next Shift: Beyond the Nonprofit Leadership Crisis* (Baltimore, MD: Annie E. Casey Foundation, 2007), www.buildingmovement.org/pdf/Next_Shift.pdf.
5. In an interview with *NPQ*.
6. David O. Renz, “Reframing Governance II,” *Nonprofit Quarterly*, January 25, 2011, nonprofitquarterly.org/governancevoice/9101-reframing-governance-ii.html.
7. In an interview with *NPQ*.
8. Ibid.

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