



NONPROFIT BOARDS NEED MORE THAN INVESTMENT SAVVY MEMBERS: NORTHERN TRUST

JUSTIN SLAUGHTER | MARCH 21, 2019

Strong board governance practices can steer a nonprofit’s investment portfolio through good and bad times, according to Northern Trust Company.

To make sure a nonprofit board fulfills its fiduciary duties, the firm recommends a few best practices that generally fall into four buckets: clarity of roles, definition of success, time and continuity, said Darius Gill, national practice executive in the firm’s Foundation & Institutional Advisors Group.

“The first thing for a well-functioning governance is for members to understand the role of the board, staff and investment or audit committee, in terms of what each group is responsible for,” Gill said.

These responsibilities need to be well documented in investment policies, spending policies and other governance policies and the board should conduct a self-assessment review on at least an annual basis, he added.

Nonprofit boards also need to continuously document and reassess what the organization’s definition of success means, i.e. what are the group’s clearly defined parameters of the endowment spending rate they aspire to maintain over one-, five- and 10-year time horizons, accounting for inflation and market volatility, among other factors.

Another best practice is effective use of time. Ensuring that board members, especially volunteer members, have enough time in advance of meetings to be informed and disciplining meeting attendance and processes is “incumbent on staff” at the nonprofit, Gill said.

“When someone joins the board, staff needs to be very upfront with what’s expected,” he said. “Time is the most valuable thing board members bring to [the] table, and there can’t be members who skip meetings, encouraging other board members to skip meetings...if a board member is too stretched, that member needs to rethink their commitment.”

As many board members are crunched for time, an annual retreat can be a very effective tool for board members to “do a deeper dive into” market trends or investment strategies outside of standard board meetings, which typically allow for only a summarized report of an investment manager or portfolio performance due to time constraints, he added.

The fourth “pillar” of nonprofit board governance best practices is continuity, or structuring the makeup, terms and on-boarding processes so that the group’s historical knowledge or strategies are not hampered when a current member departs or a new member joins, Gill said.

Term limits are a very important way to have continuity, he said. For example, setting a three-year term limit with one-third of the board seats expiring every year can ensure that only a small portion of the board departs, while allowing the group to maintain a diverse pool of expertise and experience levels.

NONPROFITS HAVE SEEN “A LOT OF PROGRESS” IN TERMS OF GENDER DIVERSITY, BUT “GENERALLY ACKNOWLEDGE THEY HAVE WORK TO DO” IN TERMS OF RACIAL DIVERSITY

Staggering board seat terms also prevents gaps in knowledge of the board’s past conversations and decisions between old and new members, which can be “dangerous from an investment standpoint,” Gill said.

“The biggest investment challenge is behavioral biases that can lead to members doing the wrong thing at the wrong time,” he said, adding that the likelihood of this happening increases if new members join the board in a down market scenario “without being privy to the last ten year of conversations.”

However, a solid continuity plan can curb dangerous behavioral biases by informing new board members of the decision-making process over the last 10-year period, while a regular



risk survey of the board can assess whether the members' risk tolerance and return expectations are still "in sync" with the previously determined plans, Gill added.

Part of ensuring continuity is having the executive director or cfo sit on the board, thereby informing the rest of the board on the day-to-day operations of the organization, but in a non-voting capacity in order to avoid conflicts of interest, he said.

In general, another best practice regarding the make-up of a board nonprofit is the intentional diversity of thought, age, gender and race of its members, something that nonprofits are "keenly aware of" and are "more or less" having success in, Gill added.

Nonprofits have seen "a lot of progress" in terms of gender diversity, but "generally acknowledge they have work to do" in terms of racial diversity, Gill said, noting that many organizations are challenged by the fact that they work in a community with little racial or age diversity.

Museum Board Leadership 2017: A National Report, a study sponsored recently by Northern Trust and produced by Board-

Source and the American Alliance of Museums (AAM), looked into age, gender and racial diversity at nonprofit boards with a focus on board diversity at more than 860 museums while comparing that data to board diversity at 1,300 nonprofits. About 48% of nonprofit board members were female and 52% were male in 2017, the study showed. About 30% of all nonprofit boards were 100% white at that time, while 84.3% of all nonprofit board members were Caucasian, compared to 7.8% black, 3% Asian, 0.9% American Indian, 0.4% Native Hawaiian/Pacific Islander, 2.8% "two or more races" and 0.8% "other," the study showed.

About 4.7% of nonprofit board members were Hispanic, which the study classified as an "ethnicity," separate from the above "race" categories, following U.S. Bureau of the Census parameters, compared to 95.3% "Not Hispanic."

Roughly 18% of nonprofit board members were under the age of 40 in 2017, compared to 41% of members that were between the ages of 50-64, 25% who were between 40-49 and 17% who were over the age of 65, according to the study.

The full study can be downloaded at the AAM's website.

Reprinted with permission from the March 21st, 2019 edition of Nonprofit News.
All rights reserved. Further duplication without permission is prohibited.



NORTHERN
TRUST

Foundation & Institutional Advisors
www.northerntrust.com/FIA