

Who Leads the Organization?

Summary

While theoretically, the Boards of Directors are the ones to lead nonprofit organizations, the reality is that, in many operating nonprofits, the Executive Director or Chief Administrative Officer exercises primary authority in many activities and plans. It is common in the corporate sector to let the chief operator take the reins and implement their vision to achieve the results that the Board desires. However, in most nonprofits, it is more prudent for the decision-making power to be shared or even directed by the Board of Directors. The accountability of the Board to multiple stakeholders trumps the need for quick and flexible management decision-making.

History

In a social service nonprofit, the Executive Director was faced with an increasingly challenging financial situation where program grants were being cut and clawed back while the demand for services kept increasing. Rather than bring this situation to the attention of the Board, the ED delivered a financial forecast that indicated challenges but the ED assured the Board that everything would work out by the end of the fiscal year. At year-end, revenues were down by 41% and costs had remained the same. When the ED delivered this news to the Board, various Board members had strong opinions about what needed to happen. The situation quickly became one of panic – staff layoffs, program cut-backs and closure of education and service programs were discussed as possible corrective actions. The ED had lost the confidence of the Board and the organization could be facing a non-recoverable challenge. One Board member stopped the discussion about firing the ED by reminding directors that each of them had a fiduciary duty to know the financial situation in the organization – they were as much to blame as the Executive Director, she said.

The Solution

Raven Hill's advice was three-pronged. While we were aware that the immediate challenge was financial, we also reminded the Board that without redefining the role of the Executive Director and improving the governance situation, no lasting solution would be possible. We worked with the Board and the Executive Director to develop some new policies and procedures that made it clear who was responsible for monitoring and reporting on financial matters. We also assisted the Board with improving individual directors understanding of financial reporting with a couple of workshops on financial statements and accounting principles.

Finally, we suggested a governance change – the formation of a Finance Committee that would meet monthly with the ED to analyze the shortfall and to look at operational changes that would have the least effect and the most improvement to cash flow. In addition to developing a comprehensive fund-raising strategy, the committee would also report its progress at each monthly Board meeting.

The Lesson

For the organization, the lesson was one of motivating the Board to become more active in guiding the affairs of the nonprofit because of its responsibility to stakeholders and clients. The Executive Director learned that openness and honesty in reporting the affairs of the organization is paramount.

Raven Hill learned that we should be looking a little closer at organizations where the operational leader seems to be driving the bus. We have come to understand that an imbalance in power-sharing between the Board and its primary employee is usually a sign of other weaknesses in that nonprofit.