

# The Lindsey Letter



## Reframing the governance issue

One has only to turn on the television or read the newspapers to see the results of what happens when boards don't do what they're supposed to do.

WorldCom, Enron, and other corporate scandals have spawned federal legislation (Sarbanes-Oxley) and driven home the message that corporate boards are on notice to clean up their acts. While for-profit corporations grab the major headlines, people who run non-profits or serve in a volunteer capacity on their boards are also at risk and need to be aware of all the factors that can help or hinder them in the performance of their work.

As a financial consultant and CPA, I have served on many non-profit boards and learned many valuable lessons – often the hard way. I wanted to share my experience, perspective, and ideas about this important sector of the economy.

Make no mistake about it; non-profit organizations are not just businesses. Collectively, they are “big business.” Currently in the United States there are over one and a half million non-profit organizations, half of which are 501 (c)(3) organizations. And every month the IRS charters over 2,500 new ones. According to a recent article in the *Washington Business Journal*, there are over 7,500 non-profits in the Washington, DC, metro area alone. These organizations in this area employ over 200,000 people and have annual expenditures approaching \$30 billion.

With those kinds of numbers at stake, the more we know about how to be effective in our jobs, the better.

*J. A. Lindsey Jr.*

## In a word – responsibility

Individuals who serve on boards of non-profit organizations and the executives who run them, have responsibilities to the institutions they serve. If they breach their duties they may face the same liabilities as corporate board members face.

Essentially, every board member has two basic duties: first, the duty to avoid self-dealing and conflicts of interest; and second, the duty to exercise care and judgment, and refrain from negligence.

**Future topics:** *Basic Responsibilities of Nonprofit Boards; Setting and Advancing the Organizational Mission; Bylaws: The Foundation of Effective Governance; Understanding the Legal Landscape*

## Building a better board

The most effective non-profit boards reflect diverse constituencies within their communities or service areas. Members bring a range of needed skills, ideas, and opinions. On the other hand, this can often mean a board ranging from 15 to 40 people, and that can make it difficult to make the decisions that move the organization forward.

So, the first question becomes: what is the optimum size for my organization's board? If it's too large, how can I winnow down the membership; if it's too small, how can I attract key individuals who will help build and sustain the mission of my organization?

**Future topics:** *The Psychology of Boards; Board Recruitment; Key Officers and Committees; Measuring Effectiveness; Pro's and Con's of Executive Committee*

## Show Me The Money

In addition to garnering five Academy Award nominations in 1996, the movie *Jerry McGuire* introduced the phrase "show me the money" into popular culture. Today, every non-profit organization must continually ask itself where it stands on the accountability landscape, and each board member must be aware of his or her oversight obligations and the need to play an active role in financial stewardship.

**Future topics:** *Understanding the Financials Step-by-Step; Fundraising Do's and Don'ts; Guidelines for Investing; Social Entrepreneurship – Unlocking Your Organization's Profit Potential*

## Social Entrepreneurship – Something to Consider?

Like every other part of the economy, the non-profit sector is constantly changing. In many organizations, the need for the services they provide is increasing while their traditional revenue streams are slowing down, or in some cases, drying up.

Against this backdrop, many non-profits have ceased relying solely on donations from foundations and individuals. The best and the brightest have become proactive "social entrepreneurs" by creating new ways to leverage existing assets to generate new resources that support the organizational mission.

Social entrepreneurship is not a practical option for every non-profit. Therefore, every foray into these uncharted waters must be carefully analyzed and subject to financial protocols and standards that are consistent with an organization's mission and strategy.

**Future topics:** *Strategy Discussion – Venture (services, products, distribution) and Business Partnership (licensing, cause-related marketing, joint ventures; Break-even analysis.*

## Public Communications

Lily Tomlin condensed the human condition to five words. She quipped, "We're all in this alone."

Nothing could be further from the truth insofar as non-profit organizations are concerned. Whether they provide education, health, cultural, or civic services, non-profits don't exist in a vacuum, and communicating with their constituencies is their lifeblood.

**Future topics:** *Everybody is in PR, only now it's called Reputation Management; Mission, Vision and Value: Building and Sustaining the Brand; Who Should Speak for the Organization?*

## Foundations for Giving

Almost a century ago the Italian economist Vilfredo Pareto created a mathematical formula to describe the unequal distribution of wealth in his country. He concluded that twenty percent of the people owned eighty percent of the wealth. In the intervening years, the formula evolved into the "Pareto Principle," or the "80/20 Rule."

This rule can be an effective generic yardstick to focus on key issues for non-profit organizations. For example, 25 percent of all foundation assets are concentrated in the 25 largest foundations.

So, if your organization has limited resources to apply for funding grants, it may be best to focus on the following:

Bill & Melinda Gates Foundation,  
<http://www.gatesfoundation.org>

Ford Foundation, <http://www.fordfound.org>

W. K. Kellogg Foundation, <http://www.wkkf.org>

David and Lucile Packard Foundation <http://www.packard.org>

Pew Charitable Trusts, [www.pewtrusts.com](http://www.pewtrusts.com)

### Five Foundations and amount distributed in 2004

Name/(State):	Assets: (in billions)
Bill & Melinda Gates Foundation (WA) .....	\$26.8
The Ford Foundation (NY).....	10.0
W. K. Kellogg Foundation (MI) .....	6.8
The William and Flora Hewlett Foundation (CA).....	6.0
The Pew Charitable Trusts (PA).....	4.1

And now a few words from...

"President means chief servant." *Gandhi*

"If the shoe fits, you're not allowing for growth." *Robert H. Coons*

"Ideas are the DNA of everything that is worthwhile." *Mark Fisher*

"Everyone is ignorant, only on different subjects." *Will Rogers*

"The impossible is often the untried." *Jim Goodwin*