The New Work of the Nonprofit Board

by Barbara E. Taylor, Richard P. Chait, and Thomas P. Holland

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Author	Title	Reprint Number
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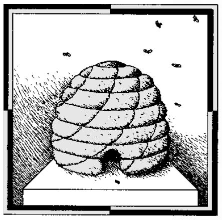
GEORGE STALK, JR., DAVID K. PECAUT, AND BENJAMIN BURNETT	**BREAKING COMPROMISES, BREAKAWAY GROWTH**	**96507**
JOHN STRAHINICH	HBR CASE STUDY **THE PITFALLS OF PARENTING MATURE COMPANIES**	**96508**
BARBARA E. TAYLOR, RICHARD P. CHAIT, AND THOMAS P. HOLLAND	SOCIAL ENTERPRISE **THE NEW WORK OF THE NONPROFIT BOARD**	**96509**
THOMAS DONALDSON	WORLD VIEW **VALUES IN TENSION: ETHICS AWAY FROM HOME**	**96502**
JAMES P. WOMACK AND DANIEL T. JONES	IDEAS AT WORK **BEYOND TOYOTA: HOW TO ROOT OUT WASTE AND PURSUE PERFECTION**	**96511**
MARC LEVINSON	BOOKS IN REVIEW **CAPITALISM WITH A SAFETY NET?**	**96504**



Is your board adding value or simply wasting its members' time?

The New Work of the Nonprofit Board

by Barbara E. Taylor, Richard P. Chait, and Thomas P. Holland

Effective governance by the board of a nonprofit organization is a rare and unnatural act. Only the most uncommon of nonprofit boards functions as it should by harnessing the collective efforts of accomplished individuals to advance the institution's mission and long-term welfare. A board's contribution is meant to be strategic, the joint product of talented people brought together to apply their knowledge and experience to the major challenges facing the institution.

What happens instead? Nonprofit boards are often little more than a collection of high-powered people engaged in low-level activities. Why? The reasons are myriad. Sometimes the board is stymied by a chief executive who fears a strong board and hoards information, seeking the board's approval at the last moment. Sometimes board members lack sufficient understanding of the work of the institution and avoid dealing with issues requiring specialized knowledge. Individual board members may not bring themselves fully to the task of governance, because board membership generally carries little personal accountability. And often the powerful individuals who make up the board are unpracticed in working as members of a team. No matter which cause predominates, nonprofit board members are often left feeling discouraged and underused, and the organization gains no benefit from their talents. The stakes remain low, the meetings process-driven, the outcomes ambiguous, and the deliberations insular. Many members doubt whether a board *can* have any real power or influence.

The key to improved performance is discovering and doing what we call the *new work* of the board. Trustees are interested in results. High-powered people lose energy when fed a steady diet of trivia. They may oblige management by discussing climate control for art exhibitions, the condition of old steam lines, or the design of a new logo, but they get charged up when searching for a new CEO, successfully completing a capital campaign, or developing and implementing a strategic plan. *New work* is another term for work that matters.

The new work has four basic characteristics. First, it concerns itself with crucial, do-or-die issues central to the institution's success. Second, it is driven by results that are linked to defined timetables. Third, it has clear measures of success. Finally, it requires the engagement of the organization's internal and external constituencies. The new work generates high levels of interest and demands broad participation and widespread support.

The New Work Requires New Practices

The new work defies the conventions that have regulated board behavior in the past. Whereas the customary work of a nonprofit board is limited to scrutinizing management, the new work requires new rules of engagement and unorthodox ways of fulfilling a board's responsi-

DRAWINGS BY MAXINE BOLL

bilities. The pressures on most nonprofits today are too great for the old model to suffice. Nonprofit leaders can take the following steps to improve board practices:

Find out what matters. Traditionally, nonprofit boards and CEOs have agreed that management defines problems and recommends solutions. A board might refine management's proposals but rarely rejects any. Why? Few trustees know the industry or the institution well enough to do more, and those who do dread being labeled as meddlers or micromanagers. Board members sometimes are made to feel that asking a thorny question or advancing an alternative opinion is disloyal to the administration. A vote on an issue is a vote on the CEO. But how can a reactive, uninformed board know what opportunities the organization is missing? And how much damage must the organization sustain before the board realizes something is amiss?

To do the new work, trustees and management together must determine the important issues and the agenda of the organization. Trustees need to understand what the CEO sees as the critical issues. They also need to know what other stakeholders and industry experts think, because no chief executive knows enough to be a board's sole supplier of information and counsel. Knowledgeable trustees can help inform the CEO's judgment. They can also perform a useful function for the CEO by focusing the organization's attention on issues that are unpopular within it or that fall outside the staff's capabilities. In addition, the board can find out what matters by engaging in the following four sets of activities:

Make the CEO paint the big picture. The litmus test of the chief executive's leadership is not the ability to solve problems alone but the capacity to articulate key questions and guide a collaborative effort to formulate answers. As one member of a museum's board observes, "What I want most from the president are the big ideas." The CEO must be willing to share responsibility, and the board must be willing to follow the CEO's lead–and ask questions. "If you don't do that," says one college's trustee, "the board doesn't really have a clue about what is going on. When a problem arises and the CEO needs the trustees, they won't own the problem or be willing to help solve it."

The CEO should review the organization's foremost strategic challenges annually with the board. The board, for its part, must consider whether the CEO accurately targeted and defined the issues. This is a moment, maybe *the* moment, in which the board adds value. Together, the CEO and the board must agree on the institution's priorities and strategic direction. Those considerations, in turn, will shape the work of the board and its evaluation of the CEO.

The board of a college in the South has formalized this process success-

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fully. At a retreat each January, the CEO and the trustees rank the most important challenges facing the institution. Then the board structures its committees to reflect those priorities. Last year, for example, the board concluded that marketing and technological infrastructure were its top concerns. The board formed task forces of trustees and constituents to study those issues, to specify the decisions the board would have to make during the coming year, and to clarify the board's needs for information and education. At the May board meeting, the task forces provided initial reports, and the board decided how to organize in order to pursue the issues. Trustees also developed measurable expectations for the president that were linked to the board's top concerns.

The new work requires that board members and CEOs get to know their institutions' stakeholders.

Get to know key stakeholders. Boards and CEOs have to know what matters to the constituents they serve. The interactions of the old work – which were mostly social events and show-and-tell sessions – will not do. The new work requires two-way communication. As a college president remarks, part of the reason for such communication is "to make the board vulnerable to constituents" – to make it accessible and accountable rather than insulated from the ordinary life of the institution. In that spirit, the boards of several colleges now meet routinely with leaders of student, faculty, and alumni bodies to explore matters of common concern.

Consider the example of a residential treatment center for children with emotional disabilities. When a major benefactor died, the center needed to find new sources of income. While interviewing leaders of social service organizations (a major source of referrals), several board members were shocked to discover that the center was seen as elitist and interested only in easy cases. In fact, many professionals referred the easy cases to less expensive care and assumed that the center would reject the difficult ones. Alarmed by these misperceptions, the trustees formed a task force to guide a public relations effort. The board expanded to include trustees with ties to sources of referrals and strengthened its relationships with other constituents through educational events and joint programming. "I want to make sure this board is never again so out of touch with its community," said the board's chair at the end of the process.

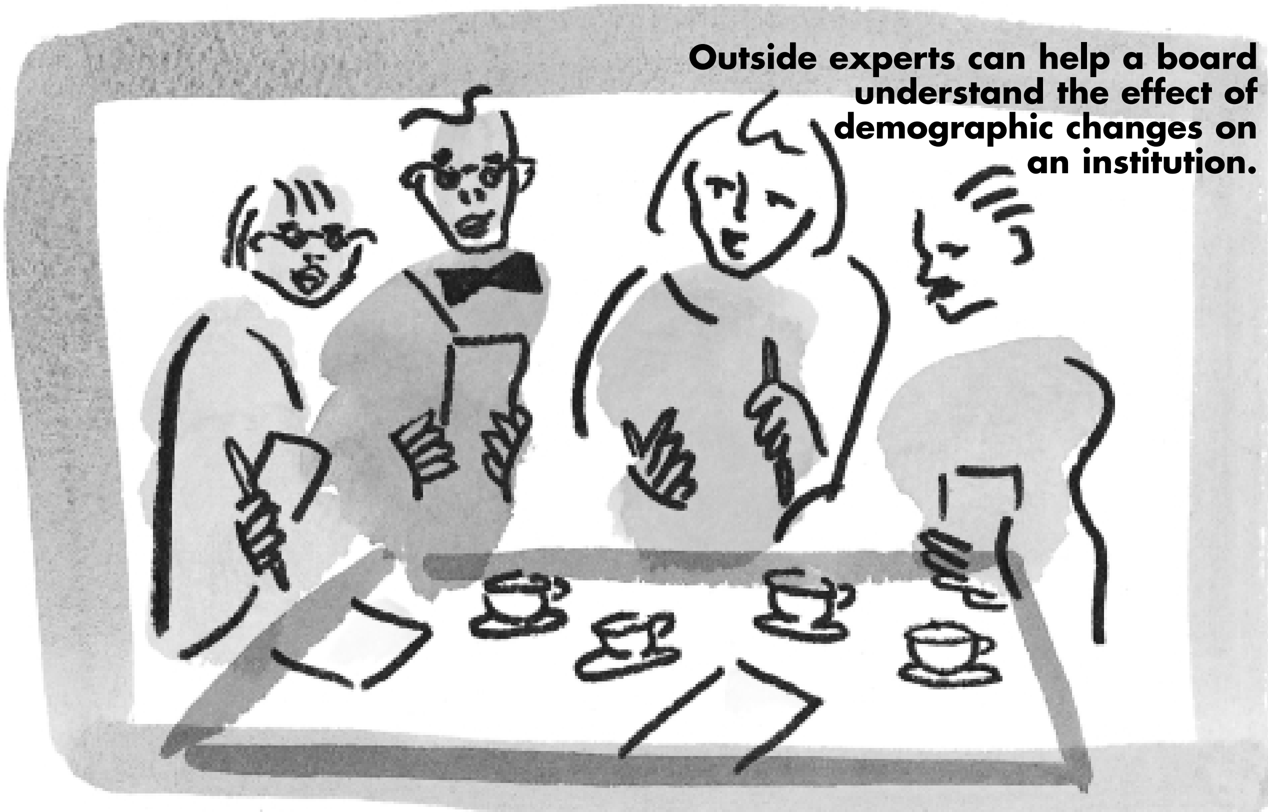
Close ties between the board and constituents unnerve CEOs who are determined to be the board's sole source of information and fear that direct communication between trustees and stakeholders will weaken time-honored lines of authority. That reaction puzzles board members; as one college trustee asks, "Why not have students talk to trustees? What's there to hide? These are our clients. I'm old enough and smart enough to know that some people just want to complain. Trustees are as qualified as the president to interpret the views they express. The closer I get to reality, the better I can sympathize with and help the CEO."

Consult experts. Many nonprofits are susceptible to competitive forces and to changes in public policy. Consider, for example, the impact on museums of cuts in funding by the National Endowment for the Arts, or the effect on hospitals of efforts to reform federally funded health care. Unless trustees understand the basic economics, demographics, and politics of the industry, boards will be hard pressed to separate the trivial from the significant and the good news from the bad. The new work requires learning about the industry from many sources.

One of those sources should be experts on the board itself. Although boards regularly recruit trustees with expertise in functional areas like finance, law, and marketing, the new work requires a board to have more than a few trustees with relevant professional expertise: physicians on a hospital's board, academics on a college's board, social workers on a clinic's board. Expert trustees can guide fellow board members through a foreign culture. For example, one Ivy League institution counted a former university president among its board members. At one point, he criticized his colleagues for second-guessing the administration's disciplining of a fraternity, saying, "I'd be furious if my board did this." The board backed off. And at a liberal arts college, a trustee who was a professor at another school helped educate the board about the complexities of measuring teaching quality and reallocating academic positions from departments with declining enrollments to those with growing demand. At the same time, he helped establish the board's credibility with the faculty.

Another source of knowledge is outside experts. They can help boards understand competition, client demographics, trends in government support, and public policy debates. For example, the board of a Protestant theological seminary faced with declining enrollment conferred with experts on professional education, the economics of religious education, and the demographics of its own denomination. The trustees learned that their denomination's population would continue to decline, further eroding financial support for the seminary and job opportunities for new ministers. On its current course, the institution would be bankrupt in a few years. The seminary decided to leverage the strength of its high-quality faculty by becoming a resource to the broader Protestant community, offering theological education to laypeople and continuing education for church workers and ministers, both on campus and in local churches.

Decide what needs to be measured. Corporate boards typically monitor a limited number of performance indicators. Those vital signs



Outside experts can help a board understand the effect of demographic changes on an institution.

convey the company's overall condition and signal potential problems. Nonprofit boards often lack comparable data, largely because the trustees and the staff have never determined what matters most.

Together, the board and management should identify 10 to 12 critical indicators of success. For a college, that may mean scrutinizing its tuition discount (the average remission the institution gives to students as financial aid). For a museum, it may mean measuring its total return on endowment investments. For a hospital, the board may monitor occupancy rates. Distinctive strategies can suggest novel measures. A boarding school focusing on computer literacy monitored the ratio between students' dial-ups to the campus network and their phone calls from their dorm rooms for pizza delivery. A rising percentage of network calls meant that students were becoming more comfortable with new technology. Using comparable creativity, an orchestra with an aging subscriber base monitored ticket sales to single people in their twenties and thirties who had attended chamber music programs with wine and cheese receptions held afterward.

Graphic comparisons against projections, past performance, or industry norms focus a board's attention on crucial issues and remind trustees that the ultimate goal of the board is to influence those indicators in a positive way. As the CEO of a college in the Midwest says, "We have a set of key performance indicators, explicitly linked to the strategic plan, that are reviewed at every meeting. We even put them on a pocket-size card that trustees can carry around."

In the new work, the board and management work together on both policy and implementation.

Act on what matters. In the world of the old work, the lines were clearly drawn: the board remained on the policy-setting side of the net, management on the implementation side, and so the game of governance was played. In the new work, the board and management are on the same side of the net as partners in both roles. The question is not, Is this an issue of policy or implementation? Rather, the question is, Is the issue at hand important or unimportant, central or peripheral?

Today few nonprofits can risk barring the CEO from policy development or divorcing the board from policy implementation. In a capital campaign, establishing priorities and goals is setting policy, identifying prospects and making calls is implementation. In the search for a new CEO, determining selection criteria is making policy, designing the procedure and conducting the interviews is implementation. In brief, most important matters cannot be subdivided neatly into policy or administration.

In many instances, implementation is far more consequential than formulation. For example, in face-to-face meetings, trustees of a Catholic women's college persuaded affluent older alumnae to support a new institutional focus on serving poor minority women from the inner city. The board of another college, troubled by the decline in students able to pay full tuition, selected three trustees to assist the administration with the design of a marketing strategy aimed at attracting more students able to pay.

In another case, a university owned a commercial radio station. The board questioned how the station fit in with the school's mission. After deciding with the president that the university could turn profits from the sale of the station to better educational use, the trustees negotiated the transaction. Afterward, the president exulted, "This was the board at its best." The board members knew more than the staff about the radio business and about selling a major asset, and they put that knowledge to use.

Involving trustees in policy implementation can be critically important during a crisis. In the aftermath of the scandal at the United Way of America (the CEO used more than a million dollars of United Way money for personal expenses), the board and CEO of one local chapter agreed that each of the trustees would interview five business leaders to learn what the chapter might do to improve community support for an upcoming campaign. The advice was consistent: admit that the national organization had blundered badly, stop all payments to the national headquarters until the charges were resolved, promise that all funds would remain in the community, allow donor-designated contributions, and promise that the board would issue a public report on allocations. The CEO and the trustees accepted those recommendations and inaugurated an intense public-relations effort that engaged every board member. In the end, the campaign was almost as successful as the previous year's and was substantially more successful than those of other chapters in the region. That would not have been the case had the board only set policy.

For the new work to happen, substance must dictate a board's structure.

Organize around what matters. The board's new work must be organized to deal with the institution's priorities. That may seem self-evident, but boards often organize their work in functionally oriented committees (physical plant, finance, public relations) that channel trustees toward low-stakes operational decisions. For the new work to happen, substance must dictate structure. Committees, work groups, and task forces must mirror the institution's strategic priorities.

For instance, a theological seminary replaced most of its operationally oriented committees with ones that reflected the major goals of the strategic plan: globalizing the curriculum, improving relations with local churches, and providing continuing education for the ministry. The committees included trustees and constituents. One result: on the recommendation of the committee on church relations, the seminary established a clearinghouse to provide local churches with technical assistance in such areas as financial management, adult education, and church governance.

Teaching an Old Board New Work

Old Work

1. Management defines problems, assesses options, and proposes solutions. Board listens, learns, approves, and monitors.
2. Board sets policy, which management implements. Respective territories are sharply defined; there is little or no border traffic. Domains are decided by organization chart.
3. Structure of standing committees parallels administrative functions. Premium is on permanent structure, established routines. Members occupy functional niches. Board maintains busywork.
4. Board meetings are process driven. Protocol doesn't vary. Function follows form. Emphasis is on transmission of information and reports.
5. Board is a collection of stars. It recruits people with an eye to expertise and status. The CEO cultivates individual relationships and exploits each trustee's talents.

New Work

1. Board and management discover issues that matter, mutually determine the agenda, and solve problems together.
2. Board and management both set policy and implement it. Lines are blurred, borders open. Domains are decided by nature of issue at hand.
3. Structure of board mirrors institution's strategic priorities. Premium is on flexibility, ad hoc arrangements. Members occupy functional intersections. Board creates centers of action.
4. Board meetings are goal driven. Protocol varies with circumstances. Form follows function. Emphasis is on participation and action.
5. Board is a constellation. It recruits team members with an eye to personality and overall chemistry. Board cultivates group norms and collective capabilities of trustees.

In another example, the board of a preeminent women's college has under active consideration the creation of four "councils" (business affairs, campus affairs, external affairs, and governance and board affairs) as umbrellas for clusters of standing committees. The council on campus affairs, for example, would oversee the activities and orchestrate the annual agendas of the student-life, admissions, and trustee-faculty relations committees, which would meet only as necessary. The council chairs would coordinate the annual agendas of the four councils and suggest strategic issues for in-depth discussion at board meetings.

Task forces that include constituents and nontrustee experts can tackle critical yet discrete matters such as outsourcing certain functions or installing a total quality management program. For example, the board of an independent day school appointed two task forces to explore accreditation issues with the appropriate state and federal agencies. The task forces gathered information about demographic trends, accreditation requirements, and possible legislation that would affect independent schools. At a special Saturday session, the task forces presented their findings, the board discussed whether to seek accreditation and whether to become more selective, *and* the task forces disbanded. The work had been done.

Such "tissue paper" task forces (use and discard) drive the board toward real-time results, multiply leadership opportunities, and prevent longtime members from dominating standing committees. As one college's trustee confesses, "Many of our standing committees don't really shape policy or identify needs. They're an empty ritual, a burden, not an asset. In contrast, task forces are very effective. For example, we're looking at the cost and shape of a marketing plan. A task force helped the board understand the problem and recommended directions. There was a material difference in the sense of ownership."

Focus meetings on what matters. Boards are boards only in meetings, and yet meetings are where boards underperform most visibly. Many trustees think that lack of time is the most significant barrier to a board's ability to perform the new work. In fact, the greater problem is the failure to determine what matters and to let that imperative drive the frequency, format, and duration of board and committee meetings. And if a board can meet only infrequently or for short periods, trustees should consider realistically what they can deliver. The chair, the CEO, and perhaps the executive committee should design each meeting by asking the questions, What is the purpose of this meeting? and How can we organize it to fulfill that purpose? Four common responses will help illustrate the point.

We need more background to make a decision. This answer calls for a discussion led by a moderator. Discussion sessions can engage and educate the entire board about issues facing the institution. The goal is to air views, invite questions, and consider alternatives – not to win an argument. No specific decision is on the table, and no votes are taken.

Consider the case of the college board that was generally concerned – but not sufficiently informed – about the interrelated issues of student quality, tuition charges, and financial aid. Each year, the finance committee, usually under pressure to balance the next year's budget, presented a tuition recommendation to the board. The process afforded no practical opportunity for the board to study the causes and effects of tuition increases. Last year, the board convened explicitly to learn more about the effect of tuition and financial aid decisions on enrollment and student quality, as well as on the bottom line. Subsequently, the board devised principles to govern the finance committee's recommendations for the following year. Those principles included the decision to hold institutionally funded financial aid to below 25% of overall tuition but to use grants to attract better students. The board also decided to increase average class size in order to free up resources to enhance learning partnerships, including student-faculty research projects.

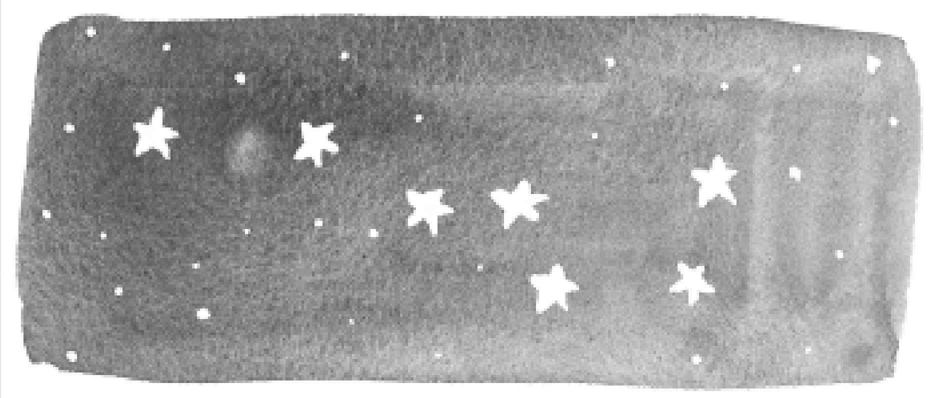
At another university, each of the board's key committees appears once a year before the whole board for a half-day session to present information on a substantive issue or special area. For example, the finance committee led a board session to explain capital budgeting, deferred maintenance, and depreciation of assets. A task force on instructional technology that included faculty and students held a panel discussion to describe the state of the art across the nation and how technology was being used on their campus to transform the learning process. As a result of such sessions, reports the chair, "The whole board becomes more knowledgeable about the issues. The old bean counters on the finance committee now see other aspects of the institution."

We don't know what to do about a current problem. The new work, by definition, grapples with complicated issues that defy easy solutions. Trustees and management must be able to present multiple perspectives and develop solutions that reflect the group's best thinking. A meeting's design is critical to making that happen. Discussion must center on the explicit question at hand, such as, What should be our top three priorities for the capital campaign? or What specific steps can the board take to improve ties to the corporate community?

Small groups create a more comfortable environment for trustees to speak freely. Says one college board member, "I may have a comment worthy of 16 ears, but not one worthy of 60." Small groups provide venues for brainstorming, arenas where there are no dumb questions or insane ideas. A board member of a midwestern university explains, "Before we added small group discussions, all 50 trustees sat passively and listened to a few people impart information. The process was superficial, and substantive participation was limited to the executive committee. Small groups allow everyone to participate genuinely."

We face a crisis. In times of crisis, business-as-usual must be pushed aside to allow the board to concentrate on the matter at hand. Crises

Focus on the Constellation, Not the Stars



Historically, the practice of most large, well-established nonprofits has been to recruit stars as board members. The assumption was that a collection of exceptional individuals would equal an exceptional board. The new work of the board cannot be done by a powerful inner circle. Instead, everyone must get involved. That will set off a chain reaction: the more trustees are involved in meaningful work, the more they will know; the more they know, the more they can contribute to the team; and the more they contribute to the team, the more likely the stars will form a constellation.

Too often, an executive committee makes all the important decisions and expects the rest of the board to comply. As one university trustee reports, "The executive committee is a little closed club of trustees who give lip service to inclusiveness but don't really practice it. It's nice, I know, to have all that control, but it's not good for the rest of the board." In those situations, trustees outside the loop of power lose interest.

To function as a team, board members need equal and timely access to information. Agendas, minutes, and background information from task force and committee meetings should be distributed to all trustees, and the board should use technology – conference calls and E-mail – to increase timely communication. Executive-committee meetings should be open to all members of the board, and board and committee chairs should be coached to invite reticent trustees to speak, as well as to avoid premature closure of debates.

Given the collaborative character of the new work, prospective trustees should understand that governance is a collective enterprise. They should realize that the board will expect more than attendance, participation, and financial support. The holy trinity of wealth, work, and wisdom (sometimes in just that order!) that has guided the selection of trustees in the past must be changed. Says one trustee of a college in the Midwest, "The operating principle for selection was to add as many friends as you could, in the hope that some of them would turn out to be helpful. That's a poor approach."

A better approach is to engage potential trustees as members of a task force or a committee so that everyone can become better acquainted – a mutual tryout. Rather than extend an invitation to join the board based chiefly on a prospect's track record, arrange a conversation to explore the fit between the individual and the institution and its board. Some entrepreneurs, industrial captains, and self-employed professionals, for instance, are intolerant of the convoluted decision-making processes and dispersed powers characteristic of most nonprofits. Those individuals, however successful, are unlikely to be effective trustees. Board members should love the organization for what it is as well as for what they hope to make it.

The capacity for team play will be enhanced if new trustees are incorporated as swiftly as possible into the new work of the board. New recruits need to know of recent strategic decisions and current challenges. In addition, the board might accommodate the committee preferences of new trustees so that the rookies can play comfortable positions and thus gain self-confidence and respect from their peers.

A mentoring program that matches a seasoned trustee with a new trustee provides another way to foster fellowship and to engage newcomers faster. On one board, the pair are seated together for the first year so that the mentor can quietly explain the history of issues before the board, answer questions, decipher the board's unwritten rules, and debrief the new trustee after meetings. A more careful approach to the selection of trustees, combined with a mentoring program, can help a board form the constellation it needs to work at peak effectiveness.

might include the loss of a major source of funding, the sudden departure or death of the CEO, the rise of a competitor, or even a split within the board itself.

For example, a local Alzheimer's Association chapter lost a major grant in 1993 and had no immediate prospects for significant new funding. The chair called a special meeting of the board to discuss restructuring the chapter's services. A review of the mission statement reminded trustees of the organization's purpose; an examination of what it would mean to reengineer the organization helped open up discussion of key issues. By the end of the meeting, board members accepted responsibility for specific tasks to help manage the crisis: explaining the chapter's mission to potential sponsors in the community, exploring the restructuring experiences of other chapters, and examining with staff the best ways to smooth the transition to a smaller, more tightly focused organization.

We need to deal with sensitive governance issues. Executive sessions without the CEO present open lines of communication among trustees. "We have an executive session after each board meeting," says one college trustee. "We feel free to bring up anything at all. This is a time for us to really ask questions and probe." Among the questions a board might entertain in an executive session are, Did we deal with important issues? How did the meeting go? Can we better serve the CEO? Differences of opinion among trustees or between the board and the CEO can be treated more candidly in an executive session. Says one board member of a women's college in the South, "If there are sensitive issues, the executive session gives us a chance to counsel one another."

These examples of the new work and new structures are far from exhaustive. Boards should experiment with different formats for different purposes. Use what works.

Leading the Way

Trustees protest regularly that artists, academics, physicians, and other professionals stubbornly resist change. Yet governing boards are among the least innovative, least flexible elements of many nonprofits. Boards are as reluctant to forsake committees as faculty members and physicians are to eliminate departments. Trustees resist varied formats for board meetings more than musicians resist novel formats for concerts. And board members oppose new membership criteria as strongly as teachers oppose nontraditional certification.

This hypocrisy was plain to the chair of a midwestern university's board. "It's tough for a group like this to be self-conscious. They're classic CEOs. They can tell stories about empowerment and team building, but that's not how they got where they are. They are uncomfortable with questions like How are we doing? and How should we improve? Most of our members are heavy into productivity. The board isn't hesitant to ask faculty and administrators to answer these questions. The board wants everyone else's time to be more efficient and effective, but the board should look for ways to improve, too."

Too often, trustees assume that organizational success proves that the board has performed well, even when there is little evidence that the board played a significant role, and even when staff members say privately that the success was achieved *despite* the board. "Most boards have the attitude," a trustee of a women's college notes, "that if it ain't broke, don't fix it, but I think it's better to fix it before it breaks." A sympathetic explanation for the reluctance of most boards to experiment with substantial governance reforms would be the trustees' desire to do no harm. A less charitable explanation would be the trustees' desire to do no work.

Moving to the new work takes work. As the CEO of a midwestern university recounted after the institution's board had changed, "It required getting people out of their little corners, the areas that they had learned and owned. They wanted to work on what they knew best and leave the rest to others. They had to rotate around and learn everything in order to govern the organization. They've moved from being just guardians of the physical plant, overseers of the administration, and suits with deep pockets."

Boards across the nonprofit sector are calling on institutions to change. As trustees demand evidence of productivity gains, efficient processes, and enhanced outcomes, they should model the behavior they seek in others. If boards demonstrate the capacity to discard shibboleths, dismantle old structures, and desert deeply ingrained modes of operation, the professional staff may follow suit. If the board does not do the new work, the trustees' hypocrisy will be blatant, and the value added by the board will be too meager to inspire organizational reform.

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