Can Good Governance Impact Fundraising?

When donors give money to nonprofit organizations, they typically do not expect a tangible product or service in return. What they do expect is responsible governance. In fact, research shows that donor confidence relies directly on an organizationâ€™s governance practices. Specifically, major donations and government grants strongly correlate with formal written policies, independent audits, board independence, and accessible financial information, according to a study from *The Accounting Review*.

Although there is no one-size-fits-all formula for effective governance, time and experience have revealed a common set of practices that may improve board efficiency and effectiveness, thereby increasing donorsâ€™ confidence in the organization. Transparency, for instance, is especially important, with astute donors relying on sources such as Charity Navigator to assess an organizationâ€™s fiduciary management, governance practices, and administrative costs. This article explores four additional best practices for nonprofit governance that can improve fundraising outcomes by increasing donor confidence.

Committee Overlap

Consider overlapping committee members. Organizations that consider finance and investment committee perspectives when they are making governance decisions typically experience better alignment between spending, fundraising, and investing. â€œHowever, we still see plenty of organizations with investment committees that are operating separately from their finance and development committees,â€• saysHeather Shanahan, CAPTRUST director of endowments and foundations.

â€œThis is not a recommended practice,â€• says Shanahan. â€œWhen committees are siloed, it means people with insight into the organizationâ€™s investment objectivesâ€”and its outcomesâ€”are not participating in spending decisions, and vice versa.â€•

â€œThe disconnect can create significant potential for declining asset values,â€• says CAPTRUST Senior Director Grant Verhaeghe. To mitigate this risk, many organizations create a unified finance committee that handles budgets, investments, fundraising, and spending. Others choose to keep committees separate but create overlap through governance structures, for instance via regular finance meetings that include at least one member from each related committee.

â€œIdeally, spending decisions will be tied to asset performance, and multiple board members will take part in discussions about both,â€• says Verhaeghe. When everyone has at least a basic understanding of the organizationâ€™s assets, investment goals, current spending, and budget limitations, the board can make more informed decisions. This includes decisions related to fundraising, debt, and development. Regardless of how the organization chooses to do things, clear and frequent communication is key because it helps ensure alignment between financial objectives and results.

Continuity Through Documentation

Robust documentation is another best practice that may improve fundraising outcomes by demonstrating trustworthiness. And itâ€™s especially important considering board member turnover.

CAPTRUST Vice President and Financial Advisor Will Chitwood says he has seen a significant uptick in board turnover since the pandemic, attributing the trend, in part, to exhaustion and burnout over that time. â€œWeâ€™ve witnessed board member turnover varying from regular, predictable succession to organizations that are in the process of transitioning their entire boards,â€• says Chitwood. â€œSome of that turnover was expected for board members with longer tenures. But some was certainly a surprise.â€•

Documentation helps new board members get up to speed faster. â€œThe more information they can easily access about past decisions and policies, the better informed they can be and the faster they can begin focusing on the organizational initiatives that really matter,â€• says Chitwood. Otherwise, new members can easily get stuck trying to figure out the organizationâ€™s policies and procedures.

Shanahan suggests a few key documents every nonprofit should develop. The list includes an investment policy; a spending policy; governance policies; board and committee charters; conflict-of-interest policies; portfolio monitoring records; and, among the most important but also often overlooked, board reports and meeting minutes. She says minutes are important because â€œthey document both the final decision and the reasoning behind it.â€•

Verhaeghe says documentation can also demonstrate fiduciary prudence. â€œOver time, the organization will inevitably make changes to its investment portfolio or spending policy. To mitigate the risk of litigation, itâ€™s important to record the rationale behind those changes and any work that was done to back up a course of action.â€•

For example, a board might conduct an analysis to assess the appropriateness of a portfolioâ€™s investment objectives. This analysis would consider time horizons, withdrawal needs, and risk toleranceâ€”all of which should be documented to demonstrate that the organization has fulfilled its fiduciary duties.

CAPTRUSTâ€™s 2022 Endowment and Foundation Survey showed that the vast majority of nonprofit respondents had formal conflict-of-interest policies (96 percent), investment policies (95 percent), committee roles and responsibilities (90 percent), and spending policies (80 percent). However, few organizations had all four of these documents, and only 21 percent reported having a documented policy for debt. â€œWithout a formal debt policy, among other things, itâ€™s hard to know if an organizationâ€™s assets are going to last relative to its goals and objectives,â€• Verhaeghe says.

Shanahan says another common problem is that organizations are operating with outdated or incomplete governing documents. â€œSustainable governance requires that all these policies are kept up to date,â€• she says. â€œEspecially if board members leave unexpectedly, the only way to ensure a complete transfer of knowledge is through documentation.â€•

Building a Board Pipeline

Succession plans and term limits also help to ensure continuity. And they keep board members focused on the need for continued recruitment.

Nonprofit leaders can guard against the loss of institutional knowledge by intentionally crafting their governance structures with staggered term limits and by developing a board member pipeline. As Shanahan says, â€œContinuity starts with recruitment at the board level. And it almost never happens accidentally.â€•

Most boards know why succession plans are important. Yet only 12.5 percent of nonprofits report having a formal succession policy for board members, and slightly less than 30 percent currently have a succession plan in place, according to the 2021 Leading with Intent survey.

Committees are one way to manage turnover and create connections between new and veteran board members. A formal mentor-mentee relationship is another helpful tool. â€œCreating a matrix of current members, their term lengths, and their professional experience can help to keep board needs top of mind,â€• says Shanahan.

Bylaws typically limit the number of board members an organization can have, and this can create tricky issues if board members arenâ€™t thoughtful about recruitment. â€œItâ€™s easy to give a seat to an enthusiastic community member who has ample capacity to support the organization,â€•

says Shanahan. â€œHowever, sometimes when organizations do this, they suddenly find themselves landlocked with headcount. They wake up one day to realize that, because of attrition, their investment committee is now made up of only tax professionals and attorneys. No one has investment expertise, and they canâ€™t add new board members.â€• A board member matrix can help current members remember to keep a long-term view.

Education and Training

The final piece is board education and training. Verhaeghe says nonprofit boards can benefit greatly from board-level investment in fiduciary training and new board member orientation. â€œSometimes, we find that board members have good intentions and a deep passion for the organization, but they lack the training, depth of knowledge, and correct understanding of their role to help their organizations succeed,â€• he says.

In 2022, CAPTRUST data showed that only 46 percent of nonprofits reported conducting fiduciary training for their board, finance, or investment committee members in the last three years.

Chitwood says he recommends annual fiduciary training to keep board members in the loop on new legislation, regulations, and trends. However, he admits that it can be difficult for certain boards to gather all the necessary people for additional training time, since most nonprofit board members are volunteers who have full-time day jobs. â€œAt first, most fiduciary training focuses on the roles and responsibilities of the investment committee,â€• says Chitwood. â€œOnce all board members or committee members have a solid understanding of their fiduciary duties, then training and education can be more granular.â€• For instance, committees might look for training on certain investment topics or on spending policy design. Regular training can also be a way to recruit future board members, make industry connections, and vet potential vendors.

Governance Considerations

In an environment of great competition for charitable donations, nonprofits with well-structured governance may be more attractive to donors. Boards that are considering making changes may want to consider the following:

- Does your organization have an overlap between the committees responsible for overseeing finance and investment?
- Does your organization tie a documented spending policy and formal investment policy together when making spending and investment policy decisions?
- Could more documentation help your board strengthen its fiduciary oversight?
- Does your organization have a succession plan for the current executive director, chief executive officer, and all key board positions?
- Do current board members have access to meeting minutes that document board decisions and their reasoning?
- Does your organization have a formal process for training new board and committee members?

Although these questions may not have easy answers, discussing them can help nonprofit board members uncover areas where they can improve their current governance processes and structures. It helps to remember that governance is a tool for ensuring organizational foresight and hindsight. With best practices in place, board members can better understand past decisions and keep focused to meet future challenges.