



By Mitch Dorger

In the Board Room

In the last issue, I highlighted the fact that good organizational governance is crucial to meeting the challenges of the future. While that is certainly true, it is more than that. It is also one of the key determinants of current organizational success.

We can look back to the Enron collapse and the failures of other large multinational corporations in the early years of the millennium and to the more recent bank failures and ask, "What were the directors of these corporations thinking and doing?" The answer is clearly that they were not doing their jobs as they should have been.

The problems of poor governance are not limited to the world of big business. On the national level, a few years back Senator Charles Grassley of Iowa severely criticized the board of the American Red Cross for the organization's perceived failures following Hurricane Katrina. He later expanded his criticism of nonprofit governance to other areas noting, "Among all charities, of those that have failed their mission, I've found that poor board governance unites all of them." (1:xx) On a local note, here in Southern California I am aware of three news-making organizational scandals over the last decade that were allowed to happen because the boards of the organizations involved were not diligently exercising their responsibilities. In one of these cases, the state Attorney General investigated the failure, and there was talk that the Attorney General was considering legal action against the individual members of the board of the organization for a failure to carry out their legal responsibilities. As might be imagined, that got a lot of people's attention – and fast. More recently we have been reading incredible stories about egregious actions on the part of senior staff officials at the Fiesta Bowl in Phoenix, AZ. The same question regarding board diligence apply here as well.

Indeed, smaller for profit corporations and nonprofit corporations may be more at risk for governance issues than the large corporations who retain executive search firms to recruit and screen their potential directors and for whose services

they pay handsomely. Smaller corporations, particularly nonprofit corporations, cannot afford this sort of recruiting luxury. Instead, board members often come from the ranks of organizational members or volunteers who may or may not be experienced as a corporate director.

It is incumbent upon these smaller corporations to make sure that the leadership of their boards understands and carries out the best practices in governance for the sake of the organization and its mission. Faulty board practices that may have been invisible to the public or other interested stakeholders in the past will not go unnoticed today. In the for-profit world, there are government regulators, rigorous disclosure requirements, financial analysts and activist investors that are examining and critiquing governance practices and, in some cases, generating positive governance reform.

The nonprofit world also has its watchdogs and critics. Indeed, as one recent book noted, "U.S. nonprofits are entering an era of the most intense federal and state regulation in history." (1:33) Congress, and in particular the Senate Finance Committee, has been particularly active in attempting to reform nonprofit governance. State legislatures have followed the lead of the Sarbanes-Oxley Act (which creates restrictions and other requirements for the for-profit sector) by enacting legislation like the California Nonprofit Integrity Act aimed at more stringently regulating the nonprofit sector, and Attorney Generals around the country have begun to take notice of questionable organizational practices in nonprofits that are brought to light by any number of investigative sources including the media and even organizational members.

The Internal Revenue Service (IRS) has also become increasingly mindful of the

nonprofit world. The reason is that this sector of the economy is huge. Various estimates exist with regard to how many nonprofit entities there are in the country (and the answer can vary depending upon which types of nonprofits are being included in the count), but conservative estimates are that the number exceeds 1.5 million. (1:9) Assets of these nonprofits exceed \$2 trillion (1:21), and each year the federal government foregoes about \$280 billion in taxes on income earned by tax exempt nonprofit organizations. (1:ix) This forgone revenue puts an obligation on nonprofit boards to manage the affairs of the organization in a way that warrants the public trust and tax exempt status. Those boards failing to do so will find any number of investigative eyes willing to highlight their shortcomings to the public and government watchdogs.

With this environment of intense governance scrutiny clearly in mind, I will be spending the next few columns addressing the responsibilities of board of directors and the duties and obligations of individual board members. I hope you will watch for these articles in coming issues. I urge you read about these duties and responsibilities and then undertake an intense internal look at how well your board believes they are carrying out their obligations to the community and to the organization.

1. Jill Gilbert Welytok and Daniel S. Welytok, *Nonprofit Law and Governance for Dummies*, Wiley Publishing, Hoboken NJ, 2007.

Recently retired as the CEO of the Pasadena Tournament of Roses, Mitch Dorger brings to his new consulting practice more than 40 years of work experience including 20 years as a chief executive officer. His experience as a CEO was consistently characterized by successful performance improvement programs and high employee morale and achievement. He believes the fundamental goal of leadership is to inspire teamwork and the spirit of continuous improvement. He has recent expertise in the world of non-profit organizations and is well versed in corporate governance, volunteer management, financial planning and management, government relations, and large event management. As a public speaker he has lectured on non-profit organizational management, strategic planning, change management and leadership. He has also served as a keynote speaker for four different festival and event association conventions.

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