



# BOARD SOURCE NONPROFIT GOVERNANCE INDEX – 2004



## NONPROFIT GOVERNANCE INDEX 2004

### Executive Summary

The *Nonprofit Governance Index 2004* survey of nonprofit board members and chief executives updates and enhances baseline data about nonprofit governing boards in the United States, collected by BoardSource over the past decade. These surveys — conducted in 1994, 1996, 1999, and 2004 — offer nonprofit leaders and the public insight into board composition, policies, and practices in an era when nonprofit organizations face increasing scrutiny from both the government and the public at large.

This Executive Summary presents our survey methodology and a profile of the respondents, and then reports on the findings in key categories: composition and recruitment, structures, policies and procedures, roles and responsibilities, and performance. Over the years, BoardSource has received thousands of inquiries from nonprofit leaders interested in comparing their boards to the “norm.” Few simple answers apply universally to all boards. The results of the *Nonprofit Governance Index 2004* reveal patterns and tendencies in nonprofit governance. Remember, however, that common practices are not necessarily best practices, nor should they be interpreted as ideal examples to be adopted by every board.

### METHODOLOGY

The *Nonprofit Governance Index 2004* survey was designed as a comprehensive study of nonprofit board practices in the United States. The sample of chief executives was drawn randomly from our database, and those of four partners, so that organizations classified as 501(c)(3)s, (c)(4)s, and (c)(6)s would be included. Our partners are

- The Alban Institute — an ecumenical organization that supports faith-based congregations with a variety of professional services
- American Society of Association Executives — an advocacy organization advancing the value of voluntary associations to society and supporting the professionalism of the individuals who lead them
- The Foundation Center — dedicated to strengthening the nonprofit sector by advancing knowledge about U.S. philanthropy
- GuideStar — focused on facilitating public access to information about the operations and finances of nonprofit organizations

BoardSource mailed a four-page questionnaire to 4,000 chief executives that included questions about their organizations, board composition and structure, policies and practices, and governance issues. Each survey packet also included two questionnaires for distribution to members of the board, one for the board chair and the other for a member chosen by a random selection process.

To increase the number of respondents, BoardSource supplemented the mail survey with an online questionnaire sent to 4,500 chief executives in our own database who were not selected for the mail survey. Each chief executive was asked to select two board members to complete the online questionnaire.

The results presented in this Executive Summary represent 398 responses from chief executives\* and 399 responses from board members. Statistical analysis found that those who responded to the mail and online surveys were similar in a majority of key demographic characteristics, so the two samples were combined. The organizations surveyed are not a weighted national sample, but the results reflect the national distribution of nonprofit organizations by state and provide meaningful data on the nonprofit sector, even though our response rate was not high enough to generalize the findings to all nonprofits.

Percentages in this Executive Summary refer only to those who responded to this survey. Thus, if we state that 82 percent of chief executives hold nonvoting positions on the board, we mean that 82 percent of *responding* chief executives do not vote on the board, not that 82 percent of all nonprofit executives do not vote on their boards.

In collaboration with BoardSource, two regional organizations — the Nonprofit Management Fund in Milwaukee, Wisconsin and the Texas Nonprofit Management Assistance Network — undertook related research projects. BoardSource thanks them for their contributions to the survey instrument and for their commitment to governance research. For more information about their research, please visit

- [Nonprofit Management Fund](#)
- [Texas Nonprofit Management Assistance Network](#)

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\* An additional 70 chief executives of religion-related organizations responded to the survey, but, because these data would make comparison with prior years impossible, their results are not included in this analysis. Furthermore, in some areas, their board practices are quite different than those of non-religion-related nonprofits. For example, religion-related nonprofits are significantly *more* likely to have board members elected by congregational members (51 percent vs. 30 percent) and significantly *less* likely to have them elected by current board members (47 percent vs. 69 percent). Chief executives of religion-related organizations are significantly *more* likely to be voting members of the board only (26 percent vs. 18 percent) or to be both voting members and chairs of the board (16 percent vs. 5 percent). The boards of religion-related nonprofits are *less* likely to conduct annual evaluations of their organizations' chief executives (57 percent vs. 81 percent).

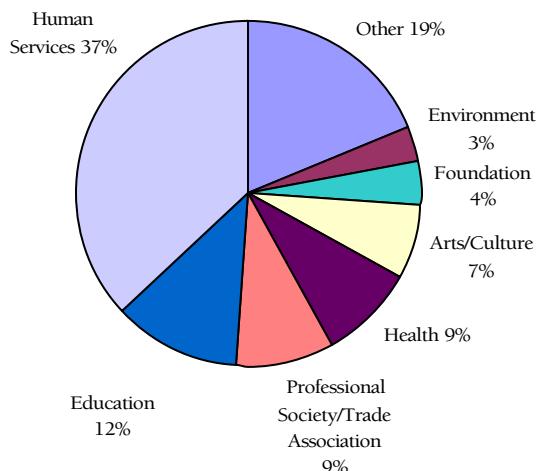
## SURVEY RESPONDENTS

The organizations that responded to the survey represent a broad spectrum of nonprofit organizations. However, they do not represent a statistically weighted representative sample of the entire nonprofit sector. The results, therefore, may not be applicable or relevant to nonprofits exempt under different sections of the tax code.

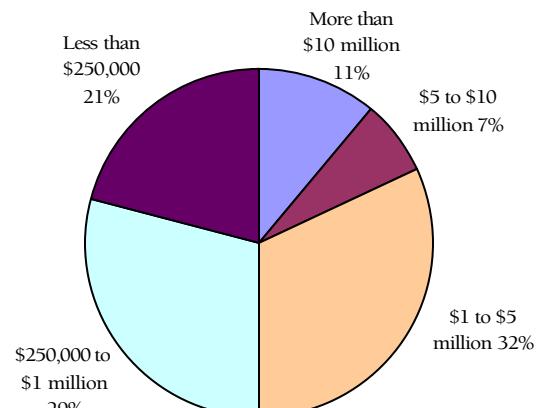
### About the Organizations

- The vast majority of responding organizations (92 percent) are exempt under section 501(c)(3) of the Internal Revenue Code. Five percent of the responding organizations are exempt under section 501(c)(6), which is generally the tax-exempt status given to trade associations and professional societies.
- All 50 states and the District of Columbia are represented in the survey.
- A full range of mission areas is included in the responses, with the largest group (37 percent) representing human services organizations (see Exhibit 1).
- Most organizations (62 percent) describe the scope of their mission as local or multi-community, another 15 percent are state or multi-state organizations, and the remaining 23 percent are national and international organizations.
- Half of the responding organizations have annual budgets under \$1 million. Thirty-two percent are organizations with budgets between \$1 and \$5 million, and 18 percent have budgets greater than \$5 million (see Exhibit 2).
- More than half of the responding organizations (59 percent) have six or more full-time paid employees, and 41 percent have five or fewer. A majority (56 percent) have three or more part-time paid employees.

**Exhibit 1. Mission Areas Represented by Respondents**



**Exhibit 2. Annual Budget of Survey Respondents**



## **About the Respondents**

### Chief Executives

- Most chief executive respondents (70 percent) hold the title of Executive Director, while 13 percent hold the joint titles of President and CEO. Twelve percent use either Chief Executive Officer or President.
- The largest group of chief executives (46 percent) report annual salaries between \$50,000 and \$100,000, with 29 percent of chief executives reporting less than \$50,000 and 25 percent reporting greater than \$100,000.
- Just over half (54 percent) of responding chief executives have served in that capacity for more than five years, with 17 percent having served between three and five years, and 29 percent three or fewer years.
- A vast majority of chief executives (82 percent) do not have a vote on the board. However, the percentage of those who do hold voting positions has doubled from 9 percent in 1994 to 18 percent in 2004.

### Board Members

- Nearly half of the board member respondents (42 percent) are board chairs.
- Forty-four percent have served on the board of the participating organization for three to five years. The results of this survey show, not surprisingly, that the longer a board member serves, the greater her understanding of the organization and the higher her level of commitment.
- Respondent board members are well educated: 53 percent have graduate degrees and 34 percent have bachelor degrees.
- More than half of the board members serve on more than one board — 45 percent on two or three, 9 percent on four or more.

## **BOARD COMPOSITION AND RECRUITMENT**

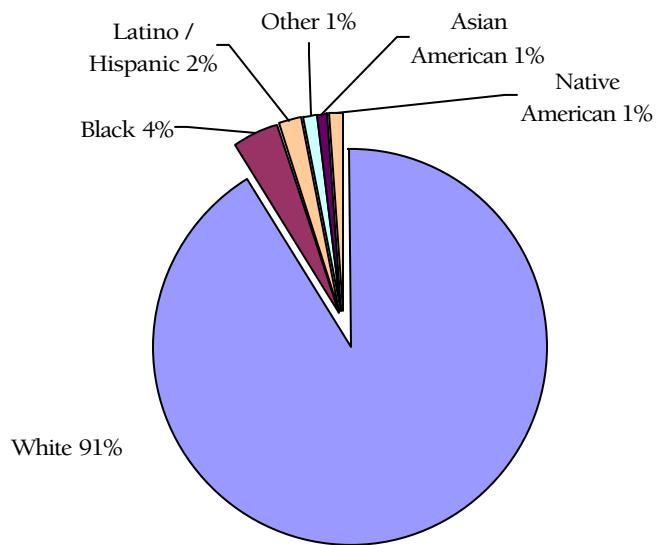
### **Board Size and Composition**

*The data reported in this section provide a look at the size and ethnic, gender, and age composition, as well as the employment status of board members of respondent organizations. Except for board size, which has decreased for the first time in a decade, the profile of boards that emerges from these data is generally consistent with past results.*

- The average (mean) board size has decreased, from 19 members in 1994 to 17 members in 2004. The median is the midpoint of the range of responses, and this has also declined, from 17 in 1994 to 15 in 2004; the average is slightly higher because a few respondents report extraordinarily large boards.

- The size of the board is significantly related to the size of the budget; organizations with larger budgets tend to have larger boards.
- Chief executives report that 55 percent of board members are men and 45 percent are women.
- Boards still remain White (excluding Hispanic) by a large majority, 91 percent (see Exhibit 3).
- A majority of board members (64 percent) are between 40 and 59 years of age. Very few board members (2 percent) are under age 30, 15 percent are between age 60 and 69, and 5 percent are 70 or older.
- The largest number of board members (40 percent) still comes from the for-profit world, though that number has decreased from 54 percent in 1996. The next most frequent employer of board members is other nonprofits (18 percent), followed by the self-employed and retired (14 and 13 percent respectively).

**Exhibit 3. Ethnic Composition of Respondent Organization Boards**



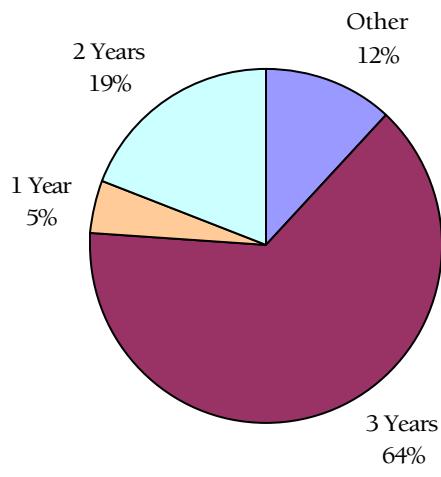
### **Board Member Selection and Rotation**

*Board member selection and rotation play an important role in shaping the organization's future. Most respondent organizations invest current board members with the responsibility of selecting new board members and choose to limit the number of years each member may serve.*

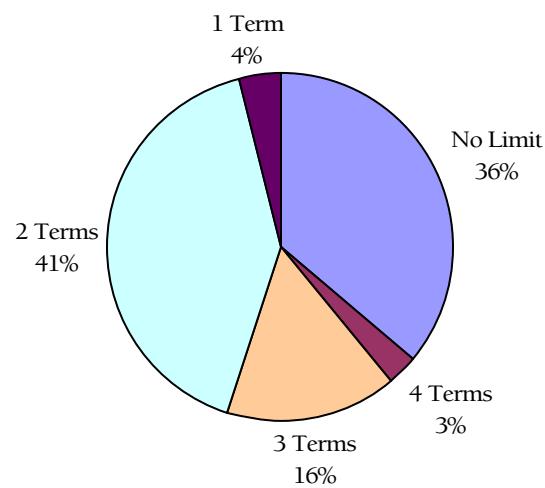
- The majority of boards (68 percent) are self-perpetuating, meaning that new board members are elected by the current board. Nearly one-third (30 percent) of the boards have an election process that involves members, chapters, or affiliates. A few boards (5 percent) are appointed by a separate group, such as a government agency. Some boards use more than one method.

- Seventy-eight percent of participating organizations designate a special board committee to identify and nominate new members. Traditionally called a nominating committee, this committee is increasingly referred to as the governance or board development committee.
- Most respondents report that board members serve three-year terms (64 percent) and that they have term limits (58 percent). Term limits, however, are more varied, with the majority (41 percent) limiting board service to two consecutive terms (see Exhibit 4).

**Exhibit 4A. Board Member Terms**



**Exhibit 4B. Board Member Term Limits**



### **Board Member Skills and Motivations**

- According to chief executives, the top three criteria for selecting board members are commitment to mission, professional skills, and community visibility (see Exhibit 5A). Both board members and chief executives consider the fit of the mission with the interests of the board member to be the primary criterion for making a decision. Similarly, board members most frequently listed leadership and organization development (70 percent) and organizational planning (62 percent) as the skills they bring to the board.
- Nearly all board members (93 percent) feel that the match between the organization's mission and their personal interests is the most important consideration when deciding whether to join a board. Next most important are time commitment (37 percent) and the organization's reputation (29 percent). (See Exhibit 5B.)
- When asked what their main reason for joining the board was, more than half of all board members (54 percent) cited commitment to the cause, followed by an invitation from a friend or colleague (23 percent), and a desire to help others (13 percent). As further evidence of board members' good intentions, 92 percent intend to stay involved with the organization after leaving the board.

**Exhibit 5A. Chief Executives' Criteria for Selection of Board Members**

85%	Commitment to mission
72%	Professional skills
47%	Community visibility
29%	Industry knowledge
14%	Friend or colleague of a board member
14%	Major donor to the organization
9%	Clients/beneficiaries

**Exhibit 5B. Board Members' Considerations When Deciding to Join a Board**

93 %	Fit of the organization's mission with personal interests
37%	Time commitment necessary
29%	Reputation/prestige of the organization
11%	Financial health of the organization
9%	Who else is on the board
9%	Fundraising/giving requirements
4%	Existence of directors' and officers' insurance

Note: Numbers add to more than 100 percent because respondents were asked to indicate the *two* most important considerations.

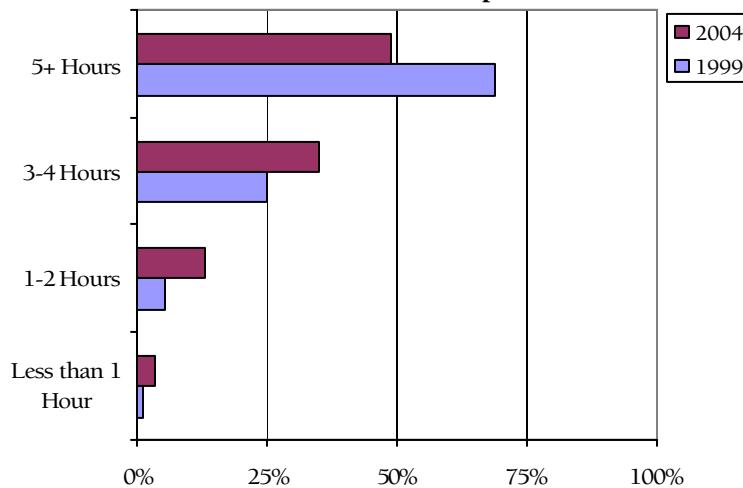
## BOARD STRUCTURES

*Board service is often thought of as meetings and committee work. While these structural elements reflect the board's history, they also influence the board's priorities and its culture.*

### Board Meetings

- The largest number of boards (41 percent) meets monthly, with 25 percent meeting bimonthly, and 24 percent meeting quarterly.
- Of the board member respondents, all reported attending at least 50 percent of board meetings, and 98 percent attended more than 75 percent of full board meetings.
- On average, board members are spending less time on board and committee matters than they did five years ago. In 1999, 69 percent of respondents spent five or more hours per month on board work; in 2004, this dropped to 49 percent (see Exhibit 6).

**Exhibit 6. Board Member Time Spent Per Month**

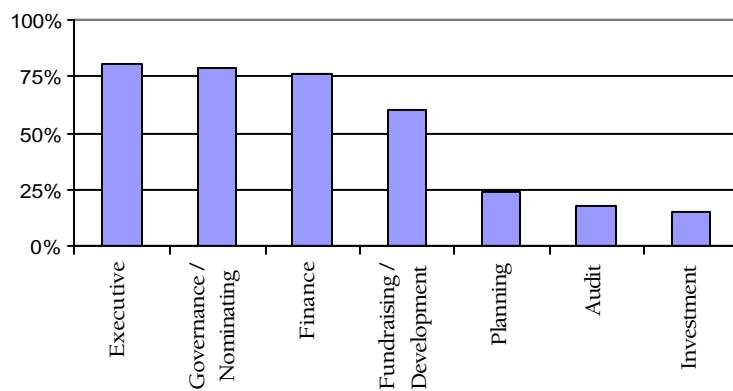


### Board Committees

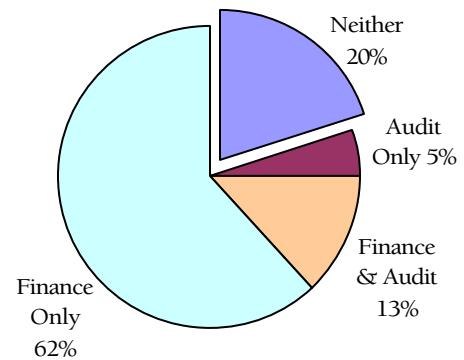
- Half of the boards (53 percent) surveyed have fewer than five standing committees, and one-third (32 percent) have between five and 10 committees. Some (9 percent) have no committees, and a few (3 percent) have 11 or more.

- The number of committees is significantly related to the size of the board; larger boards tend to have more committees.
- The most common committees include executive (80 percent), governance (78 percent), and finance (76 percent) (see Exhibit 7). Of those that have an executive committee, the majority of the executive committees (44 percent) meet monthly.
- A majority of respondent organizations (62 percent) have only a finance committee; 13% have both a finance committee and an audit committee (see Exhibit 8).
- Among survey respondents, 69 percent have non-board members serving on committees.

**Exhibit 7. Percent of Respondents with Committees**



**Exhibit 8. Financial Committees**



## **BOARD POLICIES AND PROCEDURES**

*Board policies and procedures are often seen as signals of the organization's accountability. Perennial issues such as the annual audit, conflict of interest, and risk management remain important mechanisms for protecting the organization and the board.*

- A large majority of respondent boards (84 percent) hire an auditor to conduct an annual external financial audit. Only 18 percent, however, have an audit committee.
- In the last decade, the percentage of boards that have a conflict-of-interest policy has risen from 61 percent to 76 percent. And, these boards refer to the policy more often: 57 percent referred to or used it in the past two years, increasing from 47 percent in 1999.
- Directors' and officers' liability insurance is carried by 87 percent of responding organizations, a number that has steadily increased since 1994, when 76 percent of organizations offered D & O insurance.
- Board service remains almost entirely voluntary. Only 2 percent of participating organizations pay board members a fee or honorarium for their service. Some boards (24 percent), however, reimburse board members for expenses incurred in attending meetings.

## **BOARD ROLES AND RESPONSIBILITIES**

*Effective boards know how to attract and retain board members who have the skills, knowledge, and experience to advance the organization. The data in this section present board service from the board members' perspectives and include information about their skills and motivations, as well as their role in key board responsibilities.*

### **Role of the Board**

- While almost all responding board members agreed or strongly agreed that they understand the board's role (96 percent) and legal responsibilities (92 percent) and the organization's mission and programs (95 percent), 23 percent are unsure of the IRS classification of their nonprofit organization.
- Of the board member respondents, 56 percent received formal orientation upon joining the board.
- When asked "What two descriptions best characterize your board?" board members and chief executives responded quite differently (see Exhibits 9A and 9B). Both groups, however, include oversight and policy-making among the top three descriptions.

**Exhibit 9A. Chief Executives'**

#### **Characterizations of Their Board**

70%	A policy-making body	47%
57%	An oversight body assuring accountability of the organization	47%
38%	A group of representatives of those you serve	36%
35%	A group of experts who can be called upon for professional advice	21%
33%	Community ambassadors for your organization	19%
30%	A fundraising body	18%
26%	A group giving support/direction to the chief executive	13%
6%	An obstacle to getting things done	4%

**Exhibit 9B. Board Members'**

#### **Characterizations of Their Board**

A group giving support/direction to the chief executive
An oversight body assuring accountability of the organization
A policy-making body
A fundraising body
Community ambassadors for your organization
A group of representatives of those you serve
A group of experts who can be called upon for professional advice
An obstacle to getting things done

Note: Numbers add to more than 100 percent because respondents were asked to indicate the *two* most important considerations.

## **Board Responsibilities**

- Most boards (80 percent) conduct an annual evaluation of the chief executive. Who facilitates it, however, varies. Many boards rely on one or a combination of the following: executive committee (47 percent), board chair (38 percent), the entire board (33 percent), a separate committee (18 percent), and/or some other mechanism (11 percent).
- More than half of the participating organizations require board members to play a role in fundraising by identifying donors and/or soliciting funds (57 percent), attending fundraising events (57 percent), and making a personal monetary contribution (55 percent).
- When asked to evaluate themselves, board members are most satisfied with their personal performance when it comes to establishing the mission. They are least satisfied with their personal performance when it comes to fundraising and board member recruitment.

## **BOARD PERFORMANCE**

*To understand how nonprofit leaders perceive board effectiveness, survey participants were asked to evaluate their personal performance and that of the entire board. Chief executives and board members responded differently to these questions, except on the importance of and success in establishing and understanding the mission.*

- Fewer than half of reporting boards (43 percent) assess their own performance, although this represents an increase from 38 percent in 1999 and 23 percent in 1994.
- Chief executives and board members generally agree that the board's performance is strongest in terms of understanding the organization's mission and financial situation and weakest in terms of understanding individual responsibilities and making a personal commitment.
- Eighty-six percent of chief executives were satisfied with board members' knowledge of the organization's programs and 88 percent were satisfied with how their boards ensured legal and ethical accountability.
- Board members were satisfied with the performance of their fellow board members in the areas of understanding the role of the board (87 percent) and in knowledge of the organization's programs (90 percent).
- While 87 percent of responding chief executives believe that there is a correlation between board performance and organizational effectiveness, only 71 percent see an actual connection in their own organizations. The longer the chief executive's tenure, however, the more likely he or she is to rate the board highly effective.