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# When a Business Leader Joins a Nonprofit Board

by William G. Bowen



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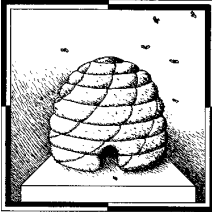
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	<b>HOW TO INTEGRATE WORK AND DEEPEN EXPERTISE</b>	<b>94502</b>
	<b>MAKE PROJECTS THE SCHOOL FOR LEADERS</b>	<b>94503</b>
ARTEMIS MARCH	<b>USABILITY: THE NEW DIMENSION OF PRODUCT DESIGN</b>	<b>94507</b>
JOHN A. QUELCH, DAVID KENNY	<b>EXTEND PROFITS, NOT PRODUCT LINES</b>	<b>94509</b>
STAN DAVIS, JIM BOTKIN	<b>THE COMING OF KNOWLEDGE-BASED BUSINESS</b>	<b>94505</b>
REGINA FAZIO MARUCA	HBR CASE STUDY <b>CAN THIS BRAND BE SAVED?</b>	<b>94508</b>
WILLIAM G. BOWEN	SOCIAL ENTERPRISE <b>WHEN A BUSINESS LEADER JOINS A NONPROFIT BOARD</b>	<b>94504</b>
	PERSPECTIVES <b>FINDING A LASTING CURE FOR U.S. HEALTH CARE</b>	<b>94512</b>
RICK YAN	WORLD VIEW <b>TO REACH CHINA'S CONSUMERS, ADAPT TO <i>GUO QING</i></b>	<b>94511</b>
ALAN M. WEBBER	BOOKS IN REVIEW <b>SURVIVING IN THE NEW ECONOMY</b>	<b>94510</b>



*Don't give in to the temptation to check your toughness at the door.*

# When a Business Leader Joins a Nonprofit Board

by William G. Bowen

Is it true that well-regarded representatives of the business world are often surprisingly ineffective as members of nonprofit boards? Do they somehow seem to have checked their analytical skills and their "toughness" at the door? If this is true in some considerable number of cases, what is the explanation? And what, if anything, can be done about it?

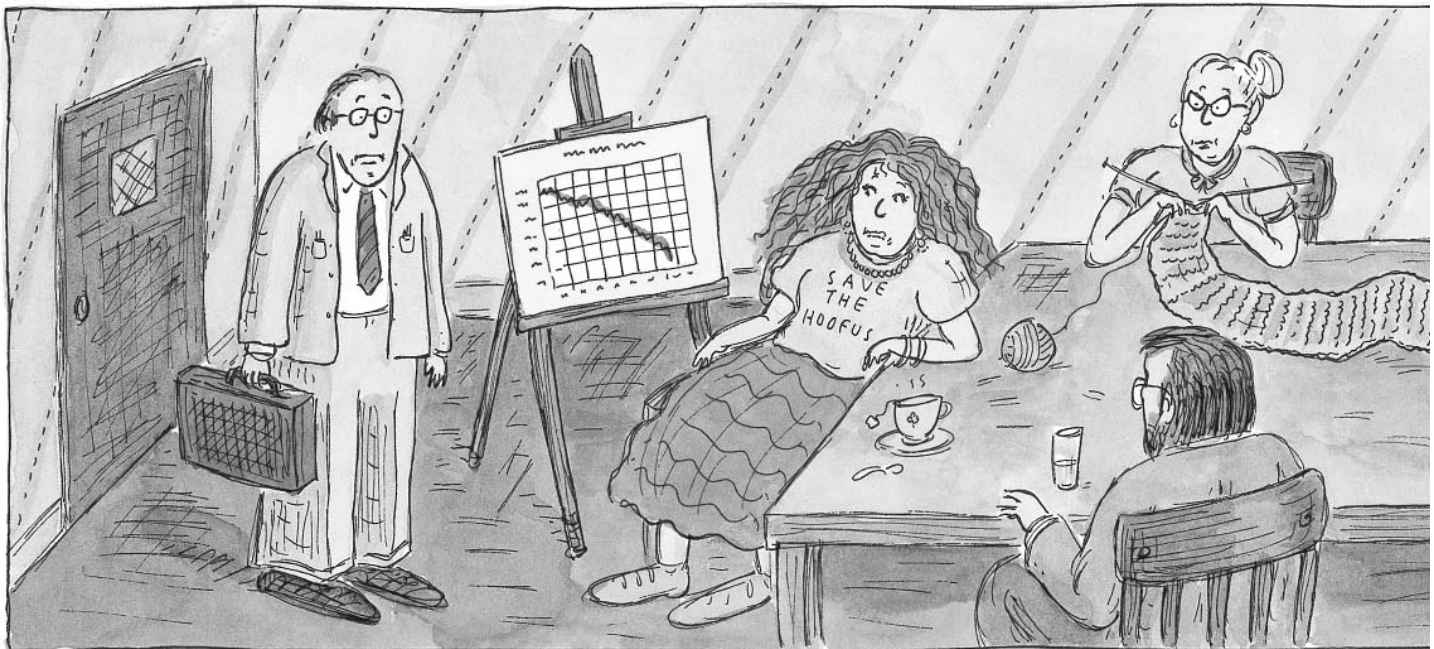
These questions are consequential precisely because it is so important that highly qualified individuals from "the world of affairs" serve on

nonprofit boards – and serve effectively. They are needed for their knowledge, skills, and general competence. They are also needed for fund-raising, for contacts, and, in part, for the sake of appearances. It is hard to identify a major nonprofit board that lacks business representation. I cannot think of any.

Although it would be difficult to devise a rigorous empirical test, I suspect that my harsh-sounding proposition questioning the effectiveness of nonprofit board members from the business sector holds with

surprising frequency. This impression is certainly widely shared – by many business executives, among others. There have also been some well-publicized examples. The business representatives on the United Way board, for example, certainly appear to have failed to do a proper job of overseeing the activities of that organization. At Morris Brown College in Atlanta, Georgia, observers have linked the college's severe financial problems with the board's inability to ask the right questions. Of Morris Brown's 30 trustees, 15 were business professionals. And press accounts of the Empire Blue Cross debacle have regularly referred to the lack of proper oversight on the part of outside directors, who were a mix of health care professionals and individuals with business backgrounds. According to the accounts, board scrutiny did not adhere to the basic standards of the corporate world.

Needless to say, there are also many instances in which my proposition does not hold. Hanna Gray, former president of the University of Chicago, says that in her experience "[business] CEOs tend to be the *best* board members; they are more likely than others to understand how complex organizations function." My experience confirms this observation. At both Princeton University and



the Mellon Foundation, trustees with extensive experience in the business world have been highly effective. In short, the range of performance by business executives is very wide indeed, extending from extremely disappointing to outstanding. But whatever the exact number of disappointing experiences, we have here a phenomenon in search of an explanation.

### Why Join a Nonprofit Board?

Fortunately, many busy executives join nonprofit boards because of deep personal commitments to the organizations' values and purposes. But others, I suspect, participate for reasons of status and with the expectation that they will be able to enjoy a kind of vacation from the bottom line. At least part of the motivation for joining a nonprofit board may be the enjoyment of membership in a new "club" (albeit one with potentially high dues when the time comes for trustees to make campaign contributions) that will provide a respite from morning-to-night struggles with earnings and balance sheets. The pleasure derived from such an association would be marred by the burden of having to say no to obviously meritorious requests for budgetary support. I was told, for example, that the board of one private secondary school with

severe financial difficulties nonetheless approved a request from a group of teachers for new equipment because "they just couldn't say no to such dedicated teachers."

Some executives join nonprofit boards in part to shed the "barbarian" image that may otherwise afflict them – either in their own perceptions or in the perceptions of others. If one's objective is to soften that image, it will not do to play the part of the bad cop by insisting that the organization re-trench, that it can't afford salary increases for abominably paid staff members, and so on. Providing vocal support for impassioned statements of needs, even when that might seem imprudent, can be a nonbarbarian way of behaving. But such behavior may signal a board member's reluctance to blow the proverbial whistle on extravagant, overly optimistic, or even poorly conceived proposals.

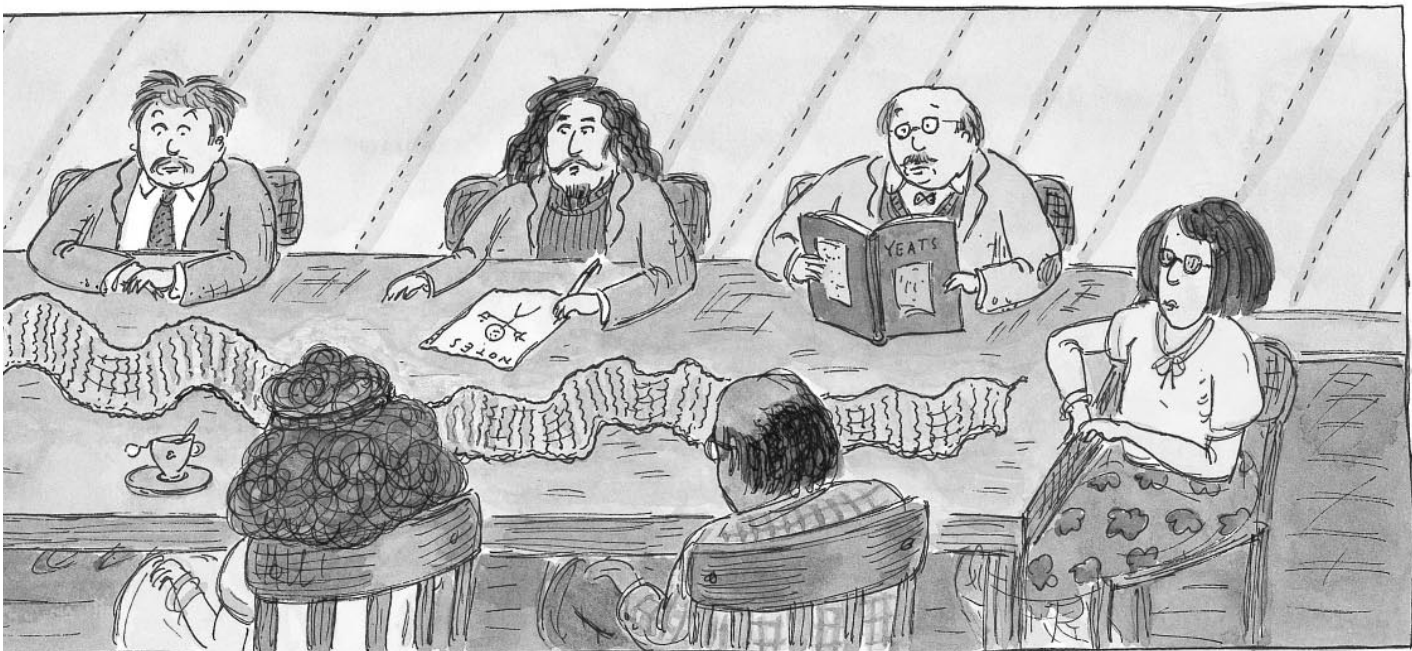
The former director of a small arts organization has described a situation in which such permissiveness hindered a board's performance. She was earning a low salary as director of the organization, whereas her board members were, for the most part, wealthy individuals from the

business world. Some board members evidently felt guilty about the director's low salary, and every summer they asked her why she didn't just take the summer off. She would reply that there was a lot of work to be done, and that if board members wanted to help, they could raise

## Business executives can't soften their "barbarian" image by playing the part of the bad cop.

more money so that the organization could hire more support staff. Instead, the board members attempted to assuage their sense of inequity by allowing the hardworking, low-paid director certain privileges that were not in the organization's best interest. Someone had to mind

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the store, as the trustees should have understood.

The consequences of too much permissiveness can be extremely serious, in part because other trustees may well defer to seasoned executives when it comes to business matters. As one trustee from the academic world confessed, "I just assumed that if there were a serious financial problem, surely [Jones and Smith], with all of their corporate

*able to brag about what [the foundation] was doing.*

While personal agendas can be a problem on corporate boards too, the need to focus on business outcomes is at least somewhat constraining.

### Barriers to Success

For some people from the for-profit sector, joining a nonprofit board involves venturing into unknown territory. The boards of nonprofit organizations may include individuals who, while highly competent in some general sense, fail to understand how a ballet company functions or how graduate education relates to undergraduate education.

Board members with no visceral feel for an organization may bring values to the board table that are simply inappropriate. I have heard of a case in which a businessman on the board of a church kept pushing for "double-digit growth" no matter what the implications were for the church's capacity to fulfill its mission.

An even more pervasive source of difficulty is that individuals familiar with corporate financial accounts may find it difficult to penetrate the intricacies of fund accounting. They are certainly far from alone in this respect, but because they are presumed to be experts in such matters, they may be especially embarrassed to acknowledge that they don't quite understand the financial statements of the nonprofit organization.

Board members' reluctance to come to grips with financial difficulties may have another source: concluding that an organization faces severe financial difficulties has implications for the trustees, often including the need to raise appreciably more money. If a board member does not want to participate actively in an aggressive fund-raising effort, the individual may be reluctant to em-

phasize the danger signals revealed by the organization's financial statements. Arjay Miller, former dean of Stanford Business School and former president of Ford, has suggested a golfing analogy: if a member of a golf club complains about the greens, he or she could end up chairing the greens committee. A link between the failure to perceive signs of financial distress and a lack of enthusiasm for new fund-raising tasks can be largely unconscious, but I suspect it is real, in at least some instances. It may just be more comfortable for some trustees to draw down endowment, hope for a brighter day, and allow events to unfold.

Given that courts are reluctant to hold volunteers to a high standard of accountability, serving on a nonprofit board may seem risk-free. On almost all nonprofit boards, trustees can simply walk away if conditions become adverse. That may not be true if certain kinds of debt have been taken on and creditors are at the door, but even then assets are usually more than sufficient to cover obligations.

The fact that individual trustees are rarely identified with troubled nonprofits, even in highly publicized situations, also makes it easier for them to disengage. Press accounts usually refer to boards as corporate bodies, sometimes naming the

## Board members with no visceral feel for an organization may bring values to the table that are simply inappropriate.

experience, would tell us." Unfortunately, Jones and Smith did not speak up, and the organization in question nearly failed and may still fail. In retrospect, the board member from academia made a bad mistake in deferring to his business colleagues rather than trusting his own judgment about the seriousness of the financial difficulties confronting the institution.

Other motivations for joining boards represent a more general set of problems for certain classes of nonprofits. For example, the commendable desire of many college and university graduates to "give something back" can lead them to inject excessive doses of nostalgia into boardroom deliberations—what colleagues at Princeton used to call the furry-tiger syndrome.

Nonprofits of all kinds suffer from the presence of board members out to advance personal agendas. The former president of a foundation posed this question:

*What is it that tends to rush in to fill the vacuum left in nonprofits by the absence of a bottom line? My experience...left me jaundiced about this, for it seemed to me that human vanity and a desire to be kept excited about the wonders of the foundation were what rushed in. Too often, trustees wanted to be*

## Accounting "experts" may be embarrassed to admit that they don't understand the intricacies of nonprofit financial statements.

chairperson but rarely any other members. Perhaps, as some have suggested, associating individual trustees more directly with the organizations they serve would increase accountability; but I'm not sure how much difference that would really make. After all, one's professional reputation as an investment banker, for example, is not likely to be harmed by having served on the board of a struggling nonprofit orga-

nization – particularly if one is perceived as having labored hard to save it. In contrast, prominent board members of a failed business undertaking can bear scars indefinitely. With less at stake, trustees of nonprofits may not look as closely at the numbers or pursue complex issues

## Serving on a nonprofit board is usually risk-free, but prominent trustees of a failed business can bear scars indefinitely.

as doggedly as they would in a for-profit setting.

A very different explanation for what may seem like board members' incompetence or indifference, when neither is the case, has to do with the nature of the missions served by many nonprofit organizations. Robert Kasdin, treasurer and chief investment officer of the Metropolitan Museum of Art, attributes many of the difficulties encountered by business trustees to their being asked to play roles that, in his words, "raise unfamiliar types of normative questions."

To what extent, for example, is a museum justified in exceeding an endowment spending limit in order to invest in a new conservation facility, library, or gallery? Informed decisions in such situations require a rather sophisticated understanding of the implications of *not* spending money, as well as of spending it, and a willingness to make hard intergenerational choices: What will be the long-term effects of either decision on the quality of the institution and on its value to scholars in the future? How do the present and future benefits that can be gained through investments of this kind compare with the need to protect the core finances of the institution into the next generation by preserving the real value of the endowment? For-profit corporations also make present-versus-future choices all the time, but at least they have quantitative methodologies to guide them in

framing the issues and projecting rates of return.

### Staff Attitudes and Subtle Intimidation

If it is intrinsically difficult for an outsider to address questions that depend on a nuanced understanding of the mission of the institution and the choices before it, it is even harder to do so if the management and staff are unhelpful. A potential problem in some nonprofit organizations is that the professional staff may be so conscious of the unique qualities of their

institution, and so sensitive to their obligation to be the guardians of its uniqueness, that, perhaps unknowingly, they will patronize or even dismiss the "unwashed" business executive. As Jed Bergman, my colleague at the Mellon Foundation, put it: "After all, this is *their* field; they are the ones who have studied the arts, or medicine, or science. And the more dire the circumstances, the more likely it is that members of the staff will feel a compulsion to 'save' the institution – even from the trustees."

The driving force is often not institutional loyalty alone. Many of the key employees of a nonprofit organization are professionals who may well feel as much loyalty to their profession, and to the norms inculcated in them when they were trained, as they do to any particular employer. The consequence may be a determination to hold a particular employer to what are considered universal standards (regarding de-accessioning, for example, in the museum world), regardless of local conditions. Lay trustees, especially those from the business world, may be considered, fairly or unfairly, insensitive to, if not ignorant of, these professional norms.

A related problem stems from the tendency of some individuals who have chosen to work in the nonprofit sector to harbor a thinly veiled hostility toward professionals from the profit-making sector. If business leaders fear being perceived as ax-

wielding barbarians, that fear may not be entirely unfounded. And such perceptions can lead staff members to phrase questions and present information to board members in such a way that there appears to be one "right" answer. This protective attitude may not be challenged within the cloister of a nonprofit organization as rigorously as it might be in a for-profit enterprise. Louis Gerstner, chairman and CEO of IBM and a member of various nonprofit boards, suggests that staff members in nonprofits are sometimes defensive and unresponsive because they are less used to constructive criticism than are staff members in corporations, which are more likely, he suggests, to have accepted a "culture of challenge."

But an odd kind of subtle (or not so subtle) intimidation can work in the opposite direction. High-achieving corporate representatives do not want to seem ill informed, narrowly educated, or boorish by apparently failing to understand the reasons for an action that the nonprofit "pros" insist is essential. As Alice Emerson, former president of Wheaton College, recalls, some business executives on the board of the college still thought of the faculty as their teachers and thus were reluctant to argue with them.

Needless to say, by no means all board members, whatever their backgrounds, are so reverent. In fact, some have been known to display more than a little contempt for "impractical intellectuals." The healthiest relationships, at least in my experience, exist between board members and staff members who genuinely respect one another. This kind of relationship is obviously easier if the board member from the business world has some real understanding of the fields served by the nonprofit organization.

Frederick Borsch, Episcopal bishop of Los Angeles, who has served on and worked with the boards of many community service organizations, has emphasized the need for trustees to understand the laborious and time-consuming decision-making processes that often characterize these nonprofit organizations.

"Some businesspeople are poor board members of nonprofits because they can't stand the slower, more collegial pace of decision making," he says. "They want everything settled *now*."


The point of these comments is not to criticize members of nonprofit boards who come to their posts from successful careers in business; such people are badly needed. My intention is to warn unsuspecting leaders of nonprofit organizations, other board members, and staff members not to assume that directors with business qualifications will necessarily contribute the same hard-nosed approach in this setting that they are known to exhibit in their professional lives.

But we do not need to throw up our hands in despair. There are positive actions that the management

and staff of nonprofit organizations can take to help facilitate more effective participation by business executives in discussions of priorities, resource allocation, and financial planning. There should be a conscious effort to make board reviews and board deliberations as trustee-friendly as possible. Moreover, board members with business experience should be encouraged to be as disciplined, or even more disciplined, in assessing the condition of a nonprofit organization as they would be in a profit-making setting. "Tough love" is needed here every bit as much as it is in the for-profit world, but people in nonprofit organizations often ignore that imperative.

Nonprofit boards have much to learn from certain disciplines characteristic of corporate boards – especially the routine use of benchmark data and the constant monitoring of

discrepancies between results and planned outcomes. Experienced business executives can contribute to nonprofit organizations by insisting that commendable motives and high hopes are not enough.

For these reasons and others, it is critically important that the ablest people in the business world make the considerable effort necessary to function effectively in what may seem to be a strange realm – one in which missions are sometimes difficult to define with precision, resources are almost always scarce, and relevant data and analyses are either unavailable or slippery to the touch. But moving successfully from one realm to the other is far from easy, and everyone would be helped by fuller and franker recognition of the difficulties involved in transforming good intentions into effective board leadership. 

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