

ForwardThinking

Governance practices for not-for-profit board members and executives Issue no. 11

Do you really know who your board members are?

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Selecting the best and brightest candidates for board membership has become a top priority for many not-for-profit organizations. Organizations are concerned that selecting the wrong board members could lead to governance problems, reputational damage and, simply put, bad chemistry. Moreover, heightened scrutiny and transparency requirements from the IRS and state agencies also have raised the stakes for candidate selection. But how do organizations identify and select the most ideal candidates for board membership? While there is a wide range of methods, a growing number of savvy not-for-profit organizations are undertaking due diligence in assessing candidates for board membership.

Most not-for-profit organizations in the United States have self-perpetuating boards, where candidates are identified,



nominated and elected by the existing board of directors or trustees. The candidate identification and selection process typically is handled by the board's executive, nominating or governance committee. Candidates are identified by current and past board members, senior management, alumni, foundations, government agencies and other constituencies.

In the past, new board members were often selected based on who they knew. Little, if any, due diligence was performed. With IRS changes in the required conflict-of-interest disclosures in the Form 990, and federal and state agencies focusing on accountability and stewardship, due diligence in member selection has expanded significantly.

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This growing use of due-diligence processes in board selection is an important practice for not-for-profit organizations.

Undertaking due diligence

The following represent some of the due-diligence procedures, also referred to as decision screens, which not-for-profit organizations are using to select a candidate for board membership:

1. Require the candidate to complete and submit the organization's conflict-of-interest statement and to disclose any potential conflicts or certify that no conflicts exist prior to election.
2. Require the candidate to authorize the organization to perform a full background check. This background check typically includes a search of public documents for any legal judgments, IRS or state liens, negative media publicity and a criminal check.
3. Request that the candidate provide three references from individuals not affiliated with the organization.
4. Request that the candidate briefly discuss (verbally or in writing) his or her approach to serving on the board. Topics to be addressed include commitment to the organization's mission, willingness to participate in committee assignments and the expectation to attend a majority of board and committee meetings.
5. Gauge the candidate's ability to make financial contributions to the organization.
6. Gauge the candidate's ability to promote the organization among his or her professional and personal contacts.
7. Assess whether the candidate has any relationships with existing board members, management or other individuals which could lessen the candidate's ability to be objective and independent.
8. Have several board members, including the board chairperson, interview the candidate before his or her name is placed into nomination.
9. Inquire whether the candidate previously served on other not-for-profit boards. Request information as to the length of board service, leadership positions held and committees on which the candidate served. Consider contacting these not-for-profit organizations about the candidate's performance as a board member. Also consider a similar due-diligence procedure for any candidate who has served on the board of for-profit companies, including public companies.
10. Ensure that any issues of concern are carefully identified and brought to the attention of the committee charged with conducting the nomination process. Consideration also should be given to disclosing these matters to the full board if the candidate is nominated and considered for election. Legal counsel may need to be consulted depending on the seriousness of the matters that are identified.

Other questions to ask in selecting new board members include the following:

- Does the candidate possess certain skills or expertise that will be of value to the organization?
- Is the candidate's demeanor and personality a good fit for the board?
- Has there been full consideration of the benefits the organization will derive from having this individual serve on the board?
- Is there any risk of embarrassment or reputational damage by appointing this individual to the board?

Selection of board members is a critically important process for any not-for-profit organization. Organizations should consider a robust set of due-diligence procedures that will help boards make the best possible decisions. Choosing the best candidates is imperative to a not-for-profit organization's success — not only from a good governance perspective, but also from a reputational perspective. •



About the author

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