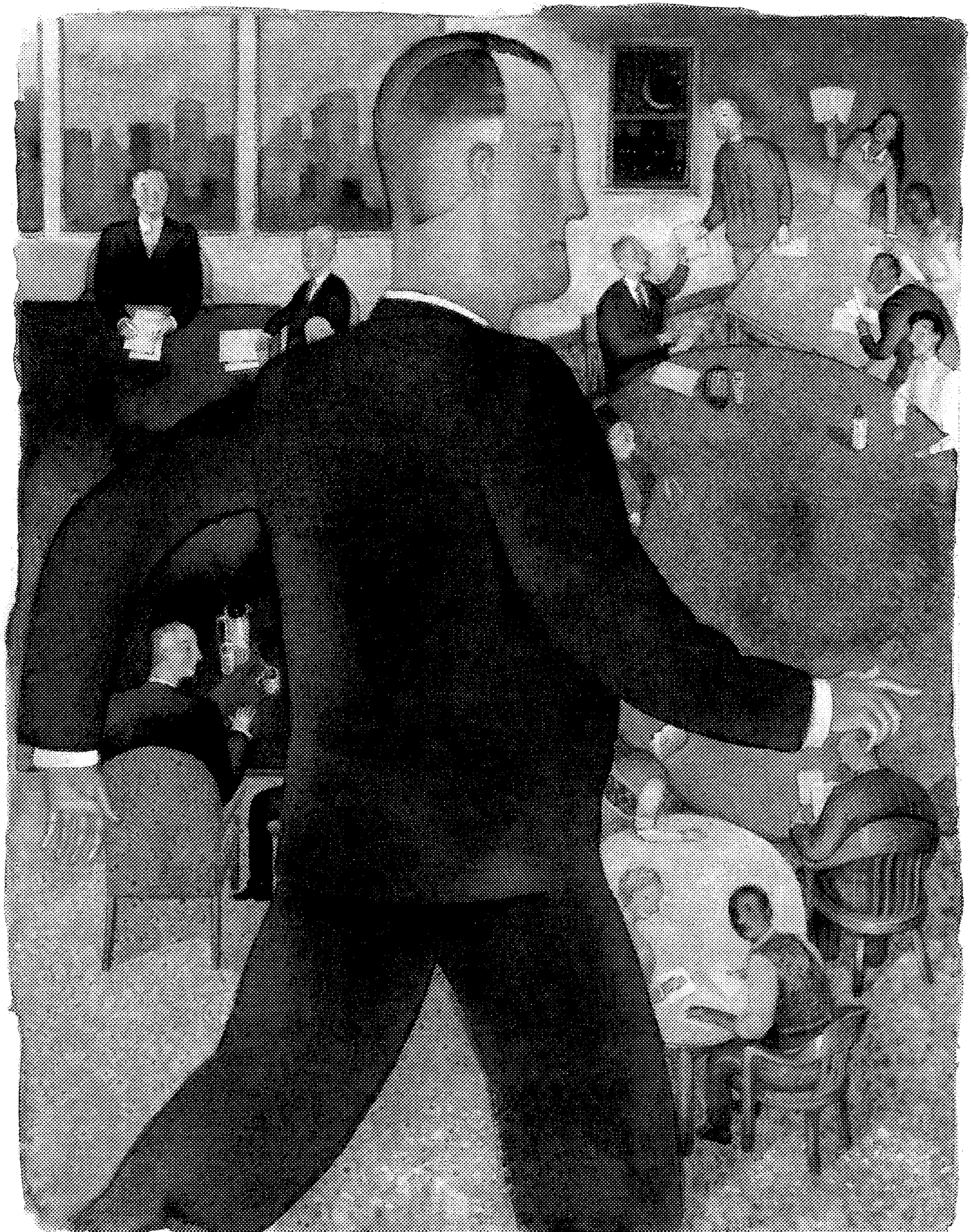

ARTWORK BY GREG COUCH

Working on Nonprofit Boards Don't Assume the Shoe Fits

BY F. WARREN MCFARLAN

Most businesspeople will serve on the board of a nonprofit organization at some point. But the governance of nonprofits can differ dramatically from the governance of businesses. Even the best intentions can prove disastrous when new board members fail to understand that their traditional business experience can carry them only so far.

EBENEZER SCROOGE HAS GIVEN THE business world a bad rap. Contrary to popular perception, businesspeople *can* be benevolent. For example, studies show that more than 90% of current Harvard Business School students are on the boards of a variety of nonprofit organizations. And polls of HBS classes suggest that the overwhelming majority of those students will stay meaningfully involved with nonprofits after graduation. One recent study found that four-fifths of all HBS graduates are involved with nonprofits, with more than half serving on boards. And when you exclude graduates in their early career-building years (generally up to ten years after graduation), the numbers jump even higher. It seems that volunteerism and community activism are still deeply rooted in America. And that's good news.

The problems start when a businessperson walks into a nonprofit group's board meeting for the first time and thinks she has stepped into familiar waters. On the surface, there are some similarities between the for-profit and nonprofit sectors. Both have boards of directors, trustees, chairpeople, regular meetings, and so forth. In both cases, boards are responsible for setting the organization's mission, monitoring its progress toward achieving that mission, and selecting and evaluating its managers.

So it's only natural that our MBA-wielding executive will want to transfer some of the management lessons she has learned at business school and at work. But that's exactly where the danger lies. Despite the apparent similarities, the governance of nonprofits is different from the governance of for-profit businesses in several critical areas. And failing to recognize those differences can be calamitous.

I recall a case in which a businessman was appointed chair at a nonprofit that was, despite a generous endowment, running an operating deficit of about a half million dollars. To stem the losses quickly, the new chairman proposed immediately doubling the workload of the operating staff and reducing the level of service provided to clients. He completely failed to appreciate the impact that would have on the quality of the organization's work and on its sense of purpose. Faced with the prospect of massive staff defections, the board removed the chairman from his post and appointed a more sensitive individual. The replacement chair took a very different approach; he developed new programs and services rather than focusing on costs. It took more than five years to eliminate the deficits in this way, but the strategy preserved the organization's morale and mission.

Nonprofit work involves more than just having your heart in the right place. It's essential that businesspeople who are involved with, or who are thinking about becoming involved with, nonprofit work understand how the for-profit and nonprofit worlds differ. That understanding will make it easier for businesspeople to move smoothly between sectors, and it will make their commitments more effective.

Mission and Measurement

One of the most fundamental – and least understood – ways the two sectors differ is in how they develop and evaluate their missions.

Increasing shareholder value is the principal goal of any organization. As the first dean of HBS liked to say, the objective of any business is to deliver goods and services at a profit in a decent way. And putting aside the vagaries of accounting practices, progress toward that goal can be precisely measured and tracked over time. For both public and private companies, factors such as profit growth and market capitalization are effective measures of the company's long-term performance. When a company is not doing well according to those metrics, the board comes under enormous pressure from shareholders, analysts, and potential acquirers to do something about it.

Even when a business is making money, its corporate board is always concerned about how the company is doing relative to competitors. Are there gaps in product innovation or management skills that will damage profits down the line? All the issues that a corporate board reviews – for example, responsibility to community, product quality and positioning, and growth in services – are related to that company's financial performance.

But for the nonprofit organization, financial considerations form only one dimension of its mission statement, though still an important one since sustained losses can lead to the demise of *any* organization. Another more critical variable is the service that a nonprofit gives its often diverse constituencies. But it can be very difficult to measure performance along that dimension. Take hospitals, for example. How do you assess the value of an expensive but award-winning internship program that is providing medical leaders for the next generation? Sometimes the trade-offs can be very complex. Consider the changes in the past decade in cardiac surgery and heart catheterization. Catheterization is in many cases a superior treatment; tubes are threaded through the veins of the

F. Warren McFarlan *is the Albert H. Gordon Professor of Business Administration at Harvard Business School in Boston, where he is also senior associate dean and director of external relations. He specializes in information technology issues. He is a coauthor of* Corporate Information Systems Management: The Issues Facing Senior Executives *(McGraw Hill, 1996).*

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Not everyone is as engaged in their community as F. Warren McFarlan is. In the past 20 years, he has served on the boards of more than ten nonprofit organizations. He is currently a member of three nonprofit boards and several corporate boards. He is a member and former chair of trustees at Mount Auburn Hospital in Cambridge, Massachusetts; a trustee of CareGroup in Boston; and a trustee of the Winsor School in Boston. He is also past chair of the board of trustees at the Dana Hall School in Wellesley, Massachusetts, and at the Belmont Day School in Belmont, Massachusetts.

McFarlan teaches two executive education programs at Harvard Business School: "Strategic Perspectives in Nonprofit Management" and "Governing for Nonprofit Excellence: Critical Issues for Board Leadership." This article is based on a speech McFarlan gave at this year's "Strategic Perspectives in Non-Profit Management" conference at HBS. One hundred and forty-five leaders of nonprofit organizations attended.

– The Editors

heart and are used to monitor blood pressure and other factors in critically ill patients. But the procedure generates much less cash flow for a hospital than does cardiac surgery. So a hospital that switches from cardiac surgery to catheterization may find its ability to fund other nonreimbursable services at risk.

Whatever a nonprofit's mission, financial results on their own are a poor means of measuring performance. Some years ago, I heard the board chair of a college proudly declare – to the warm applause of parents and alumni – that his organization had just completed its 21st consecutive year of balanced budgets. I couldn't help but wonder what everyone was applauding about. During those 21 years, student applications had plummeted in quality and number, the grounds were unkempt, and the buildings had grown shabby. Worse, the intellectual vibrancy of the faculty had clearly diminished. Indeed, there had been huge resistance to adding contemporary subjects such as women's studies because of their potentially unfavorable effect on the school's budget.

Compare that with the accomplishments of another school head who retired after ten years of red ink. She, too, got a standing ovation at her retirement party, but that I could understand: during her tenure, the institution was reinvigorated and completely repositioned. The quality of educational programs was improved, and the school's students began winning places at top colleges across the United States. Her unswerving mission, which was supported by the board, had allowed the organization to survive its budget problems and ultimately to strengthen its services.

Of course, finding a balance between financial considerations and other aspects of a nonprofit's mission can be hard. Take the case of one well-known women's school. By the 1980s, the majority of single-sex educational institutions in the United States felt that financial realities dictated against their missions, and they turned to coeducation as a way to preserve their curriculum and programs. But the board of this women's school strongly believed that coeducation would destroy the school's very reason for existence. As a result, it endured almost a decade of painful losses. That commitment was eventually rewarded; over time, credible research validated the benefits of single-sex education. Applications flooded in to the school, and it recovered its funding.

The point here is not that the happy ending made it all right, but rather that the financial tail must not be allowed to wag the nonprofit dog. Board members from the for-profit world often have great trouble with this concept because it goes against all their training. In business, when a unit is in financial trouble you either fix it, sell it, or shut it down. For the nonprofit organization, however, a loss-making unit may be at the center of the group's mission and its raison d'être. The price of fixing it may be the very destruction of that mission. Indeed, closing it down may make the finances even worse, because the closure may choke off capital gifts and other forms of long-term support for the whole organization. Key staff may become less committed, which could ultimately lead to the organization's failure. Obviously, a nonprofit board must know when it is losing money. But how it chooses to handle those losses, and at what pace, is a very complex issue.

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If poor financial performance isn't necessarily a reason for a nonprofit organization to close its doors, neither are good financials sufficient grounds for carrying on. A nonprofit that has completed its mission, whether or not it is financially sound, has no reason to exist. It must either define a worthwhile new mission or close.

For example, the March of Dimes came up against this choice several decades ago after a cure for polio was found. Instead of disbanding, the agency repositioned itself as a sponsor of research on the treatment and elimination of birth defects. But many other nonprofits faced with the same situation – or the achievement of their mission – have quite appropriately disappeared.

Choosing the Boss

Selecting a new CEO is perhaps the most important duty of any for-profit board. Get that right, and you've got the framework for success. The effects of appointing such CEOs as Lou Gerstner at IBM, Ray Gilmartin at Merck, and John Reed at Citicorp speak for themselves in the for-profit world. Each of these business leaders has made a huge difference at their respective companies. And, of course, one of the best examples of CEO succession planning is the transition that took place at G.E. Both Reg Jones and Jack Welch were successful leaders and brought great skills to the economic and technological environments in which they were operating. When Welch took over from Jones, the company never skipped a beat.

Choosing a new CEO is just as important for nonprofits. But even more than in the corporate world, it is more art than science. Simple formulas and standard practice don't always work. Several years ago, a nonprofit had an able but aging CEO who was approaching retirement. In looking for a new leader, nonprofits undertake intense internal assessments and run national searches that can last up to 18 months – much as in a corporation. But this time the organization's finances were in poor shape, and the board chair didn't think a full-blown search would be a constructive use of resources. Nor did he believe it would produce a credible group of candidates. Know-

Choosing the Right Chair

Even beyond picking the right CEO, choosing the board chair is a crucial task for any nonprofit. Nonprofits make many delicate decisions that require board input and immediate resolution, but because of time and other constraints, it is often impracticable to involve the whole board. The chair usually speaks on the board's behalf and board members are briefed after the fact. Obviously it's critical that the board have confidence in the chair's judgment.

That's why a chair typically will have had a long association with the organization and will have served on multiple committees. Because of that background, he or she understands the mechanics and the culture of the organization. And that knowledge can make a big difference. For example, Alfred Koeppel became chairman of Trinity College in Hartford, Connecticut, after many years of service to the school in various roles. When faced with a crisis, his understanding of Trinity and his experience at the school helped him and the college avert disaster.

In February 1994, the college president – a charismatic and effective leader – abruptly resigned to join a very prestigious rival college just two months before the public launch of Trinity's capital campaign. That threw the school into turmoil. Koeppel immediately arranged to attend, two days later, the regular monthly meeting of the college faculty; for once, all the professors and administrators showed up. His extemporaneous speech at that meeting gave the Trinity community confidence that someone was in charge, and it stabilized morale among faculty and administrators. Koeppel communicated nearly every week with alumni and parents. Using his deep knowledge of the institution, he was able to guide the trustees to an appropriate interim head – a longtime Trinity faculty member with whom most of the trustees were familiar. Meanwhile the search for a permanent replacement was conducted. The interim leader performed brilliantly off the bat, and Koeppel happily returned to his nonexecutive chairman role.

Later, as the search for a permanent college president was under way, Koeppel resisted pressure from the college community to shorten the process; he insisted on a national search. His judgement once again proved correct: Evan Dobelle, then president of the City College of San Francisco, was appointed college president in December 1994. Almost five years later, on almost every dimension, the school is healthier.

ing there was a strong, capable backup to the CEO, the chair suggested that the outgoing CEO should temporarily serve as "operations head" while his second in command served as the actual "head of operations."

The board was aghast. How would anyone know who was in charge of what? The executives would figure it out themselves, the chair replied. As events unfolded, his judgment proved to be spot-on. Two years later, the old CEO retired and his second in command took full control after a graceful transition. Within six years, the organization's finances were restored to health, and its operational quality was at an all-time high. Looking back, trustees cited their unorthodox approach to CEO selection as the secret of their success.

Clearly, throwing out the rule book doesn't mean minimizing the importance of CEO succession – far from it. But nonprofit directors have to be much more creative in managing that process than do their corporate cousins.

Who's on First?

Once chosen, a for-profit CEO is given relatively free reign to set and implement a strategy, which is then reviewed by the board of directors. In the United States, most corporate CEOs are also board chairmen. Nonexecutive chairs are found in a few U.S. corporations, but their presence is very unusual. When they are present, it is often the result of a merger, and the nonexecutive chair – typically the CEO of one of the parties to the merger – is very handsomely compensated. He sails off into the sunset a couple of years later, and normalcy is restored as the CEO assumes the chair.

In the nonprofit world, it's completely normal for a CEO to report to a nonexecutive chair. Indeed, managing this extraordinarily important and sensitive relationship over a long period of time is the greatest leadership challenge a nonprofit CEO faces.

A rift between the CEO and the chairman – especially if it explodes into the open – can trigger extraordinary difficulties. In one case, an incoming board chair strongly disagreed with some important initiatives developed by the CEO. Although he had plenty of opportunities to discuss the issues in private with the CEO, the chairman brought up his issues unexpectedly at the end of a long, two-day board meeting. Everyone was tired, and the discussion went very badly, degenerating into a public shouting match between the CEO and the chairman. In the aftermath, the CEO, a highly seasoned and effective individual, sensed that the board had lost confidence in him. He resigned, leaving the organization scrambling for an interim replacement. The result was a year of unnecessary turmoil. Obviously, the situation could have been handled better: had the board chair worked off-line with his colleague, the CEO may have been perfectly open to change.

Consider another organization in which the board lost confidence in a long-serving CEO. The chair took great pains to explain the problem to the CEO personally. He even obtained the CEO's support for bringing about a smooth transition. The result was a triumphant retirement gala, complete with farewell ceremonies and a special fund-raising effort. Both the CEO and the organization preserved their dignity, and the organization was strengthened in the process. (For a discussion about what makes a good chairman, see the sidebar "Choosing the Right Chair.")

Not surprisingly, the relationship between a new CEO and his first nonexecutive chair is usually very positive. That's because the chair either headed the search committee for the CEO or was a member of it. In the selection process, a good alignment emerges between the chairman's goals and the CEO's goals. Good personal chemistry surfaces as well.

However, the chair of a nonprofit organization often serves a relatively limited fixed term – about three years. That way, the honor – and the intense workload – of the position can be spread among a broader group of trustees. So the CEO of a nonprofit may have to deal with three or four chairs during his tenure. Of course, given the natural evolution of an organization, and the changing composition of the nominating committees of the boards over time, the incoming chairs may have different agendas. The CEO must manage those differences to establish an effective working relationship with each new chair. And that requires considerable flexibility.

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I knew the CEO of a health care institution, for example, who spent three years working closely with a board chair who was extraordinarily gifted but who was more interested in long-term development than in operating details. The CEO got used to having relatively little operational supervision. But after the completion of a highly successful capital campaign, a new board chairman was selected. His priority was to understand operational viability in the new and very hostile medical environment. Almost immediately, the CEO began meeting weekly with the new chair to discuss financial and operational details. Together they created an ultimately successful plan for ensuring the continued viability of the institution. The key to success here was not only the CEO's ability to buy into new priorities intellectually but also his willingness to change his work habits.

Curiously, it is often not until the fourth or fifth chair is appointed that CEOs experience real problems. By that time, a CEO probably feels settled in the job and may be less ready to adapt. But it's also around this time that pressures within the organization will lead to the appointment of a chair with a radically different agenda than that for which the CEO was originally selected. As a result, many nonprofit CEOs end up leaving their jobs at this time.

Consider one CEO of a hospital. He successfully ran the place for more than a decade under four chairmen. But the fifth chair was selected because of the board's concern that the hospital couldn't survive as an independent institution in a world of HMO contracts. Although he was unfamiliar with the business of merger discussions, alliance negotiations, and so forth, the CEO handled them brilliantly, and a merger was successfully completed. The hospital became a subsidiary of another organization. Although this solution satisfied the new chair and the board, the CEO found it hard to adapt to the new organizational structure, which did not match his managerial strengths. Eventually, he resigned.

Smart CEOs will actively manage their relationships with chairs and board members, even to the extent of influencing the selection of members and new chairs. That way, they can ensure that the organization's board members are aware of the challenges that the organization faces, and they can develop an effective working relationship with the organization's professionals – for example, the doctors at a hospital. The CEO at one nonprofit organization explained to me how much time and care he had put into doing just that. He made it a personal priority to get to know each board member and, in particular, the head of the board's nominating committee. His candid discussion of the strengths and weaknesses of the candidates could provide crucial input to that committee and would help ensure the nomination of candidates with whom he could work. By exerting this kind of influence, the CEO was able to stay at the helm – and manage effectively – for more than 15 years.

Board Structure and Processes

There are few areas where the differences are so pronounced between nonprofits and for-profits as in the structure of their boards. For a start, for-profits generally keep board numbers to between eight and 14 directors, chiefly to stimulate candid debate. That's usually possible because corporate boards look for just three kinds of people: leaders of similar corporations, specialists in relevant technologies, and people with good political contacts. Professionals such as venture capitalists and investment bankers may also serve on boards, particularly in smaller companies.

The nonprofit board tends to be much larger because it needs to represent the many constituencies that have a stake in the organization – especially potential donors. At independent schools, for example, wealthy individuals serve as board members alongside parents, alumni, teachers, and community figures. In some cases, a nonprofit's financial needs can reach truly gargantuan proportions, and the composition of the boards can swell. That's perhaps most true of museums and symphonies. The Boston Museum of Fine Arts, for example, has 40 board members, and the Boston Symphony Orchestra's board runs to more than 100 people.

Large boards need executive committees. For-profit boards, of course, also have executive committees, but those groups usually have limited responsibilities. They are made up of insiders who work near the headquarters and who are empowered to deal with routine business between regular board meetings. For major decisions, the full board is assembled–by telephone if necessary.

Because boards in the nonprofit sector are much larger, the executive committee often has a very different role. Legally, the entire board is responsible for the health and governance of a nonprofit organization. But the executive committee provides the small-group atmosphere that helps members talk about problems on a more intimate basis. Members can discuss sensitive topics with less danger of damaging leaks and with greater likelihood of reaching a quick consensus on operational issues.

But there's a big risk that an executive committee will turn into an "upstairs" board, whose members are in the know. Committee members get great emotional satisfaction out of this but it alienates the "downstairs" board members who aren't on the committee. At one nonprofit, the polarization between the upstairs and downstairs committees got so out of hand that members of the executive committee no longer deemed it necessary to attend the full board meetings; after all, they served only as a forum for reporting the executive committee's decisions. Indeed, it took almost two years of attending these monthly board meetings before one faithful "downstairs" board member could actually be sure who else was on the board. One executive committee member had attended only two meetings of the full board during that entire time.

In some cases, "downstairs" board directors are so out of the loop so much of the time, they never hear anything but the official line. I know one case in which a "downstairs" board member of a nonprofit got a phone call from the CEO requesting an emergency meeting. The board member agreed to the meeting, then called a member of the executive committee to find out if there were any important issues going on. The board member was told that nothing significant was happening, so he concluded that the CEO probably just wanted to talk about issues related to his expertise. Two hours later, the board member met the CEO and was stunned to hear him say as he sat down: "I have been fired, and I need your help!" The CEO then handed over a six-page letter from the "upstairs" executive committee, outlining the reasons for his dismissal. The board member spent an extraordinary hour dancing around the issues. When the CEO left the meeting, the first thing the board member did was to call the board chairman to ask him what the hell was going on. The embarrassed chair explained that the executive committee was trying to avoid publicity!

Obviously, issues of this magnitude have to be dealt with by the full board. It may take a lot of time and can involve some messy discussions, but trying to sweep such confrontations under the rug only creates a bigger mess.

In addition to an executive committee, both nonprofit and for-profit

Characteristics of For-profit Versus Nonprofit Governance

For-profit Sector		Nonprofit Sector
• grow market capitalization through products and services	Mission	• deliver services to key constituencies
• financial performance	Measure	• financial performance balanced with other measures
• CEO is sole boss	Leadership	• CEO reports to nonexecutive chair
• small • executive committee relatively limited in scope • nominating committee is relatively inactive • no operations committee	Board Composition	• large • executive committee is vital but can get out of control • nominating committee constantly at work • operations committee essential
• predictable profiles, often senior business professionals • predictable roles • predictable hours • long service • highly paid	Board Members	• diverse profiles often incorporating potential financial donors • diverse roles • antisocial hours • high turnover • expected to donate

boards also have nominating committees that select new board members and key officers such as the CEO. In for-profits, nominating committees used to be responsible for the whole process – from carrying out a search to interviewing and appointing new members. But these days, nominating committees farm out most of the search responsibility to consultants who can tap a much broader pool of candidates than those known to the board members and the company's management. Searches have gotten more difficult in the past 20 years. People are less willing to serve on more than one or two corporate boards because of potential conflicts of interests and the demands of their own primary job – often as CEO of another company. Thus a for-profit organization's nominating committee has a relatively light workload.

The opposite is true for nonprofits. Nonprofit groups' nominating committees often carry out searches themselves because they're best suited to do it. Their organization is usually more deeply rooted in the local community than any search firm could be. But that creates an enormous burden for the committee, because the turnover of a nonprofit's board members can be much higher than it is among a for-profit's board members. The committee is constantly on the lookout for new blood. And if a nominating committee doesn't pay attention, its board can very quickly fall apart as key members leave or become inactive. So important is the nominating committee to the nonprofit, in fact, that its chair is usually seen as second in importance only to the chairman of the full board.

Finally, nonprofit boards also have a committee charged with understanding and evaluating how well the organization and its professionals are achieving the qualitative aspects of their mission. This committee, which doesn't have a for-profit counterpart, is called by various names depending on the field. In schools, it is called the educational policy committee; in universities, the visiting committee; and in hospitals, the medical affairs committee.

I generically call them the "operations committees." They are usually staffed by people who are unfamiliar with the technical details of a profession – which of course can generate a fair amount of resentment on the part of the professionals. But the appointment of an operations committee helps ensure that at least some board members have firsthand insight about what the professionals on the front lines are dealing with and what their concerns are.

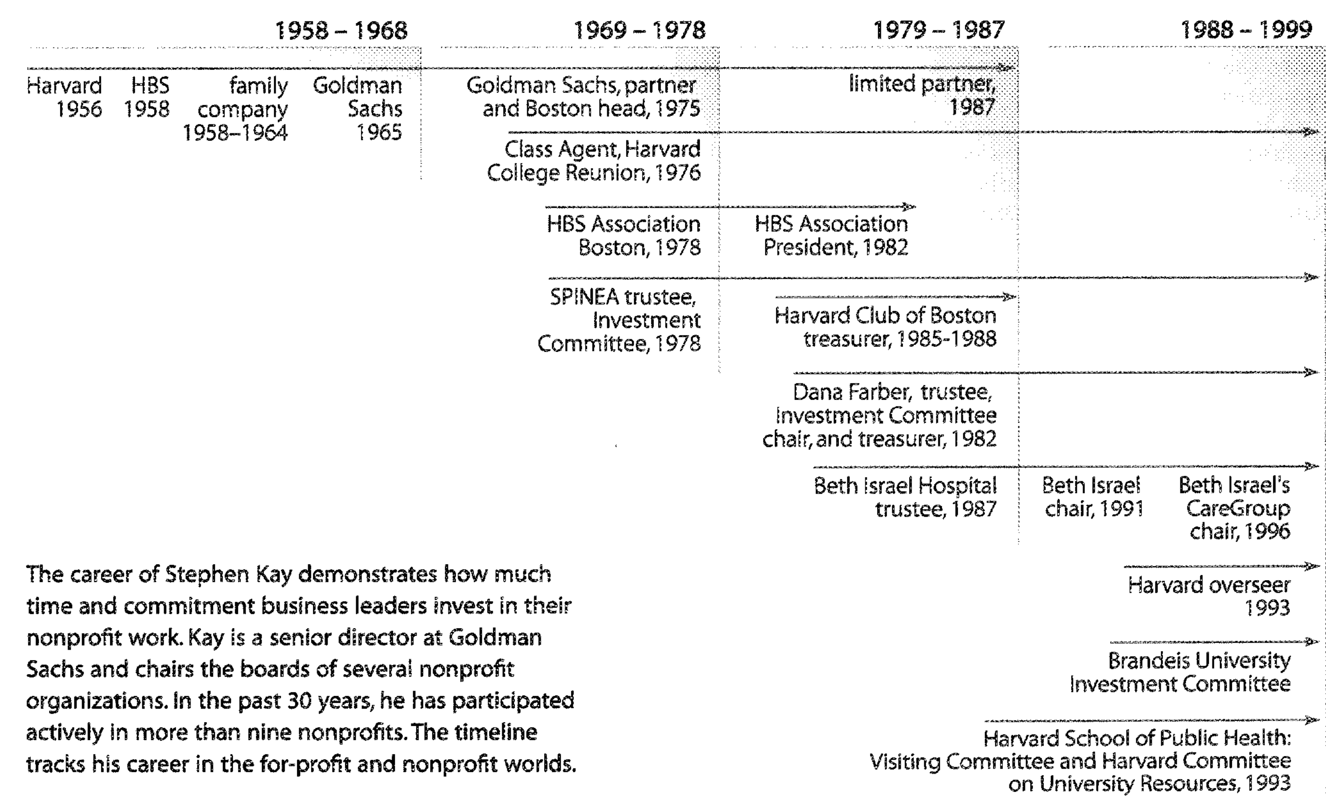
Given the sensitive role of an operations committee, it's important to get the composition right. Committee members should be senior and levelheaded and should have excellent interpersonal skills. It also helps to get the perspective of a leader from a similar organization. For example, on the educational policy committee of one school, the chair always made sure that at least one member was the head of another school. In this way, the committee could draw on an expert without having to bring in its own professionals – who would have their own agendas.

Being a Board Member

In the private sector, the board member's job is fairly predictable. He or she is rotated from one committee to another. At appropriate intervals, after a period of several years, he or she may end up heading a committee. Except in times of crisis, such as a severe profit shortfall or a hostile takeover, the hours are pretty regular: eight one-day meetings per year, scheduled three years in advance. Once elected to the board, a member can expect to stay until a retirement, a merger, a successful hostile takeover, or a conflict of interest arises. And most important, whatever the burdens of a corporate director, he or she is well paid.

Almost none of this is true of nonprofit board work. For a start, a much greater diversity of roles exists, and it's important to make expectations about these roles clear to a new member at the outset – especially to someone who's joining a nonprofit board for the first time. I remember one particularly colorful incident in which the head of a local construction company was recruited onto the school board. The board expected the man to become head of the buildings and grounds committee. It turned out that the new board member deeply believed that the most important part of the school day was the raising of the flag and the pledge of allegiance. He wanted to see more time devoted to that practice. Eventually the chair struck a deal with him. The board member would be given 15 minutes of board time, twice a year, to air his views on the flag – provided that he spent the rest of his

One Businessman's "Career Path" in Nonprofits



The career of Stephen Kay demonstrates how much time and commitment business leaders invest in their nonprofit work. Kay is a senior director at Goldman Sachs and chairs the boards of several nonprofit organizations. In the past 30 years, he has participated actively in more than nine nonprofits. The timeline tracks his career in the for-profit and nonprofit worlds.

Achieving Buy-in to the Mission

Businesspeople often think nonprofit organizations spend too much time agonizing about their mission. But in fact it's time well spent, because that's how a nonprofit builds a sense of community and shared values.

As a junior trustee of a nonprofit some years ago, I was asked to chair the Mission Committee of the organization as a prelude to a long-range planning effort. Three meetings later, the six-person committee had crafted what was, in the chair's judgment, a relevant and on-the-money mission statement. It was proudly unveiled to the organization.

Twenty-six drafts and six months later, the battered chair successfully presented it to the full board. Each word in the statement had deep meaning to one constituency or another – and therefore had to be carefully parsed and negotiated. That required many meetings – a process that gave all the members of the committee a deeper shared understanding of the mission and its complexity.

It was only years later that I understood how absolutely crucial this experience had been in helping the board and the organization achieve the sense of purpose that enabled them to confront the problems that lay in their future.

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time coming up with ways to ensure that termites were not about to bring down the school buildings. The man, satisfied that he would be given a hearing, became an effective and highly committed board member.

Board members of nonprofit agencies tend toward antisocial hours: people with active professional affiliations often find it difficult to attend two-and a-half-hour meetings in the middle of the day. Unfortunately, evening meetings intrude on family lives and also engage people when their energy is low. One board chairman put his foot down and set a 10 PM curfew on meetings; that was after a particularly contentious CEO evaluation which lasted until 12:45 AM. To get around this problem, many nonprofits set up weekend retreats. That is fine when a director's family is sympathetic to the cause, but it is troublesome when it intrudes on personal space.

Although some board members spend very little time on a nonprofit's affairs, others may end up with what's effectively a second job on their hands. (See the exhibit "One Businessman's 'Career Path' in Nonprofits") In my own case, my nonprofit work at a local hospital started to take up so much time that my wife asked me who I was working for, Harvard or the hospital. When I tallied up the hours, I had to admit that the answer wasn't clear. Indeed, nonprofit work can be so intense that many nonprofit board members burn out; they either leave the board or go through a period of relative inactivity while their enthusiasm slowly regenerates. As a result, the turnover on nonprofit boards is much higher than on for-profit boards. That's not always a bad thing, though. Change brings fresh blood and new ideas.

But high turnover can undermine the board's commitment to an organization's strategy. Two years ago at a two-day retreat, the board of one nonprofit I serve on committed unanimously to a new, five-year development strategy. (That in itself was a huge accomplishment; see the sidebar "Achieving Buy-in to the Mission.") But as the strategy is implemented today, 30% of the organization's board members are people who didn't attend the retreat and may not buy into the strategy. That can be particularly problematic if the strategy is draining financial resources. New board members who haven't bought into the strategy may find it hard to understand and will try to reopen the debate. Yet as we have already seen, financial results are an imperfect performance measure for nonprofits; for that reason, a constant revisiting of the mission could turn into a real problem.

Compensation is another significant difference between for-profit and nonprofit boards. Lately, as the legal responsibilities and the time demands placed on for-profit directors have grown, compensation packages have become very generous, even incorporating incentive-based components such as stock options.

The timeworn slogan "Give, get, or get off" is at the heart of many nonprofit boards.

But for nonprofit groups, the exact opposite is true. From the outset, directors are expected to reach deep into their pockets to contribute to their organization's annual fundraising and to its capital drives. As their responsibilities grow, expectations about their contributions grow – subtly but often dramatically. The timeworn slogan "Give, get, or get off" is at the heart of many nonprofit boards, and it's quite legitimate for potential and actual board members to ask themselves whether they can afford the honor of their new or increased roles.

Of course, there are people who throw up their hands in horror at the suggestion that board membership should be related to financial support. But speaking plainly, the more involved a person is, the greater the commitment that person is likely to feel. The desire to help the organization naturally follows. I've seen many nonprofit board members double and triple already enormous personal financial commitments to the organization over time as their psychological commitment grew. As one person told me, "It started out as a duty, but as I got into it, building the organization turned into a hedonistic experience." So much so, in fact, that along the way the individual tripled his initial pledge, which had been for several million dollars.

Of course, being rich, competent, and committed are not the sole criteria for membership on a nonprofit board. The development needs of the nonprofit group must be balanced by the need for its board to function in a collegial fashion. I remember a board meeting at which we had considered inviting a very volatile, off-the-wall, but potentially generous donor to join the board. The chairwoman, anxious to shore up the organization's finances, dearly wanted this person to join the board, but she also recognized the potential for disruption. To head off trouble at meetings, she proposed that the individual always sit beside her. Few of us were convinced that this would work, and the nominating committee eventually vetoed the nomination. Right or wrong, it's never easy for boards to decide on those kinds of nominations. And given the importance of donors' commitments, it is hardly surprising that nonprofit boards often end up with more people than is ideal.

One thing that is common to both for-profit and nonprofit boards is that members encounter conflicts of interest. On the for-profit board, one has to be continuously mindful that individual board members may represent organizations that have a financial interest in doing business with the company. For ethical and legal reasons, those interests need to be carefully monitored and managed. The same is true in nonprofits, particularly small ones whose board members are local and have other relationships with the organization. Lurking behind the warm social veneer of a nonprofit's financial committee member may be his desire to move the organization's insurance program to his own agency. Or consider the school principal who has to deal with a key trustee's misbehaving son or daughter; what should she do? And how does a doctor reconcile his responsibilities as a hospital's trustee with his interests as a practitioner?

Nonprofit boards have to handle those situations with sensitivity, of course, but they have to be firm as well. Most organizations require board members to file a form annually that identifies potential conflicts of interest. But no bureaucratic procedure can substitute for vigilance, good judgment, and appropriate behavior by the board as a whole.

Finally, one of the most potentially explosive areas of conflict in both for-profit and nonprofit board work is the degree to which it intrudes on family life. In for-profits, the fact that one is paid – often handsomely – tends to soften this blow. But when nonprofit directors are giving both time and money, families can be less understanding.

Sometimes the interests of a director's family members can actually conflict with the interests of his nonprofit.

At one school, the spouse of a potential board chair was actively leading a group of dissident parents about desired changes in a particular department. The CEO and board acknowledged that changes were needed, but thought the changes should be drawn out over several years. Appointment of this board chair, it was felt, would give an inappropriate signal to the community about how the issue would be resolved, and ultimately another chair was selected.

As the foregoing suggests, serving on a nonprofit board will introduce lots of surprises to the first-timer. It imposes different burdens, and governance of the process is much less clear-cut. Those differences pose great challenges for both sides. In nominating committee meetings I often hear people say, "We could really use Jane Doe's skills and support, but do we have the patience and time to get her to buy into our organization?" Corporate executives potentially bring great skills and insights to the nonprofit boards on which they serve. But they must remember that certain aspects of their training can't be transferred. The more they can recognize this and stay sensitive to the nuances of the environment, the more likely they are to find that the shoe does fit after all. Nonprofits need businesspeople, but only on the right terms.

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