

# The Shifting Tides of Nonprofit Governance: An Interview with Paul Light

## Details

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The *Nonprofit Quarterly* recently interviewed Paul Light regarding reform of board governance. An expert on nonprofits, Light is a frequent contributor to NPQ and has written articles such as “The Spiral of Sustainable Excellence” (NPQ, Winter 2005 issue).

Nonprofit Quarterly: You’ve written about “tides of reform,” or philosophies of reform regarding nonprofit board governance. How would you characterize those competing philosophies, and where, if pursued to their logical ends, would they take us in the debate on accountability and board governance?

Paul Light: The notion of tides of reform is that there can be general agreement about the need for reform but very deep differences about what to do. The tides are clearly coming in on governance reform.

The Internal Revenue Service [IRS] comes out of the scientific management movement and sees this as a compliance issue with a strict set of rules and has an inflexible “We know best attitude.” The IRS might not be able to govern itself particularly well, but it loves to govern others. So it’s getting into the nonprofit management business, which is way outside its skill set. For those who are interested, the IRS has been on the Government Accountability Office’s short list of troubled programs and agencies for more than a decade. Its tax administration systems were put on the list in 1990 even before the list formally existed and its internal modernization effort was listed in 1995. Let’s get those issues resolved before the IRS goes any further with its standards movement.

Many nonprofits come out of the liberation management movement, with its emphasis on outcomes and innovation. They argue that a board should be improved as a tool of better performance and that having an engaged board paying attention is important for effectiveness. It is less a requirement and more an enhancement, more a sign of good practice. They’re certainly going to comply with the rules, but they’re more concerned with what happens inside the board rather than just complying with the rules. They don’t want their boards to harangue the organization and set themselves up as an agent of the Internal Revenue Service.

Then you have the war-on-waste perspective: organizations like Charity Navigator that have a specific set of standards that all boards should follow to increase efficiency. They believe that nonprofits waste a great deal of money—and the public generally agrees—but if you have a good board, you’ll have efficiency. Their goal is better governance as a way of producing savings. It’s almost as if the board must become a little version of the offices of the inspector general that police the federal government—ferreting out fraud, waste, and abuse while remaining distant from the actual program design and delivery.

Finally, there’s a fourth philosophy grounded in transparency. Advocates of this relatively recent push want to see more of what the organization does. They’re out of the war-on-waste tradition in some ways—transparency creates deterrence—but are more focused on making information available for donors, watchdogs, and citizens to inspect. They’re not motivated by the desire to free the organization from needless harassment but are more interested in making the organization visible.

Each of these tides can hook up with the others, but the primary motivations of each differ greatly.

NPQ: The board-governance debate seems to be never-ending, an interminable conversation that is repeated in nearly every gathering. Is there a light at the end of the tunnel? Is there a bright-line answer that liberates us from the conversation and makes progress toward accountable board governance?

Light: When you look at management reform, regardless of the sector, there's really nothing new under the sun. You never see something that makes you say, "This is totally new." The reality is, of course, we've been having these conversations from these different perspectives—when you get the IRS there, the Independent Sector there, the Maryland Association of Nonprofit Organizations with its "standards of excellence," the consultants who are working to help organizations improve, the social-enterprise people—they all seem to be talking about the same issue, but they are representing very different philosophies. We have to talk about what good governance produces. The social-enterprise people say, "You need good governance, but don't suppress change and innovation. Don't micromanage," whereas the IRS would say, "Here are the strict rules, and we don't think of differences among the types of organizations."

What's remarkable to me is the amount of time that we spend talking about improving board governance without talking about the very deep differences in what the good in good governance actually means. The key is to be aware of the different views regarding board governance. This is the sector of niceness; we chat about board governance and don't fight about it.

One way to improve the dialogue is to make the disagreements more visible. The competing philosophies of governance have to be made evident. My general view is in favor of liberation management, where the board role is to improve the performance of the organization, which might involve more board contact with the community. I'd like to see a little more anger in the conferences.

NPQ: That brings us to the issue of how a nonprofit deals with the community in terms of governance. When the sector addresses board governance roles in terms of nonprofit accountability, there is a gap between a board's role and stewardship of a nonprofit organization as an entity and a board's role in representing and protecting the public or publics that are served by the nonprofit. How does a board reconcile these roles in its efforts to ensure nonprofit accountability?

Light: I don't think it's necessarily a conflict if you're talking about transparency or having stakeholders sitting on the board, which would represent the community. But that rarely happens. This would engender more flexibility than what you would have in the scientific management approach, which says that there is one best way of doing things. There are different connections to the community you can have, bringing liberation management to the question of the role of the community.

A board that deals solely with its own needs and not with the community is not of much value to the organization. There are certainly absolutes: I think you should have an independent audit committee, an independent fundraising or revenue committee, the board should meet regularly, and it ought to have stakeholders and include people you serve. That keeps the board in touch with reality. It should have some sort of opportunity for an organization and its staff and its clients to make contact with the board without interference from the organization. In terms of connecting to the community, there should be an opportunity for community whistle-blowing.

Rather than having the constituents always go to the media, it might be good for the board to communicate that it's responsible, that you as a citizen can contact the board directly. I've seen a couple of good examples, such as Advocating Change Together, a Minneapolis, Minnesota-based organization that lobbies for the developmentally disabled. Everyone on the board is a developmentally disabled adult. What the organization is saying is, "We're advocating for the developmentally disabled, and the developmentally disabled can speak for themselves."

There's nothing frightening about reserving space on a board for community members and clients. Housing organizations building affordable-housing and antipoverty organizations do this.

On foundations, it would be wonderful if boards reserved a space or two for their grantees, but that will happen when we're both about 3,000 years old. How do you keep the foundation board honest? How do you keep yourself honest with the community? It's a big issue, but foundations ought to embrace it as well.

The boards I've come to admire are the ones that actively seek information among the people they serve. The problem is that foundations are insulated from their communities because their own grantees have a natural interest in telling the foundation what it wants to hear. It would be much better to survey the wider pool of grantees that thought about applying but never did. It's a self-selection problem. You talk to the people who love you for your money.

In a sense, many foundations are like the federal government. When the federal government surveys its customers, it uses a narrow definition of people who have benefited from its programs. They're the winners, they got grants; what do you expect them to say? When you survey only grantees, you're saying you want to hear only the good news. To be honest with itself, a foundation should also ask the nongrantees, the losers, the people who self-selected out of the pool because they think the foundation is on the wrong path.

NPQ: The most prominent actor on Capitol Hill advocating attention to nonprofit governance and accountability issues—the chief minority tax counsel for the Senate Finance Committee—has announced his departure and will take a position in the private sector. With that departure—and with the change in congressional leadership after the last electoral cycle—what are the future prospects for national attention to nonprofit governance and accountability issues?

Light: It switches to the House of Representatives. Congressman [Henry] Waxman [of California] will stay on this issue. He's not going to give it up. Like the recent hearings on veterans' groups, this is going to continue. Waxman has a strong history of war-on-waste thinking. He's going to stay right there and will push the IRS and others to be more aggressive.

NPQ: What do you think about the notion of different “classes” of board members: that is, that some board members should be “governing” board members, while others sit on a board for their stature, prestige, and fundraising abilities?

Light: I really don't understand it as well as I should. I'm not wild about two-tiered anything. You've got to decide what your board is really about. If you want to create a separate advisory board of bigwigs, that's fine, but the governing board has to be engaged and not consider this a frivolous pay-and-play activity. You have to make that choice. If you want a fundraising board, how are you going to meet the transparency and engagement responsibilities of the board?

I think fundraising is best done by facing the organization into the environment and asking people to contribute. There are lots of pay-and-play boards with dozens and dozens of members, and they're pretty useless. The quality of the board should be based on its expertise and readiness to engage, not on its pockets. People with a lot of money can be just as engaged as those with modest incomes. The goal should be engagement. I just don't believe you should cut the board into two pieces. I'm pretty much convinced that the maximum board size should be 20, but I would argue against myself if that were made into a one size- fits-all rule.

NPQ: Many nonprofits have regular financial transactions with board members—purchasing goods, services, or property from board members— and many nonprofits routinely forgo asking board members to disclose their financial interests in entities that potentially do business with their nonprofits. Conflicts of interest and self inurement seem to be at the heart of many nonprofit scandals, but the sector is also reluctant to draw a bright line. Where do you come down on the issue of financial transactions with board members?

Light: I think it's a terrible idea. If board members want to do business with an organization, they should get off the board. I don't see any possible cure for that kind of conflict of interest aside from leaving the board. It's an unsustainable board. The appearance alone of conflict of interest between a board member and the organization is a great risk to an organization's survival. "If you want to do business, fine. But get off my board."

Every once in a while, the conflict pops up in the papers and becomes yet another notch against the sector as a whole. It's a terrible appearance problem. I don't mean to say that everyone who does business with a nonprofit from a board position is corrupt. Maybe they're offering a low-cost service, but still they're doing business with a business that they oversee. There's a conflict in appearance and potentially a conflict in reality. A nonprofit may have been doing it for years, but it needs to accept the fact that the public doesn't like it and the media is watching. Practices that might have been easy 20 years ago aren't tolerated today.

NPQ: This publication's continuing interest in board governance and nonprofit accountability has always been mixed with an equally significant commitment to the role of the nonprofit sector in supporting and promoting democracy in our nation, reflected hopefully by an inclusion of democratic values and practice within the nonprofit sector itself. In the context of board governance and nonprofit accountability, how would you ideally balance board governance and accountability obligations with notions of nonprofits' connections to democracy and questions of democracy within the nonprofit sector itself?

Light: The only thing that comes to mind is that boards ought to be leaders rather than resisters when it comes to advocacy. The sector needs to have a strong voice in protecting itself from cutbacks and mindless rules, and the board should be mindful of that.

NPQ: With the unending debate over nonprofit governance, we would presume that there must have been some governance prescriptions offered in all seriousness and sincerity that struck you as utterly silly and ridiculous. Based on what you've heard from advocates lodged in the competing tides of reform, what is the most ludicrous governance prescription you've encountered?

Light: I've always hated the four-meetings-a-year rule. Why four and not six? Why not one or two? Frankly, if you have a really bad board, I say don't meet at all. Send them a bagel and cream cheese and pretend that you had a meeting. The key is to get a good board, talk to each recruit about your basic philosophy of governance, and put them to work. But it's nonsense to demand frequent meetings with a poorly developed board.

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