

# Non-Profit Boards – Maximize Your Effectiveness: Practical Best Practices



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SEATTLE-NORTHWEST CHAPTER  
National Association of Corporate  
Directors

**Program Chair: Catherine Walker**

February 15, 2005  
7:30 a.m. – 9:00 a.m.

# Today's Objectives

## Arnie Prentice – Chapter Chair

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- Introduce NACD
- Gain Insights into Today's Board Governance Issues
- Case Studies and Discussion

# The National Association of Corporate Directors

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- Established in 1977, NACD is the only national organization dedicated to director education and improving board performance.
- 20,000 members and customers, from the Fortune 100 through smaller public, private, and non-profit companies
- 19 Chapters Nationwide

# Upcoming



**April 19, 2005**

**Morning Program:  
7:15am - 9:00am**

**Director Duties,  
Liabilities & ETHICAL  
PROTECTION: What  
Every Director Needs  
to Know!**

**Program Chair:  
Evelyn Sroufe**

[www.nacdnw.org](http://www.nacdnw.org)



# NACD Exclusives: Public Directors & Venture Capital Boards



March 15, 2005

NACD Special Programming

Corporate Governance Seminar Series

7:00 – 9:00 am

Venture Capital Company Boards:  
Impact of SOX on Valuations

6:00 – 8:30 pm

Public Company Boards:  
New Power of Board Committees

www.nacdnw.org

The Rainier Club, Seattle.



For Public Company Directors:

The Growing Importance of Board Committees And Committee Leadership

Tuesday, March 15, 2005 • 6:00 PM – 8:30 PM  
The Rainier Club • 820 4th Avenue • Seattle, WA 98104  
Tel 206.296.6848

This program is solely for directors of Northwest Public Companies. NACD, Nasdaq and our corporate partners Starbucks and Puget Energy invite you to join fellow board members and Program Chairperson Arnie Prentice (Flow International, Starbucks-retired), along with panelists Steven Lazarus (Rand, RZ, Amgen-retired), Sally Nordick (Puget Energy) and third panelist for an educational and enlightening evening.

An increasing amount of board work is handled at the committee level. Among other relevant issues, our panel will address how committee leaders work together and with the board chair so the board can function properly, how committees are formed and the right number of members, and how membership can change and evolve. All public company directors are invited.

#### WHY THIS PROGRAM?

With corporate decisions scrutinized like never before, members of public company boards need reasonable, practical approaches to dealing with issues.

In this program you will interact with an audience and faculty comprised of seasoned board members—both CEOs and outside independent directors who have been on the front lines in both times of crisis and success.

#### HIGHLIGHTS:

- An outstanding panel of experienced directors
- Practical approaches to committee activities, leadership, staffing and succession
- An opportunity to meet and interact with other public company directors
- Access to NACD governance and educational materials
- An environment where real practice—not theory—prevails

Also offering...

CONFLICTS AND THE UNIQUE DUTIES OF DIRECTORS OF VENTURE-BACKED COMPANIES  
Same day, same location

SCHEDULE:  
6:00 – 6:45 • No Host Reception  
6:45 – 8:30 • Program & Panel

REGISTRATION:  
\$75.00 NACD Members • \$90.00 Non-Members

Register for both programs in the Corporate Governance Seminar Series at:  
[www.nacd.org/publicdirectorsprogram](http://www.nacd.org/publicdirectorsprogram)

Or call: 425-562-2636

#### ABOUT NACD

Founded in 1977, NACD is the premier national non-profit membership organization dedicated exclusively to serving the corporate governance needs of corporate boards and individual board members. NACD's 18,500 members and customers represent companies ranging from Fortune 100 public companies to small, over-the-counter, closely held, and private firms.

NACD promotes high professional board standards, creates forums for peer interaction, enhances director effectiveness, communicates and monitors the policy interests of directors, conducts benchmarking research, and educates boards and directors concerning traditional and cutting-edge issues.



SEATTLE-NORTHWEST CHAPTER

# NACD Resources

Members receive **Director's Monthly**—this month's feature article is on **Nonprofit Boards**.

Report on Board Evaluation

Blue Ribbon

2001

Published by The National Association of Corporate Directors

Original Editor: Heidrick & Struggles International, Inc.

2001 Editor: KPMG Audit Committee Institute

The Center for Nonprofit Governance and Its Alliance Partners

Aon Corporation


Heidrick & Struggles International, Inc.

KPMG Audit Committee Institute

Mercer Inc.

Pearl Meyer & Partners

Weil, Gotshal & Manges LLP



National Association of Corporate Directors

## DIRECTORS MONTHLY

January 2005  
Volume 29 Number 1



**Changing Governance Landscape for Nonprofits Requires Best Practices**

By Steve Mariotti

**Just because a board is nonprofit doesn't mean nobody's watching.**

In today's business environment, leadership development at nonprofit organizations assumes greater importance. The highly publicized corporate scandals of the last few years have given way to a new era of heightened corporate responsibility and accountability. The Sarbanes-Oxley Act enacted on July 30, 2002, introduced rigorous and thorough compliance requirements for public companies. Its impact, however, reaches much further. Sarbanes-Oxley shines a very bright light on business practices and the corporate mindset, setting the tone for the business

### on Practicalities: Assessment Methodology

G. Sullivan and Holly J. Gregory  
American Society of  
*Update 1995* (Nov. 13, 1995)

Important tool for improving board effectiveness. A well-designed and well-executed assessment can strengthen directors' understanding of their role and performance.

### for Board Assessment

### Board Evaluation Form

*relation to our Board of Directors.*

**Rank answers from 1, Not Performing, to 5, Outstanding Performance.**

- 1. The Board knows and understands the company's beliefs, values, philosophy, mission, strategic plan, and business plan, and reflects this understanding on key issues throughout the year.
- 2. The Board has and follows procedures for effective meetings.
- 3. Board meetings are conducted in a manner that ensures open communication, meaningful participation, and timely resolutions of issues.
- 4. Board members receive timely minutes or drafts.

**Blue Ribbon Report on Board Evaluation-Reprints Available**

# Founding Sponsors

## Seattle-Northwest Chapter



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PROFESSIONAL CORPORATION

# Non-Profit Boards: Practical Best Practices

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**Presenters:**

**Catherine Walker, Moderator**

**Michael Bisesi**

**Phyllis Campbell**

# Preliminaries: Reasons for this Program

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- **Effective nonprofits have active and engaged board members focused on organization's mission**
- **How can board leaders transform wealth of knowledge into established policies and procedures?**
- **What exactly is a “best practice” (or a “worst practice,” for that matter) and how can board members learn from these lessons?**

# Duties of the Board Member

- ***Duty of Care*** – the duty to exercise reasonable care (“care that an ordinarily prudent person would exercise in a like position and under similar circumstances”) when making a decision as a steward of the organization
- ***Duty of Loyalty*** – the duty to give undivided allegiance to the organization when making decisions rather than using information or influence for personal gain
- ***Duty of Obedience*** – the duty to be faithful to the organization’s mission and act in ways that are consistent with the organization’s central goals

# Sarbanes-Oxley Act Application to Non-Profits

- Sections 802 and 1102 – both address criminal exposure for document destruction, concealment, or falsification
- See IRS Publication 4221: Compliance Guide for 501(c)(3) Organizations (11/2003) for guidance in developing document retention policies

# SOX Application (cont.)

- **Section 1107 – Whistleblower protection: addresses criminal exposure for retaliating against a witness, victim, or informant.**
- **Consider developing and distributing a communications policy with formal procedure for employees, volunteers, and community members to report concerns and complaints about misconduct of board and senior staff**

# State Trends in Disclosure Laws

- California's Nonprofit Integrity Act  
(SB 1262, effective 1/1/05) – requires public reporting of SOX-like corporate accountability for covered non-profits and sets standards for contracted fundraising
- For summary of law, see:  
[www.afpnet.org/content\\_documents/CaliforniaIntegrityAct.pdf](http://www.afpnet.org/content_documents/CaliforniaIntegrityAct.pdf)

# Practical Governance – Ideas To Consider

- **Executive sessions, both for whole board and for committees**
- **Charters for all committees – determine independence of each**
- **Financial experts on board or as retained advisors**
- **Board review of annual Form 990 prior to filing**
- **Consider appropriateness of annual audit, if one is not mandated**
- **Term limits, well-conceived and tailored to the nature of the organization**

# Practical Governance (cont)

- **Size of board (remember that size drives complexity)**
- **Executive Committee – Is there one? What's its role?**
- **Board handbook – governing principles, board procedures**
- **Conflicts of Interest Policy – essential, but should be well-conceived for the organization?**
- **Access to board leadership for management below Executive Director/CEO**
- **Board evaluation (frequency; board as a whole; individual members; conducted by qualified third-party)**

# Practical Governance (cont)

- Board renewal – should be board driven
- Expectations of directors – lay them out in writing
- Board education (collective and individual)
- Board mentorship – pair new directors with tenured directors
- “Buddy” system – pair directors with management team members; rotate periodically
- Board Retreat time - focus on strategic ideas
- Director orientation

# *Non-Profits in Washington 2004*

- *Non-profits in Washington 2004* – Project of The Evergreen State Society:  
[www.tess.org/NPinWA](http://www.tess.org/NPinWA)
- In 2004, only 53 out of 21,000 charitable entities (501(c)(3) organizations) reported assets over \$10 Million – 90% report total assets of \$800,000 or less

# Panelists

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## **Catherine Walker, Moderator**

Catherine Walker is Vice President for Administration & University Counsel at Seattle University. Prior to joining Seattle University, she was chief legal officer and senior vice president for Westin Hotels & Resorts from 1990 to 1998. Catherine is co-founder and president of directors of Plymouth Healing Communities. She also serves as Vice Chair of the Board of Directors of REI. Catherine earned her BS degree from the UW and JD degree, cum laude, from Seattle University. She holds a certificate in Seattle University's Executive Leadership Program.



## **Michael Bisesi**

Michael Bisesi is Professor and Director of the Center for Nonprofit and Social Enterprise Management at Seattle University. He served as Managing Director of Program Services at the Greater Houston Community Foundation, as Senior Vice President at the United Way of the Texas Gulf Coast, and Associate Dean of the College of Business Administration at the University of Houston. Professor Bisesi holds a BS degree from the UT, Austin, MS from Indiana University, and Ed.D from the University of Houston.



## **Phyllis Campbell**

Phyllis Campbell is President and CEO of the Seattle Foundation and is on the boards of SAFECO Insurance, Alaska Airlines, Puget Energy, and Seattle University. She served as President of US Bank from 1993 to 2001. Phyllis holds an MBA from the UW's Executive MBA program. She has a BA in Business Administration from WSU and is a graduate of the Pacific Coast Banking School at UW and Stanford University's 1997 Executive Management Program. Phyllis holds honorary doctorates from Whitworth College and Gonzaga University.

# Notes

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