

December 17, 2015

2016 Board Governance Trends

Written by Sonia J. Stamm

Year-end brings a welcome, almost obligatory opportunity for reflection. Before we can anticipate coming trends and determine which to follow – and how – we need to assess where we are. In a moment of seasonal contemplation, I asked some colleagues about the trends they're seeing in working with boards.

On the corporate side, board size and composition are shifting to smaller and more diverse, respectively. Corporate leadership has recognized the advantages of having fewer board members – boards are more effective in oversight, more swift in making decisions and responding to change, and more engaged with no place to hide. In a study conducted last year by GMI Ratings for the *Wall Street Journal*, companies with small boards (average of 9.5 members) also reap greater return for investors, having outperformed their peers by 8.5%, while those with larger boards (average of 14 members) underperformed by almost 11%.

As for diversity, the effort to change the face of corporate governance is not new, but is gaining momentum. In response to criticism for being culturally “tone-deaf,” Twitter seems to be “eyeing...soon-to-be-empty board positions as an opportunity to bring more women and people of color” into the leadership of the company, reports the *San Francisco Gate*.

Forbes credits the increased scrutiny and transparency of public companies as a contributing factor in bringing women to the boardroom. As more entities monitor the actions and compensation of senior executives in companies, they actively push for broader representation of independent directors.

Not surprisingly, board size, board composition, and increased scrutiny are trends that also impact nonprofit boards, for similar – and sometimes different – reasons. Beyond the already stated benefits of smaller board size, for instance, is a welcome cost savings for nonprofit boards. Fewer people mean fewer expenses for meetings.

Another significant advantage, though, is illustrated by simple math, per the observations of *Peter Brinckerhof*, renowned author and nonprofit management consultant: in 2012, there were over 1.3M charitable organizations in the US. If each nonprofit has 15 board members (the trend toward smaller boards is relatively new in the nonprofit sector, where inclusivity tends toward large groups), there are 19.5 M seats, which means one in every eight of the 163M American adults between the ages of 25-75 years would need to serve on a board. Since we're not there yet, there is a tremendous shortage of nonprofit board members.

Shrinking the nonprofit board means more strategic board recruiting, as the sector values inclusivity and recognizes the importance of stakeholder representation through broad diversity. While that's not new in the work of many organizations, there seems to be a growing commitment to actively increasing diversity at the board level. As a senior manager in a well-established, national nonprofit recently mentioned, “We've always talked about diversity in our programs and program staff, but now there's a committee to define what diversity means to and for our organization, then evaluate and improve our efforts to reflect that at the top.”

Like their for-profit counterparts, today's nonprofit boards also face increased scrutiny and calls for greater transparency. Technology facilitates active and continuous discussion about critical issues by not only board members, but also stakeholders who can more readily monitor and inform board decisions. Even as board members lead busier lives, technology enables them to "attend" meetings, stay current, collaborate, and even vote virtually, provided they have updated their by-laws to keep up with the times.

Ironically, just because an organization aims to employ current best practices doesn't mean all its board members are ready for change. In working with boards, for instance, we find increasing acknowledgement of an inevitable move toward digital board materials. We often hear that such change will save time, make sense, and look good to stakeholders. In such cases, though, the board is not yet recognizing how change can lead also to better meetings, decisions, and mission achievement.

From an organizational development perspective, nonprofit boards tend to be reticent about change and often are the last part of the organization to shift. Given that board members don't serve on the front lines or engage in the day-to-day, it makes sense. But in this season of reflection, when we recognize how much our environment is changing and how profoundly that change is impacting organizations, it's wise for boards to consider what changes to embrace and how.

Nell Edgington, President of *Social Velocity*, identifies some key building blocks for change:

- A champion – someone in a leadership position (ideally, a partnership between the chief executive and a board member) must leverage the respect and trust of the whole to move forward.
- A need for change – the champion must be able to articulate what's needed and why, with urgency and clear goals.
- Critical mass – the champion must cultivate sufficient support from both board and staff, as it takes collective effort to transcend inertia.
- Funders of change – no matter how much support there is for change, it requires resources, too, so identify funders who get it.
- A navigator – a skilled guide can shepherd the organization through the change process and prevent any retreat back to what's comfortable when things get hard.

Whether it's an amendment to the by-laws or a new strategy in board recruiting, change requires conscious intent and effort. As external variables impact the boardroom, it's essential for boards to regularly assess their surroundings, priorities, and operating procedures. Given board members' busy lives, it's easy to crash into the holiday season in search of refuge from competing demands. If we're lucky enough to be able to catch our collective breath, let's also be wise enough to reflect not only on what's been accomplished, but also on what's next and how to get there, with whom, and with what expertise and tools.

Sonia J. Stamm

Sonia J. Stamm is Governance Consultant at BoardEffect. Since almost our inception, she has shared a best practice perspective on governance with our team and clients, partnering to guide boards toward optimal implementation of our software. As founder and principal of a nonprofit leadership consulting firm, Sonia supports the evolution of mission-based organizations through her work in *board development*, leadership transition and succession, and organizational effectiveness. A seasoned facilitator, trainer, and consultant, she enjoys guiding boards and organizations through critical junctures in their development.