

# What's the Point of a Nonprofit Board, Anyway?

[blueavocado.org/content/whats-point-nonprofit-board-anyway](http://blueavocado.org/content/whats-point-nonprofit-board-anyway)

Board Cafe • By Jan Masaoka • April 23, 2009 • Email Print

Democracy is the worst form of government, said Winston Churchill, except for all the other ones. The same might be said of nonprofit boards. Here we take an unconventional look at three dimensions of why boards exist: legal reasons, mission reasons, and reasons related to political values.

First, all corporations, whether nonprofit or for-profit, require boards of directors, and these boards have formal responsibilities, so we'll start with a quick discussion of the nonprofit corporation.

When a group of people sitting around a kitchen table decides to take a more organized approach to realizing a vision for community change or service, they often decide to launch a new nonprofit organization. To give the organization a legal framework, such a group would typically choose to incorporate, that is, to form a corporation. A corporation has the ability to act as a fictitious person: instead of the real individuals involved, it can sign leases, hire staff, and engage in business activity.

A next step is to obtain nonprofit, tax-exempt status for the corporation (at both the federal and state levels). Nonprofit corporations, identified as 501(c)(3) organizations (named after the section in the Internal Revenue Code that describes them), enjoy several important tax advantages.

## **Nonprofit 501(c)(3) corporations:**

- Do not pay corporate income tax on income made by the corporation
- Can accept donations that are then tax deductible to the donor
- Are eligible for foundation and government grants that are only for nonprofits
- Are eligible for the nonprofit bulk mail postage rate
- Are eligible for state and county tax benefits in some areas

Taxes foregone -- taxes that the government does not receive due to corporate tax exemption and tax-deductible donations -- are estimated to be around \$30 billion each year (BoardSource).

The U.S. government has granted these tax advantages to nonprofits for several reasons. Nonprofits provide services to society that will never be profitable, such as care for the poor, that means they will not be provided by the commercial sector. And community nonprofits can often perform important community roles that are less successful when done by government agencies, such as reaching young people with information on sexually transmitted diseases. Finally, nonprofits may speak out for groups or champion issues that would be ignored by either the commercial or government sectors. For example, civil rights groups, AIDS organizations, and environmental justice advocates play important roles by bringing new issues and perspectives to the attention of the public.

In a nonprofit corporation, there are no such private shareholders as there are in a for-profit corporation. But who is watching over the \$30 billion of indirect tax monies, in addition to the donations, contracts, fees, and grants that nonprofits receive? The answer is the very large army of nonprofit board members, broken



up into groups of five, ten and twenty, that ensures that the organization's funds are used for nonprofit purposes, rather than to make the board members or staff members wealthier.

So the underlying legal reasons why nonprofits are required to have boards is to put in place a democratic structure (the board) to hold the organization accountable to the public. Boards do this through financial oversight, through appointing a capable chief staffperson, and through maintaining control of Big Decisions such as merging, closing, or substantial changes to mission.

### **Mission reasons for boards**

Because community nonprofits typically arise from a group of people working on a cause or issue, the board is also a natural formalization of that group. As they volunteer together, the mission-based reasons for boards emerge.

Board members often have a sense of ownership in a nonprofit (because they represent the public/owner). As such, they are the first to volunteer, to donate, to garner support, and to advise. Think about board members you know who work incredibly hard to help their organizations succeed . . . and then multiply that by hundreds of thousands, even millions. Even if nonprofits were not required to have boards, those organizations that want help from the community and sustainability past the founder, would opt to have boards.

Boards also act as a safety net for the mission. Most of us know boards that have picked up the pieces after a disastrous executive or other big problem. If a small business had a similar problem, it would probably close. But many important nonprofit causes have survived to do good work again because a board has stepped in. Even the boards that have been the most asleep can wake up and work miracles in a crisis (see [Board Leads Organization Out of the Ashes](#) in the last issue of Blue Avocado).

### **Accountability to constituency**

Finally, boards of directors represent a political value of accountability to constituency. In a for-profit company, the board appropriately asks, "What should the company be doing to maximize profits?" In a nonprofit organization, the board asks a fundamentally different question: "What does our constituency need us to do?" And in a community nonprofit, the board not only cares about the constituency, board members come from the constituency, know the constituency, *are* the constituency.Â

This also points to a subtler distinction between community nonprofits on one hand, and on the other hand, for-profit companies that do good and the archetypal sole social entrepreneur. In the latter two instances, individuals and companies may do important and good things for society, but there is no mechanism for holding them accountable or to keep them from changing their minds. In a community nonprofit, the organization consciously holds itself accountable to its constituency, to community and to ideals that are hard-wired into the organization. Many nonprofit leaders and organizations have a strong spirit of social entrepreneurship, and understand that having a strong board is not just a way to get help, but to keep the organization close to its constituents (not just its donors and friends).

With legal, mission, and values-based reasons for having boards, we can reframe some of the questions that we ask ourselves:

As board members, let's ask ourselves, "What kind of board member does this organization need me to be right now?"

As executives, let's ask, "What kind of executive director does this board need me to be right now?"

And together let's ask, "Who is our constituency, and what do they need our organization to do right now?"

What kind of organization do they need us to *be* right now?"

See also:

[> Read more](#)