

## **Mission-Driven Governance**

By Raymond Fisman, Rakesh Khurana, & Edward Martenson

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The prevailing governance model is fundamentally adversarial, pitting board members in a never-ending struggle with executives. This model may ensure that the legal requirements of oversight and compliance are met, but it does little to advance the organization's goals. The authors propose a new and more effective framework, one where board members and executives work together to advance the organization's mission.

# Mission → Driven Governance

By Raymond Fisman, Rakesh Khurana,  
& Edward Martenson | Illustration by Leigh Wells

IN 1931, GERTRUDE Vanderbilt Whitney created the Whitney Museum of American Art in a Greenwich Village brownstone and ran it with a narrow circle of family and friends. It was a downtown alternative to the traditional conception of a museum, offering a venue for provocative contemporary art instead of staid old masters. In the 1970s, the Whitney changed. It moved to a new home on Manhattan's Upper East Side—an iconic Marcel Breuer building where it still resides—and added a number of “outside” directors to the board in an effort to expand its base of support. So began three decades of wrangling over the museum's identity in a division that *The New York Times* has called the “Curse of the Whitney” and a “fault line in the Whitney board ... between old and new money.”<sup>1</sup>

The division among the Whitney's leadership over the museum's mission is cultural and values-laden, resulting in operational and programmatic choices that have seemed inconsistent or even contradictory. The Whitney has earned a reputation for





“chaotic”<sup>2</sup> governance. Three highly ambitious building expansion plans have been floated with great fanfare, only to be killed before ground was broken. Until the present incumbent, Adam D. Weinberg, the tenure of the Whitney’s directors had been getting steadily shorter, and they’ve been alternately hailed as saviors then blamed for the museum’s inability to move forward. Turnover among curators and other staff has also been high. Expenses have grown substantially as the Whitney competes with blockbuster exhibitions and elevated audience amenities in other museums. The collecting policy has shifted from low cost to lavish: The museum once identified artists before their work became highly valued in the marketplace, but it now often enters into bidding wars for the works of modern masters. Underendowed in comparison to its peers, the Whitney loses ground year after year to “more robust”<sup>3</sup> rivals like the Museum of Modern Art and the Solomon R. Guggenheim Museum.

These problems and challenges reflect two largely unarticulated but dialectical views of the Whitney’s mission. Gertrude Whitney’s vision was essentially forward-looking, dedicated to working artists and to identifying trends in modern American art as they emerged. By contrast, the “professionalized” Whitney that began to evolve in

The inability of boards of directors and non-profit executives to keep their organizations focused on a clearly articulated mission is a significant and overlooked governance problem.

the 1970s is a “real” museum with a historical perspective, with the purpose of illuminating the achievements of modern American art and therefore oriented to the art rather than the artists. Collecting high-priced American masters is a necessity in this latter vision, but selling off earlier acquisitions that had appreciated in price in order to make way for new works would be more consistent with the former. The Whitney Biennial exhibition, the source of the museum’s reputation as the tastemaker in modern American art, is a flat-out necessity in Gertrude Whitney’s original vision but might be no more than a pleasing embellishment to the other. In one version of the Whitney’s mission, expansion of the physical museum is essential in order to present high-impact exhibitions with advanced visitor amenities, and in the other it’s an unneeded extravagance.

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Rather than replacing one mission with another, the Whitney has tried to sidestep the debate by combining the two versions in an unsatisfactory synthesis. This has made neither faction happy, with the perhaps predictable result of much high-level discontent within the institution that has all too often been exposed to public view. The unwillingness of the Whitney’s leadership to choose between the two competing missions probably was the easiest path—it may not even have been articulated as a choice—but the Whitney has paid, and continues to pay, a steep price for that avoidance. In 2006, *The New Yorker* pointedly wondered “Will the Whitney Museum ever get it right?”<sup>4</sup> In supreme irony, the Whitney has begun to consider abandoning efforts to expand the Breuer building in favor of a new downtown location. If this turns out to be the museum’s new location, it could signal a return to its roots. On the other hand, if the new site is used in addition to the uptown space, it could signal the permanent bifurcation of the Whitney’s identity.

The governance problems that lie behind the Whitney’s troubled history are not unique. They are indicative of widespread shortcomings in the way that organizations of all kinds and sizes are governed. These governance issues do not get the attention they deserve. Instead, scandals such as those at the Smithsonian Institution or American Red Cross get all the media coverage, creating the impression that failures of oversight and compliance should be the primary governance concerns. This diverts attention from remedying governance problems that are more difficult to identify, but that ultimately may result in even greater damage to the organization.

The inability of nonprofit boards and executives to keep their organizations focused on a clearly articulated mission is a significant and overlooked governance problem. The roots of this problem are many and varied. In some cases it is the result of idiosyncratic decisions about direction and growth based on the individual preferences of a top executive, a powerful director, or a big donor. In other cases it is because directors and executives are so protective of their respective roles and responsibilities that they don’t talk with one another, or scarcely communicate when they do. In still other cases it is because board members are disengaged, or their energies misspent on efforts that are disconnected from any shared purpose. For each of these problems the result is the same: The organization’s progress is held back.

Many directors and executives who are dissatisfied with the state of their organizations’ affairs nevertheless resign themselves to the status quo because they don’t see how it can be changed. They may believe that solutions require new rules, but new rules are inadequate to treat the performance problems that they encounter most often. They may refuse to see governance as a performance issue because no one likes to be evaluated and board members have the power to avoid it. They may seek simple solutions (with bright-line rules such as the division of labor between the board, which handles policy, and management, which handles implementation) in an area that requires decision makers to integrate many kinds of knowledge into a coherent whole. Or they may have internalized a model of governance that is flawed and out of date.

The existing governance model is fundamentally adversarial, rooted in the paradigm of principal/agent conflict. At its core is an image of governance as a never-ending struggle between “principals” (board members) who guard the organization’s resources but have limited information to monitor how these resources are used, and their “agents” (executives) who have insider knowledge and control the information-filtering apparatus of the organization. Many of the concepts and ideas in this traditional model are shaped by a long history of governance failure and organizational pathology. It suffices as a solution to the challenge of meeting legal compliance standards through formal systems, but it utterly fails to show how to create a governance system that supports organizational effectiveness.

We propose a new governance model, one whose effectiveness is measured by the ability of the organization to achieve its mission. This model stands firmly in the line of governance literature that began with a focus on distinct roles and responsibilities for boards and executives,<sup>5</sup> continued with a focus on board organization and board functions,<sup>6</sup> proceeded to focus on the board’s role in positioning an organization through mission and strategy,<sup>7</sup> and then concentrated on the search for a more supple interaction between board members and executives.<sup>8</sup> We take this progression to the next logical step by focusing on how to improve the effectiveness of board members and executives in pursuing their common interest in advancing the organization’s essential purpose and values.

### --> Perspectives on Governance

Governance has largely been viewed from a legal perspective, emphasizing that the board’s function, as overseers of the organization, is to make sure that bad things don’t happen. This often results in a boardroom dynamic that looks something like this: “Let’s look for what’s wrong with proposal x.” Accountability and oversight are absolutely necessary in achieving and maintaining public trust and the organization’s legitimacy, and are therefore necessary elements of good governance. But there are many examples where governance structures that were adequate from a legal perspective still produced bad outcomes. In fact, it is not unusual to observe the simultaneous presence of poor governance and legally adequate accountability.

There is another way to view governance, however, which is the behavioral perspective. Contrary to the legal perspective, which encourages boards to make sure that bad things don’t happen, the behavioral perspective encourages boards to make sure that good things do happen. From the behavioral perspective, the goal of governance is organizational success as defined by the organization’s mission (not accountability) and it is preoccupied with performance (not structures and controls). To produce good outcomes people have to work together, taking advantage of individual strengths. Consequently, the ideal relationship is based on trust, not rules. The primary activity of the board is not oversight, which often creates a climate of conservatism and risk aversion; it is group decision making that is robust and open to opportunities. The

behavioral perspective often manifests itself in a cooperative dynamic that looks something like this: “If proposal x will make us better, let’s figure out a way to do it.”

The legal perspective focuses on *control*. The behavioral perspective focuses on *performance*. The key to improving corporate governance is incorporating both approaches in a single framework. (See “Perspectives on Corporate Governance” below.) This is more easily said than done. The legal and behavioral perspectives exist in tension, which helps explain the conflicted feelings board members and executives bring into the boardroom. Board members want to be supportive but can’t give the executive a free hand. Executives need help from the directors but sometimes feel that the directors are in the way. These tensions can’t be eliminated—they are an inherent part of organizational life—but if both perspectives are embraced, the tensions can be made productive.

### --> True North

To incorporate both perspectives, we propose an updated definition of governance: *Governance is how boards of directors and executives work together to ensure the success of their organization.* If governance is about making good decisions in the pursuit of success, the first order of business is to define success. We believe that success is the ability of an organization to accomplish its mission. Ideally, every decision an organization makes should be completely aligned with its mission—what we call True North—and no decision should be made that deviates from this direction. A Shakespeare festival, for example, would produce *Hamlet* but not David Mamet’s *Glengarry Glen Ross*, and a symphony orchestra would perform Beethoven’s *Symphony No. 4* and avoid Madonna’s *Like a Virgin*.

In reality, few decisions take an organization unswervingly along the ideal path it has chosen. Nearly all decisions involve some deviation from True North. Some decisions involve a conscious compromise that deviates only slightly, whereas other decisions deviate significantly from the organization’s mission. Some decisions are nondecisions, or continuations along a path of least resistance, but that nevertheless take the organization off course. All of these decisions, however, move in a direction other than True North. One way to define good governance is the board and executives’ ability to keep the organization’s actions within an acceptably narrow range around True North.

In our hypothetical Shakespeare festival, management might decide to produce a new play on the grounds that it would then get the inside track on the author’s next great adaptation of a classical text. This would be a slight deviation from True North. A more drastic deviation from True North would be a decision to present a program of contemporary performance art in the theater lobby. A

#### PERSPECTIVES ON CORPORATE GOVERNANCE

	LEGAL PERSPECTIVE	BEHAVIORAL PERSPECTIVE
<b>GOAL</b>	Accountability	Success
<b>PREOCCUPATION</b>	Structures and controls	Performance
<b>MEANS</b>	Relationships based on rules	Relationships based on trust
<b>PRIMARY ACTIVITY</b>	Oversight	Group decision making

still more drastic deviation from True North would be a decision to install gold faucets in the bathrooms, which does nothing to further the mission of the organization. (One might think that “gold faucets” decisions are rare, but they are in fact common. A performing arts center we know of decided to install expensive custom carpet in the lobby, which did little to meet the audience’s cultural needs.)

How does an organization know what its True North is? Volumes have been written about how organizations can identify their mission; all of them center on a clear sense of the social benefit the organization exists to provide. The important point for the purposes of this article is that an astonishing number of organizations appear not to know their True North, or to have varying degrees of internal disagreement about it.

## --> Deviating from True North

We are using admittedly stylized examples to illustrate two relatively sophisticated points: The vast majority of decisions involve trade-offs, ones that should be evaluated carefully in relation to the purpose embedded in the mission; and the cost of deviations from True North can be high and even dangerous.

If our hypothetical Shakespeare festival were to devote six weeks of its performance schedule to its new play, that six weeks of time would not be available for a production of, say, *Hamlet*. In this case, the decision involving a direction other than True North crowds out another decision that is closer to True North. All decisions crowd out other paths that might have been taken, and these lost opportunities constitute opportunity costs. Each opportunity cost delays the organization’s progress toward fulfillment of its mission.

In one real example, a highly successful museum raised and spent a large amount of money on a parking garage because its market surveys said that visitors were very dissatisfied with the lack of convenient parking. As it turned out, attendance did not increase after the parking garage was built. That’s because visitors were ultimately attracted by memorable exhibits, not parking. The museum had to wait five years before conducting another major fundraising campaign to create its next highly praised exhibits. It had used a scarce fundraising opportunity on a project that brought precious little progress in the direction of True North.

On other occasions organizations are lured off course by the promise of large amounts of money. In the 1980s and ’90s, for example, many funders made large grants to arts organizations to get them more involved in arts education. The public education system had been responsible for arts education, but these programs were an early casualty of cutbacks in government education funding. Most arts organizations hadn’t seen arts education as part of their missions, but they accepted the large grants because it was a lot of money. Many people count this a success story in philanthropy because education is now thoroughly embedded in arts organizations’ programs: There is a new True North. Nevertheless, money spent on arts education is money not spent on actor salaries, or new symphonies, or touring into rural areas.

One of the problems organizations encounter when they adopt programs that deviate from their mission in order to secure large donations or grants is that the funds seldom cover the full cost of the program. Consequently, in addition to the initial opportunity

cost, organizations often find themselves pulling scarce resources away from projects that are closer to True North to cover a portion of the new activity not covered by the initial grant. Moreover, such grants usually provide support for a limited time, so if the activity continues beyond the grant period (as they generally do) even more resources must be pulled away from core activities. Perversely, the bigger and more extravagant (and hence more tempting) the gift, the greater the hidden cost generally turns out to be in future years. In our unnamed performing arts center with the custom carpet weave, the major donor’s gift was insufficient to provide for ongoing upkeep of the building, and artistic programs have been constrained for decades because of the high cost of maintenance. Every time a section of the carpet wears thin, a fresh run of the custom weave is ordered to patch it.

Activities that deviate from True North also tend to create their own special interest constituencies whose goals are aligned with the specific activity rather than with the mission of the organization. The resulting factions work to shift the organization’s True North in the direction that interests them the most, pulling resources away from True North as the new activity’s constituency seeks more resources to support its own desires. Well-governed organizations learn to look a gift horse in the mouth, at least those gift horses that deviate too drastically from True North.

## --> Five Causes of Deviation

There are five principal reasons why organizations deviate from True North: the organization’s mission is unclear or misguided; the decision-making culture is flawed; the leaders are unable to share responsibility; the board’s composition or organization is suboptimal; or the leaders lack important information.

### 1. Unclear or Misguided Mission

*A small museum has earned a strong reputation by collecting and exhibiting works that reflect its region’s indigenous culture. It accepts a bequest from a local artist who is nationally known for his work in a particular kind of abstraction. The gift includes a collection of artworks and funds to construct a special gallery to put them on permanent exhibition, but it does not include funds for future upkeep of the art or facility. The museum assumes that it will be able to cover these costs through more effective future fundraising.*

The decision by the leaders of this small museum to accept this bequest was a sharp departure from True North, clearly at odds with the museum’s stated mission, but there was no resistance to the decision internally or externally. On the contrary, the opportunity was seen by many as a “no-brainer.” The artist’s work was sought after by major museums of national reputation, so for a small museum to receive a collection of his work was quite a coup. But now potential donors and visitors are less sure what the museum stands for. It may be even more difficult in the future to say “no” to other bequests that lie outside the museum’s mission. And maintaining the new exhibit requires the museum to draw resources from other activities.

Satisfying the desires of important stakeholders—donors in particular—is an obvious temptation, but risks pulling the organization off course. This temptation is even stronger when the

organization does not have a clear direction, allowing individual stakeholders to interpret the mission in self-serving ways, which makes the mission even more diffuse. Lacking clear direction, stakeholders begin to lose energy and disagree about whether the organization is succeeding. Decisions get made by opportunities rather than by conscious planning.

Establishing a clear and focused mission, and using it as the discipline to decide what to do and what not to do, is the most important function of governance. The organization's mission, strategy, top-level policies, and resource allocations should be reviewed regularly and in depth. Every deployment of financial, human, and other resources should be tested against the mission and strategy.

To guard against having an unclear or misguided mission, decision makers should regularly ask themselves questions like these: What is the social benefit gained by the organization's existence? How important is the social benefit? Does the mission have meaning for stakeholders, or is it just boilerplate for grant applications? Do you know the organization's competitive advantage, and who its customers are? Have you ever turned down a big grant (or paid some other substantial price) because it was inconsistent with the organization's mission?

## 2. Flawed Decision-Making Culture

*A small and homogeneous museum board decides to diversify in order to broaden the organization's base of financial support, and it does so quickly without taking time to create a new collective vision. Previously, decisions were made in private unanimity. Subsequently—over an extended period of years—the board exhibited factional discord over major decisions, often in public.*

One reason why a precisely articulated mission is important is that it automatically tests whether the values that decision makers bring to the table are consistent. Decision makers are unlikely to join an organization—or be invited to do so—if they aren't in tune with the organization's existing direction, but if the existing direction is unclear, how is anyone to know? The inevitable result is a flawed decision-making culture, in which making decisions becomes ever more difficult, factions take shortcuts simply to get things done, and others end up feeling disenfranchised—making decisions still more difficult.

Governance is group decision making. *How* a decision is made can have a profound impact on *what* decision is made. A strong culture helps governance be decisive, but if the culture is too strong it can freeze out useful perspectives. In a weak culture, the organization's direction may need to be argued afresh in the face of even the most innocuous decision. Factions are common, and the longer they remain the more they dig in their heels. Some members of the group feel marginalized or ignored, and often resort to hidden agendas and covert channels of communication to get their way. Under these circumstances, decision making can be neither efficient nor robust.

The ideal decision-making culture is one that welcomes divergent perspectives. People are unified by common purpose and value the organization in similar ways, but they are able to disagree about means and methods without rancor. Disagreements strengthen the group rather than undermining it. A critical element of a healthy decision-

making culture is a fabric of relationships based on trust.

To guard against having a flawed decision-making culture, decision makers should regularly ask themselves questions like these: Do people in the group value the same things? Is there consensus about the criteria for judging success? Do we spend time creating good processes? Are decisions made openly and for explicit reasons, or behind closed doors for motives that aren't always clear? Is disagreement useful, or is it dangerous? Are decisions made in small groups and then rubber-stamped, or does every vote count?

## 3. Inability to Share Responsibility

*An executive director of a performing arts center initiates a number of highly visible activities that seem to constitute a change of the organization's strategy, but never explicitly discusses the new direction with the board. Board discord inevitably follows, but it emerges in relation to the specific initiatives and never gets to the deeper issue of the relationship. The executive director frames the decision on every initiative as a vote of confidence. Board members feel manipulated and ineffectual.*

Mistrust or lack of respect between an organization's top executive and its board members often leads to conflict and paralysis, a common governance dysfunction. A board of directors delegates substantial elements of its powers to the executive and retains other powers to be exercised collectively. The responsibilities delegated to the executive inevitably overlap with the retained powers of the board, and the executive acts both individually and as a member of the decision-making group. It follows that the working relationship between directors and the executive is a pivotal factor in the quality of their decisions.

In the most effectively governed organizations, relationships of trust permit directors and executives to share responsibilities without undermining their formal roles and responsibilities. Influence flows from expertise, not from positions, in different ways and at different times. Organizations should be less concerned with protecting respective roles and more focused on maximizing the impact of their human resources. No organization should fail to put available knowledge and skills to good use simply because they reside in the board rather than in the staff, or vice versa. Implementation roles for board members are inevitable, as are substantive policy roles for executives.

The board should look to the executive to exercise leadership and provide expertise that board members lack. The executive should respect the board's fiduciary responsibility and be willing to defer to board members in areas where they have greater expertise. Respect is necessary, and the lack of it may indicate the need for a change in attitudes if not in personnel.

Clarity in roles and responsibilities is good practice, but if a low level of trust requires roles to be respected religiously, the organization cannot take advantage of individual strengths nor compensate for individual limitations.

To guard against the problem of poor sharing of responsibility by board members and executives, decision makers should regularly ask themselves questions like these: Do the board and the executive have clear roles and responsibilities? Do they have to guard those roles and responsibilities from each other, or can they share tasks according to skills and experience? Do directors regard the executive as a leader or as an employee?

#### 4. Suboptimal Board

*The board of a ballet company with a long and distinguished history is composed of members and friends of the generous founding family. Because of the company's past success, many patrons feel a high degree of loyalty and ownership, but their views are not represented in the company's governance. The company is regarded as out of touch by many of its patrons.*

One of the primary reasons that organizations veer off course is that their boards do not have the right people on them or the board's responsibilities have not been sufficiently defined. In both instances, the board's ability to make good decisions is handicapped. Without a properly composed board and effective system of operation, the nonprofit's stakeholders will not be fully represented when important decisions are made.

Too often, boards represent a narrow range of views. Instead, the board should represent a range of stakeholder perspectives (all united around the organization's mission) and a diversity of views about how the organization pursues its mission. This creates a productive tension among board members and between the board and the organization's top executive.

Boards have a tendency to grow large and unwieldy to accommodate fundraising needs rather than governance concerns. Curiously, the need for diverse perspectives often seems easier to overlook in organizations with very large boards. Major decisions, including such primary board responsibilities as hiring and evaluating the chief executive, must not be made entirely in committees. This practice excludes many potentially useful viewpoints and leaves many individual directors feeling left out and disengaged. Board roles and responsibilities should be clearly defined in writing, in what amounts to a job description.

To guard against the problem of suboptimal board composition and organization, decision makers should regularly ask themselves questions like these: Are important decisions made by a few individuals and rubber-stamped by the group? Are directors drawn from a variety of backgrounds, or do fundraising and social considerations dominate appointment decisions, often leading to the addition of new members much like those already on the board? Is there a strategic process for reviewing the board's composition in relation to the organization's changing needs for skills and stakeholder perspectives? Does the board include a number of potential future leaders to choose among?

#### 5. Incomplete Information

*A community performing arts center is committed to keeping its ticket prices low so that people with low incomes can afford to attend. The managers of the center had not conducted audience research because attendance had been consistently high. When the center needed to raise revenues, it conducted an audience survey, and much to the surprise of the staff and board, the survey revealed that most of their patrons came from high-income households. Because decision makers lacked this critical information, they had not raised ticket prices, depriving the organization of money that could have fueled faster progress in fulfilling its mission.*

Otherwise well-functioning boards can go off course when decision makers fail to collect and disseminate data effectively, resulting

in the lack of necessary information to guide decisions. Among the reasons that decision makers give for not systematically collecting data are cost, level of difficulty, and the inevitable imperfection of information. Yet many organizations don't bother to collect facts and figures that are easily available at little cost or effort.

Decision makers often prefer not to have objective data, because this information might contradict the decisions they are inclined to make. This is a natural human inclination, and an important role of routine information gathering is to guard against it. Disconfirming data is at least as important as confirming data. Collecting and assessing data also forces the board to think hard about what is an appropriate measure of organizational success.

To guard against the problem of incomplete information, decision makers should regularly ask themselves questions like these: Do we really know our organization's industry, including its traditions and its challenges? Do we really know what our audience, donors, and employees think? What are our legal and economic exposures? Has actual performance matched our plans and aspirations?

#### --> New Governance Practices

Organizations that want to steer True North need to evaluate whether their existing governance practices support effective decision making. From our own work with scores of organizations and observation of hundreds of others, we have identified a number of common practices that bear reexamination.

*Getting Leaders to Evaluate Their Governance Performance.* It is difficult to get executives and board members to evaluate their own performance. An influential leader, usually on the board, must be willing to say, "Maybe we could do better." Once the subject is on the table for discussion, agreement to adopt a governance self-evaluation routine often follows with relative ease. It's even easier to devise a mechanism for self-evaluation. All that is needed is to identify the questions that should be asked in relation to each of the five sources of deviation from True North previously described. But starting this conversation is critically important. An organization that does not work in a systematic way to improve its governance performance is simply not doing its job.

*Building Relationships Based on Trust.* Robust decision making requires candor and courage, qualities that are difficult for a group to muster in the absence of trust, both among board members and between board members and the executives. Having that trust is one of an organization's greatest strengths. Because trust is easier to fracture than to create, the critical factor in building trust is to avoid any processes or actions that undermine it. The key to this is creating transparent group interactions: valuing bilateral influence (being open to persuasion through active listening); being explicit about the logic of each decision (eschewing private agendas); and being overt in the tactics that are used to reach decisions (eschewing manipulation).<sup>9</sup> In general, if leaders want to build trust, they should give as much attention to making decisions transparently as they do to the decisions themselves.

*Distinguishing Governance from Other Tasks.* Every nonprofit depends on board members to raise money and perform other implementation tasks in areas where the organization and its staff lack resources or expertise. This provides board members with

a hands-on understanding of the organization and also helps to give greater meaning and depth to board members' involvement. Because such responsibilities often are critically important, there is an unfortunate tendency to conflate the board's governance function with its implementation roles, to the detriment of a clear

For the stewards of any type of organization, the first step is figuring out which direction to steer the ship, and then working together to make sure it stays on course.

understanding of the nature and primacy of governance. Fundraising is not governance.

*Articulating the Organization's Mission and Strategy.* The most important governance decision a board and its executives can make is to articulate clearly the organization's mission and strategy. This decision should be "owned" by the board and executives. Having a clear mission and strategy is a critical factor in motivating donors and employees. The organization's mission and strategy should be the product of painstaking analysis: rigorous, ambitious, precise, visionary, and compelling. Identifying mission and strategy should never be treated as a fundraising exercise. All operating and policy decisions should be tested for alignment with the mission and strategy.

*Planning for Leadership Succession.* Choosing a chief executive is among the most important of all governance decisions. It is essential to adopt a strategic approach to identifying the leadership qualities and skills that are needed for the organization to succeed in a changing environment. The time to establish an orderly leadership succession process is well before it is needed. (That doesn't mean forming a short list of candidates, adopting a bias toward external or internal candidates, or predetermining factors that would tie the hands of a selection committee.) Adopting a process in advance saves time at the point of succession and gives board members confidence that they are prepared. It is disturbing that so few boards build succession processes into their regular planning agenda. This often means that hasty or idiosyncratic leadership selections are made in an atmosphere of pressure, stress, or crisis.

*Making Decisions with the Full Board.* The full board is the final decision maker, and no member should be excluded from critical deliberations. Small-group processes not only alienate other members, but also undermine trust and engagement. The board should not be cast in the role of rubber stamp for committee recommendations. On the contrary, the role of committees and other small groups should be defined in ways that reinforce full-group engagement. Board decisions can be made effectively in a group of between 15 and 25 people without the necessity for committees or other small-group breakouts. If a large board is necessary, attention should be paid to maintaining the subsidiary role of committees—the executive committee in particular. Some committees will continue to be necessary, but they can be charged

with defining alternatives rather than making recommendations. The size of the board should be driven by decision-making considerations, not by fundraising.

*Creating Systematic Flows of Information.* Informed decision makers make better decisions, and a systematic approach to education and information gathering helps to ensure that important knowledge is not overlooked. An orientation program for new board members and executives can help with this, getting them up to speed on the industry and the organization's mission and strategy. It can also inculcate a sense of the organization's culture. Educational components should be incorporated into each meeting agenda in order to deepen the decision makers' knowledge and instill the habit of organizational learning. Few organizations have systematic information-gathering routines, and as a result they risk making unnecessary errors. The lack of updated environmental analysis and program evaluation should be as unthinkable as not having current financial statements.

## --> Not Just for Nonprofits

Although we have written this article using examples from arts organizations and with nonprofit leaders as our primary audience, we believe that our theory of governance performance is applicable to all types of organizations. In fact, for-profits and government entities may derive greater benefit than nonprofits in adopting a less adversarial view of governance. Nonprofits are at least mission driven by their very nature, so it should be more natural for nonprofit leaders to focus on the organization's mission. By contrast, the missions of for-profits often get subsumed by the profit motive that reduces board-executive relationships to pecuniary concerns. The obvious irony is that by focusing on a mission the for-profit organization may very well end up having greater financial success to boot.<sup>10</sup> For the stewards of any type of organization, the first step is figuring out which direction to steer the ship, and then working together to make sure it stays on course. ■

*This article is based on a paper prepared for a National Arts Strategies seminar.*

## Notes

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