



Arkansas
Coalition for
Excellence
Promoting Nonprofit Success

helping your nonprofit excel



*mission
money
management
governance*

The Arkansas Diamond Standards™



Proud Member of the:



National Council of
Nonprofit Associations



STATE OF ARKANSAS

September 23, 2008

Dear Arkansas nonprofit staff, board members, and volunteers:

Arkansas nonprofit organizations are vital to our citizens, providing essential services and opportunities throughout the state. This helps build a brighter future for all Arkansas communities. Arkansas is fortunate to have numerous nonprofits that direct time, effort and money to support a diversity of interests and goals. We applaud the Arkansas nonprofit community for developing the *Arkansas Diamond Standards* to help each nonprofit achieve excellence in the pursuit of its individual mission.

As the officers responsible for registering and regulating charities and nonprofits in Arkansas, we appreciate the guidance provided in this handbook. These *Arkansas Diamond Standards* will serve as a valuable tool for nonprofits of all sizes and scopes as they work to strengthen and demonstrate transparency and accountability. Such standards will surely enhance the public's trust in the Arkansas nonprofit community.

We commend your service to all Arkansans, and we hope these *Arkansas Diamond Standards* prove a valuable resource to you in providing that service.

Sincerely,

Handwritten signature of Dustin McDaniel in blue ink.

Dustin McDaniel
Attorney General



Handwritten signature of Charlie Daniels in blue ink.

Charlie Daniels
Secretary of State



Introduction



The mandate for reform of nonprofits has never been stronger. Critics complain of chronic underperformance in the nonprofit sector. Highly publicized abuses have led to legislative reforms and stricter scrutiny by regulators at both state and federal levels. The public expects greater accountability, and funders require more evidence of increased capacity and improved results in making decisions on grants.

ARKANSAS COALITION FOR EXCELLENCE [ACE] is an association of nonprofits, foundations, businesses and individuals dedicated to elevating the capacity, performance and accountability of 501(c)(3) nonprofits in Arkansas. The connection between the purpose of ACE and the mandate for reform is clearly defined in the organization's mission statement:

MISSION

Uniting Arkansans with a passion for nonprofit excellence:

- To champion excellence in governance, management and programs*
- To promote the highest standards of financial integrity and stewardship*
- To build the capacity of nonprofits to serve the people of Arkansas*
- To achieve superior performance in the nonprofit sector*
- To improve the quality of life for all Arkansans*

ACE was founded on the premise that, by uniting all interested parties in a common purpose with common goals and a consensus approach, not only can we address the mandate for reform, we can even transform the sector, equipping nonprofits large and small, in all lines of service, to attain their full potential for high performance and large scale social impact. Thus, our picture of the preferred future within a specific time frame after the founding of ACE in 2003 looks like this:

VISION

ACE will unite all stakeholders behind an agenda for performance in the nonprofit sector, so that:

- Governance is elevated to the highest level
- Collaboration creates synergy and eliminates duplication
- Nonprofits are more effective, efficient and accountable
- Nonprofits have greater capacity to serve Arkansans
- The social impact of nonprofit dollars is increased by at least 10%
- There is measurable progress on social problems addressed

We can address the mandate for reform, we can even transform the sector, equipping nonprofits large and small, in all lines of service, to attain their full potential for high performance and large scale social impact.



This is a living document. As new scholarship illuminates best practices under each Standard, we expect them to evolve.

Standards As Strategy

Part of our strategy to realize this Vision is to create a collaborative learning community, statewide in reach but regional in activity as well. Along with nonprofits and foundations, grantees and grant-makers, we hope to engage government, academia, businesses, professionals, board members and volunteers in this network.

THE ARKANSAS DIAMOND STANDARDS™ set the foundation for learning and for equipping nonprofits to achieve their highest potential. To quantify the possible social impact, consider that expenditures disclosed on Forms 990 of reporting public nonprofits in Arkansas total almost ten billion dollars. If by adopting the STANDARDS Arkansas nonprofits could increase their effectiveness by just 1%, the results could have a program impact similar to spending an additional \$100 million.

THE ARKANSAS DIAMOND STANDARDS™ are a distinctive, cohesive and teachable presentation of consensus best practices derived from some of the foremost scholarship on excellent, high performing organizations. While it may be impossible to prove that best practices are a direct cause of improved performance, emulating the behavior of the most successful organizations increases the probability of producing good results.

Accordingly, Paul Light identifies the push for best practices as one of four tides of reform in the nonprofit sector and compliance with best practices as one of three models of accountability.¹ The other models of accountability are outcomes measurement championed by the United Ways of America and capacity building emphasized by the social investing movement. The other tides of reform are, again, outcomes measurement, war on waste (efficiency and eliminating duplication), and public disclosure. The best practices in **THE ARKANSAS DIAMOND STANDARDS™** include measuring program results against key indicators of performance. Implementing the best practices contained in the Standards will improve organizational capacity. The Standards on Collaborative Partnerships and Public Disclosure address the two other tides of reform. In this way the Standards adopt all three models of accountability and respond to all four reform themes.

This is a living document. As new scholarship illuminates best practices under each Standard, we expect them to evolve. The sixteen Standards are fundamental, however, and they should remain fairly constant.

These Standards are written for all charitable nonprofits in Arkansas. As does the law of our State, however, we acknowledge that principles of religious liberty are paramount, and we respect religious beliefs, particularly on governance, which may direct practices which differ from those described here. Also, many nonprofits must subscribe to industry accreditation criteria which may differ from these best practices.

¹ Paul C. Light, *Making Nonprofits Work: The Tides of Nonprofit Management Reform* (2000).



The Framework of the Standards

The Standards are classified under four categories: MISSION, MONEY, MANAGEMENT, GOVERNANCE.² Each of these categories encompasses four broad standards, sixteen in all, which form a complete framework for learning and for striving to achieve excellence. The sixteen Standards are stated first, and then several Best Practices are described for each Standard.

This framework reflects the essential relationship between results and leadership, program results and financial results, on the one hand, and management and governance on the other. Influenced by Balanced Scorecard theory,³ this approach emphasizes strategic planning as the link between mission and programs, balanced measures of program outcomes and financial performance, and the management of internal processes to transform human, information and organizational capital into mission and money results.

This structure also emphasizes the importance of an independent and effective governing board and highlights the distinct leadership roles of the board and the chief executive employee.

This framework reflects the essential relationship between results and leadership, program results and financial results, on the one hand, and management and governance on the other.

RESULTS

MISSION

- 01. Purpose: Mission, Vision, Values
- 02. Planning & Strategy
- 03. Programs
- 04. Public Communication

MONEY

- 05. Financial Development
- 06. Financial Management
- 07. Financial Protection: Risk Management
- 08. Legal Compliance

LEADERSHIP

MANAGEMENT

- 09. Human Capital: Staff Volunteer Management
- 10. Information Capital: Systems & Infrastructure
- 11. Organizational Capital: Innovation
- 12. Organizational Capital: Collaboration

GOVERNANCE

- 13. Board Roles
- 14. Board Composition & Structure
- 15. Board Functioning
- 16. Board - CEO Relationship

² One authority focuses upon Leadership, Money, Management and Marketing; another discusses board responsibilities under the headings of Mission, Money and Management: Widmer and Houchin, *The Art of Trusteeship: The Nonprofit Board Member's Guide to Effective Governance*, Jossey-Bass (2000).

³ Paul R. Niven, *Balanced Scorecard Step-by-Step for Government and Nonprofit Agencies*, John Wiley & Sons (2003).



Standards:

MISSION

Clearly articulating the organization's Purpose in statements of Mission and Vision derived from core Values sets the course for the organization and forms the foundation for everything else. Planning & Strategy align Programs with the course set by Mission and Vision. Public Communication, Advocacy & Accountability uphold a culture of openness and disclosure which helps assure fidelity to the public trust and the organization's Mission. Achieving alignment requires linking Mission, Strategy, Programs and Public Communication.

1. PURPOSE: MISSION, VISION AND VALUES

The organization has a mission statement derived from its core values and a vision statement declaring what it will strive to achieve within a specific time.

2. PLANNING & STRATEGY

The organization has a strategic planning process that establishes goals for accomplishing its mission and vision and develops specific plans of action to achieve those goals.

3. PROGRAMS

Programs and services are derived from the organization's mission, vision and values and are linked to them through its strategic plans.

4. PUBLIC COMMUNICATION, ADVOCACY & ACCOUNTABILITY

The organization has a culture of openness and accountability, communicates regularly with its constituents and the public, and complies with state and federal reporting requirements. It has a voice in shaping public policy on matters which affect its mission, programs or constituents. It has a marketing plan that promotes alignment by linking Mission, Strategy, Programs and Public Communication.

Standards:

MONEY

To achieve the MISSION adequate financial resources must be developed, managed, protected and deployed, all in compliance with law. In its Financial Development activities the organization must be committed to the highest ethical standards in fundraising, including the use of honest, accurate information about the organization, honoring donor intent, and respecting donor privacy. Basic Financial Management principles require the Board to approve realistic budgets, monitor financial performance, establish proper accounting controls, and to provide for the independent review of its financial statements. Protection of the organization's funds and assets includes a Risk Management process which eliminates unnecessary risks, employs loss prevention programs and provides for appropriate insurance coverages. The Board must understand its fiduciary duties and monitor the organization's Legal Compliance, its adherence to all applicable laws and regulations.

5. FINANCIAL DEVELOPMENT

In soliciting financial support the organization is committed to honoring donors' intent, respecting their privacy, providing accurate information about how gifts will be spent, and employing ethical practices.

6. FINANCIAL MANAGEMENT

The Board approves realistic budgets aligned with strategic objectives, monitors financial performance, establishes proper accounting controls, and provides for the independent review of its financial statements at a level appropriate to the size of the organization. The Audit Committee of the Board engages the auditors and oversees the independent review process. The organization has a policy which complies with the Sarbanes-Oxley Act to protect from retaliation employees who report financial misconduct.

7. FINANCIAL PROTECTION: RISK MANAGEMENT

The Board directs that appropriate insurance coverages are in place, activities which create excessive risks are avoided, and feasible risk prevention measures are employed.

8. LEGAL COMPLIANCE

The Board understands and fulfills its fiduciary duties, the duty of care, the duty of loyalty and the duty of obedience, and monitors the organization's compliance with all applicable laws and regulations.

Standards:

MANAGEMENT

The organization applies internal processes to transform human, information and organization capital into both program and financial results. In its Staff and Volunteer Management the organization has systems for recruiting, training and managing employees and leveraging its human capital with volunteers. Information Capital includes information systems and computer technologies that support management and enhance communications. Organizational Capital includes Innovation processes, driving the quest for continuous learning and improvement, and Collaboration with other organizations that eliminates duplication and creates efficiency and synergy.

9. HUMAN CAPITAL: STAFF AND VOLUNTEER MANAGEMENT

The organization has systems for recruiting, training and managing employees and volunteers and provides its employees with a written description of employment policies.

10. INFORMATION CAPITAL: SYSTEMS AND INFRASTRUCTURE

To the extent of its capacity the organization employs information systems and computer technologies to support management and to enhance internal and external communications.

11. ORGANIZATIONAL CAPITAL: INNOVATION

The organization continually seeks ways to improve its operations, build expertise and develop its employees.

12. ORGANIZATIONAL CAPITAL: COLLABORATION

The organization seeks to save costs, eliminate duplication, leverage its resources and amplify its impact through collaborative efforts with networks of nonprofits as well as government agencies and businesses.

Standards:

GOVERNANCE

The organization clarifies and respects the distinct roles of governance and management. The Board's Role of governance should be clearly defined and distinguished from the management role of the chief executive employee (the "CEO"). The Board Composition and Structure, including committees, should be carefully designed to create independence and to facilitate the work of the Board. The Board's Functioning through its meetings and processes should be adequate to fulfill its roles and responsibilities. The Board-CEO Relationship requires the Board to hire and supervise the CEO, who in turn is responsible for managing all other staff.⁴

13. BOARD ROLES

The Board's roles are clearly defined in the organization's articles of incorporation and bylaws, and corporate meetings and business are conducted in compliance with them.

14. BOARD COMPOSITION & STRUCTURE

The number, terms and selection of board members are designed to create an independent Board which can help the organization reach its goals. The Board's committee structure facilitates its work.

15. BOARD FUNCTIONING

The meetings of the Board and flow of information to its members are sufficient to enable it to fulfill its roles and responsibilities. The Board has a written conflict of interest policy and conducts periodic self assessments.

16. BOARD-CEO RELATIONSHIP

The Board hires the CEO, its only direct report, evaluates the CEO's performance, and determines the CEO's compensation.

⁴ While the Standards on GOVERNANCE apply broadly, some situations involving the proper control of affiliated entities or principles of religious liberty will require practices inconsistent with the Standards.



Best Practices:

MISSION

1. PURPOSE: MISSION, VISION AND VALUES

The organization has a mission statement derived from its core values and a vision statement declaring what it will strive to achieve within a specific time.

1.1 *Mission Statement.*

The organization has identified its core values and has adopted a mission statement derived from those values that defines its purpose in terms of what good it will do for whom.

1.2 *Vision Statement.*

The organization has adopted a statement presenting a clear and inspiring vision of what it will achieve within a specific time frame (5 years, for example). This vision is widely shared among board, staff and volunteers.

1.3 *Periodic Review.*

The mission and vision statements are reviewed, revised and/or reaffirmed periodically to confirm the organization's course as context and conditions change.

Best Practices:

MISSION

2. PLANNING & STRATEGY

The organization has a strategic planning process that establishes goals for accomplishing its mission and vision and develops specific plans of action to achieve those goals.

2.1 *Strategic Planning Focus.*

The organization employs an ongoing strategic planning process focused upon identifying the best possible use of its resources in accomplishing its mission and vision considering what it cares about most and what it can do best.

2.2 *Strategic Planning Process.*

The strategic planning process includes the following elements in some form:

- ◆ Assessing the organization's environment by collecting and analyzing data on internal strengths and weaknesses and external opportunities and threats or risks;
- ◆ Identifying and prioritizing critical issues or challenges;
- ◆ Establishing short-term and long-term strategic objectives to address those issues and related goals with key performance measures and targets for desired results;
- ◆ Developing specific action plans to achieve those goals; and
- ◆ Evaluation of results and adjustments to plan.

2.3 *Key Measures of Performance.*

From its strategic objectives the organization identifies key measures of performance to gauge both financial results and program outcomes and to track progress in implementing plans and achieving goals.

2.4 *Strategic Planning Product.*

The planning process produces a strategic plan which clearly identifies the cause and effect relationships among key strategies and establishes the logical link between mission and programs.

Best Practices:

MISSION

3. PROGRAMS

Programs and services are derived from the organization's mission, vision and values and are linked to them through its strategic plans.

3.1 *Mission Driven.*

Programs and services are driven by the mission and vision of the organization; the strategic plan provides the framework for translating mission into programs. Programs are operated and delivered in a manner consistent with the values of the organization.

3.2 *Evaluation.*

The organization continuously evaluates its programs with input from all stakeholders, asking the right questions, collecting the right information, and using that data to strengthen decision-making. (Are we doing the right things?)

3.3 *Benchmarking.*

The organization also employs a process of benchmarking its program performance against comparative organizations to identify opportunities for improvement and to establish improvement goals. (Are we doing things right?)

Best Practices:

MISSION

4. PURPOSE: MISSION, VISION AND VALUES

The organization has a culture of openness and accountability, communicates regularly with its constituents and the public, and complies with state and federal reporting requirements. It has a voice in shaping public policy on matters which affect its mission, programs or constituents. Marketing promotes alignment by linking mission, strategy, programs and public communication.

4.1 *Transparency.*

The organization acknowledges and fulfills its responsibility as a public nonprofit to communicate with its constituents and with the public current information about its mission, finances, program results and governance. Openness and disclosure are part of its culture.

4.2 *Accountability.*

The organization complies with federal and state reporting requirements including providing public access to annual informational returns. It publishes an annual report on mission and program results as indicated by the key measures of performance. The most recent Form 990 is posted on the organization's website, if it has one and is required to file.

4.3 *Public Policy Advocacy.*

The organization has a voice in shaping public policy on matters which affect its mission, programs or constituents. It has an advocacy policy that includes a public policy agenda along with procedures to assure compliance with the lobbying rules under § 501(c)(3). The organization is willing to advocate for policy reform where government action or systemic change is necessary to achieve the mission. It mobilizes supporters and builds alliances to leverage its advocacy power.

4.4 *Public Relations and Marketing.*

The organization has and implements a plan, consistent with its resources, to tell its story to the public, to market its programs and services, and to build good will in its community. Marketing is inherent in strategy; the marketing plan promotes alignment by linking mission, strategy, programs and public communication.



Best Practices:

MONEY

5. FINANCIAL DEVELOPMENT

In soliciting financial support the organization is committed to honoring donors' intent, respecting their privacy, providing accurate information about how gifts will be spent, and employing ethical practices.

- 5.1 *Fidelity.*
Honoring donor intent is the paramount principle of fundraising instilled throughout the organization
- 5.2 *Honesty.*
Information provided to solicit contributions honestly and accurately portrays the organization's mission, programs and services as well as how the donations will be spent.
- 5.3 *Privacy.*
The organization takes appropriate measures to respect donors' wishes for privacy and confidentiality.
- 5.4 *Ethics.*
All employees who have fundraising responsibilities subscribe to the Standards of Professional Practice of the Association of Fundraising Professionals. Fundraisers are not compensated on the basis of a percentage of the amount raised.
- 5.5 *Gift Policies.*
The organization establishes policies and procedures for accepting gifts other than cash, for properly accounting for gifts in accordance with generally accepted accounting principles, and for complying with IRS rules on acknowledging gifts and notifying donors of the value of any benefits conferred.

Best Practices:

MONEY

6. FINANCIAL MANAGEMENT

The Board approves realistic budgets aligned with strategic objectives, monitors financial performance, establishes proper accounting controls, and provides for the independent review of its financial statements at a level appropriate to the size of the organization. The Audit Committee of the Board engages the auditors and oversees the independent review process. The organization has a policy which complies with the Sarbanes-Oxley Act to protect from retaliation employees who report financial misconduct.

6.1 *Fiscal Responsibility.*

The Board understands its obligations to provide for the custody and protection of the organization's assets and for the management of operations in a fiscally responsible manner.

6.2 *Budgeting.*

The Board adopts key financial objectives that are linked to strategic objectives. The Board reviews and approves annual budgets based upon realistic projections of income and aligned with financial and strategic objectives.

6.3 *Oversight.*

The Board identifies the key measures of the organization's financial strength, oversees financial performance, and requires timely action to address any indication of financial problems.

6.4 *Controls.*

The Board establishes policies for bank accounts, handling cash, receivables and payables, writing and signing checks, segregation of duties in processing financial transactions, and otherwise provides for appropriate internal controls.

(section continued on following page)

Best Practices:

MONEY

6. FINANCIAL MANAGEMENT (Continued)

6.5 *Audits.*

The organization has audited financial statements if its gross revenues exceed \$1,000,000 or if otherwise required. The unaudited financials of other organizations are reviewed by independent accountants. The Board has established a committee with the exclusive authority to engage independent auditors who report directly to that committee (the "Audit Committee"). The Audit Committee reviews any significant deficiencies or material weaknesses in the organization's internal controls as identified by the auditors, and it determines whether management is taking sufficient corrective action. The Audit Committee has the opportunity to meet with the auditors to discuss such matters without management present. The Audit Committee reports its findings to the Board.

6.6 *Travel Reimbursement Policy.*

The organization has a written policy on reimbursement of employees for travel and other expenses. The policy generally prohibits reimbursement of travel expenses for an employee's spouse and family.

6.7 *Investments.*

If the organization has funds restricted as endowment, the Board establishes an Investment Policy and a Spending Policy for the management of endowment funds in compliance with donor restrictions and the Arkansas Uniform Management of Institutional Funds Act. The Investment Policy also provides guidelines on the investment of other funds not required for current operations.

Best Practices:

MONEY

7. FINANCIAL PROTECTION: RISK MANAGEMENT

The Board directs that appropriate insurance coverages are in place, activities which create excessive risks are avoided, and feasible risk prevention measures are employed.

7.1 *Process.*

In fulfilling its legal duty to protect the assets of the organization, the Board has a risk management process which identifies and analyzes risks of loss and determines the optimal risk management techniques, including risk avoidance and risk reduction as well as deciding whether to retain a risk or to insure it.

7.2 *Insurance Coverage.*

The Board authorizes the purchase of insurance to cover losses from risks which cannot be eliminated or reduced to a level which the Board determines to be acceptable. Consideration of insurance coverages include directors and officers, general liability, errors and omissions, workers' compensation, automobile, property and casualty, fidelity bond and any specialty coverages appropriate to the organization's programs and the conduct of its employees and volunteers.

7.3 *Indemnification.*

The Board establishes a policy clearly defining the circumstances under which the organization will indemnify its directors and officers against claims arising from the performance of their duties, and the organization will maintain directors and officers' insurance coverage appropriate for the policy.

Best Practices:

MONEY

8. LEGAL COMPLIANCE

The Board understands and fulfills its fiduciary duties, the duty of care, the duty of loyalty and the duty of obedience, and monitors the organization's compliance with all applicable laws and regulations.

8.1 *Fiduciary Duties.*

Every Board Member receives training on the standards of conduct required by the fundamental fiduciary duties under the law: the duty of care, the duty of loyalty, and the duty of obedience.

8.2 *Compliance Checklist.*

The organization establishes and monitors a corporate compliance checklist which includes requirements for compliance with state nonprofit corporation laws, charitable solicitation statutes, applicable licensing and accreditation regulations, labor and employment laws, the Employee Retirement Income Security Act, state and federal employment taxes and withholding, and Internal Revenue Code requirements for maintaining tax exempt status, lobbying and political activities, accepting tax deductible contributions, and filing and disclosure of Forms 990.

8.3 *Code of Ethics.*

Beyond mere compliance with law, the organization adopts a code of ethics which emphasizes its values and describes the ethical standards of conduct expected of board members, staff and volunteers.

8.4 *Whistleblower Protection Policy.*

The organization has a policy which complies with the Sarbanes-Oxley Act to protect from retaliation employees who report financial misconduct.

8.5 *Document Retention Policy.*

The organization has a policy which prescribes the length of time various records are to be retained and provides procedures for halting document destruction if an official investigation is initiated or anticipated.

8.6 *Prohibition of Loans, Guarantees.*

The organization's bylaws prohibit loans and loan guarantees to its officers and directors.



The organization engages volunteers in experiences which make the enthusiastic ambassadors and which build strong communities of support.

Best Practices:

MANAGEMENT

9. HUMAN CAPITAL: STAFF AND VOLUNTEER MANAGEMENT

The organization has systems for recruiting, training and managing employees and volunteers and provides its employees with a written description of employment policies.

9.1 Human Resource Systems.

To the extent of its capacity given its size and resources the organization has in place systems for recruiting, hiring, training, developing, evaluating, compensating, recognizing and retaining its employees.

9.2 Employee Handbook.

The organization has an employee handbook or other document which clearly explains policies on vacation, family medical leave, pay and benefits, and which facilitates compliance with applicable employment laws and regulations.

9.3 Volunteer Management.

As appropriate to its operations the organization leverages its human resources through effective engagement of volunteers, and it has a system for recruiting, screening, training, managing and recognizing its volunteer force. Each volunteer position has a job description which defines the scope of a volunteer's responsibilities. The organization engages volunteers in experiences which make them enthusiastic ambassadors and which build strong communities of support.

Best Practices:

MANAGEMENT

10. INFORMATION CAPITAL: SYSTEMS AND INFRASTRUCTURE

To the extent of its capacity the organization employs information systems and computer technologies to support management and to enhance internal and external communications.

10.1 *Information Systems.*

The organization has management reporting systems which collect data on and measure both financial and program results according to key measures of performance. The organization maintains databases for tracking its clients, donors and volunteers, and in doing so complies with applicable privacy laws.

10.2 *Network.*

As able given its resources the organization networks its staff through access to internet and email communications and enhances its operations with technology such as software applications for administrative and program employees.

10.3 *Website.*

To the extent of its capacity either independently or in collaboration with others, the organization maintains a website or web presence that provides at least basic information about the organization's mission, programs, finances, management and governing board, and the organization strives to update content with information about current developments, educational information and links to other relevant sources of information.

Best Practices:

MANAGEMENT

11. ORGANIZATIONAL CAPITAL: INNOVATION

The organization continually seeks ways to improve its operations, build expertise and develop its employees.

11.1 *Quality Processes.*

The organization employs processes which strive for cost effective utilization of assets, identify ways to streamline activities, and provide data for continuous improvement in quality.

11.2 *Knowledge Management.*

The organization strives to capture, store, share and implement the knowledge, expertise and best practices learned by its employees.

11.3 *Learning and Growth.*

The organization creates an environment conducive to lifelong learning for its employees and has a process for developing ideas for new programs to serve its clients better or to generate new sources of revenue.

Best Practices:

MANAGEMENT

12. ORGANIZATIONAL CAPITAL: COLLABORATION

The organization seeks to save costs, eliminate duplication, leverage its resources and amplify its impact through collaborative efforts with networks of nonprofits as well as government agencies and businesses.

12.1 *With Other Nonprofits.*

The organization seeks to save costs, eliminate duplication of services, and create social synergies by partnering with other nonprofits in various forms of cooperation, coordination and collaboration.

12.2 *With Nonprofit Networks.*

The organization helps build networks of nonprofits in its field, working in coalitions to share knowledge, to develop leadership, to increase resources, and to advance collective goals.

12.3 *With Governmental Organizations.*

The organization establishes relationships with appropriate public agencies to pursue mutual policy goals and to promote reasonable regulatory practices.

12.4 *With Businesses.*

The organization also pursues strategic relationships with compatible businesses which may provide contributions, in-kind gifts, new volunteers, and income generated from service contracts and cause related marketing.



Best Practices:

GOVERNANCE

13. BOARD ROLES

The Board's roles are clearly defined in the organization's articles of incorporation and bylaws, and corporate meetings and business are conducted in compliance with them.

13.1 *Articles and Bylaws.*

The organization maintains up to date articles of incorporation and bylaws that comply with state law. The officers and directors carefully follow the articles and bylaws in conducting meetings and taking action.

13.2 *Governance and Management.*

The organization's articles and bylaws and basic policies reflect the distinction between the management role of the chief executive employee (the "CEO") and the Board's roles of policy formulation, decision making and oversight.

13.3 *Description of Duties.*

The organization has a clear description of the roles, responsibilities and expectations of board members, including standards for attendance at board meetings and participation on committees.

Best Practices:

GOVERNANCE

14. BOARD COMPOSITION & STRUCTURE

The number, terms and selection of board members are designed to create an independent Board which can help the organization reach its goals. The Board's committee structure facilitates its work.

14.1 *Selection.*

New board members are identified, recruited and selected according to criteria set forth in a board profile and skills matrix that encompasses diversity goals, constituent/stakeholder/community representation, and the personal qualities and special competencies needed on the Board.

14.2 *Number.*

The Board has a minimum of five members and a maximum number set low enough to facilitate effective governance but high enough to allow for diversity and performance of committee assignments.

14.3 *Independence.*

No more than one board member is a paid employee. A paid employee does not serve as the Board's chair. At least two-thirds of the board members are independent, i.e., not connected by family or business relationships with managers or other board members that might impair their capacity for exercising independent judgment.

14.4 *Term Limits.*

The bylaws fix terms between one and six years and limit the number of terms a member can serve before rotating off the Board for at least one year.

14.5 *Committees.*

Committees and task forces are effectively designed to facilitate the work of the Board. The number of standing committees is as few as possible. Committee functions follow the board's role of governance; they do not mirror staff responsibilities. Each committee has a written description of its responsibilities; all standing committees review their charters at the beginning of each fiscal year.

14.6 *Officers.*

For organizations with paid staff the Bylaws require that the offices of CEO, Board Chair and Treasurer are held by separate persons. For other organizations the Bylaws require that the offices of Board Chair and Treasurer are held by separate persons.

Best Practices:

GOVERNANCE

15. BOARD FUNCTIONING

The meetings of the Board and flow of information to its members are sufficient to enable it to fulfill its roles and responsibilities. The Board has a written conflict of interest policy and conducts periodic self assessments.

15.1 *Meetings.*

The full Board meets at least four times a year with a majority of members attending in person or by technology-enabled conferencing.

15.2 *Board Development.*

The Board has a plan to educate its members and to keep them well informed, beginning with an orientation attended by every new member.

15.3 *Assessment.*

The Board conducts a periodic assessment of its performance as a governing body and of the performance of its individual members.

15.4 *Conflict of Interest Policy.*

The Board has adopted a conflict of interest policy that requires disclosure of actual and potential conflicts of interest, establishes procedures for dealing with conflict of interest transactions, and complies with all applicable laws.

Best Practices:

GOVERNANCE

16. BOARD-CEO RELATIONSHIP

The Board hires the CEO, its only direct report, evaluates the CEO's performance, and determines the CEO's compensation.

16.1 *Employment.*

The Board hires the CEO, who is the only employee reporting directly to the Board; the Board has the authority to terminate the CEO's employment; and the Board has in place a succession plan for the CEO.

16.2 *Performance.*

The Board establishes performance expectations for the CEO and annually assesses the CEO's performance.

16.3 *Compensation.*

The Board sets the CEO's compensation annually based upon appropriate comparative benchmarks following a procedure designed to document compliance with IRS rules prohibiting excess benefit transactions.

Resources:

- ◆ Emil Angelica, *Creating Effective Mission & Vision Statements*, Amherst Wilder Foundation, 2001.
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